



**11**

# GAS RETAIL MARKETS



The retail market is the final link in the 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 producers and pipeline operators and package these together as an aggregated service for sale to consumers. Because retailers deal directly with consumers, the services they provide significantly affect perceptions of the performance of the gas industry.

# 11

# GAS RETAIL MARKETS

This chapter provides a survey of 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
- > the regulation of the retail market.

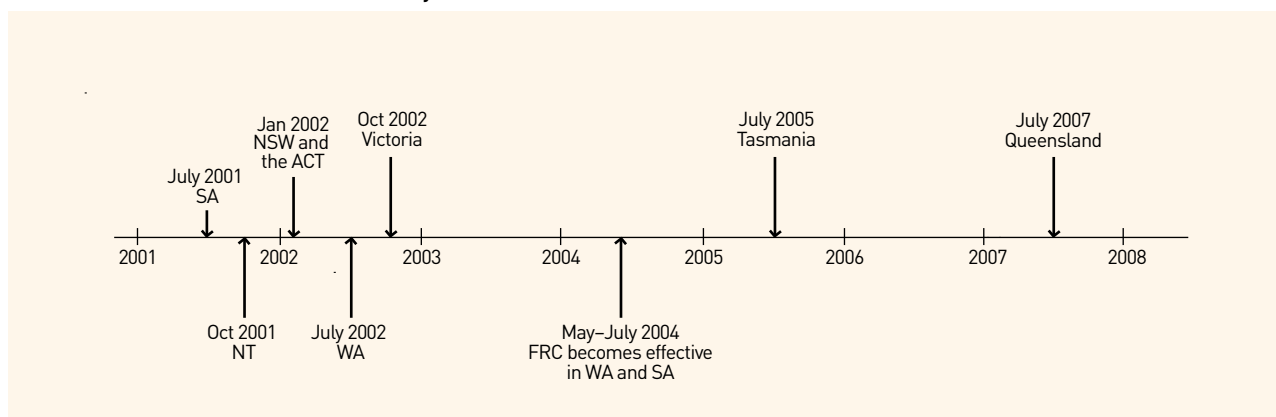
State and territory governments are responsible for the regulation of retail energy markets. Governments agreed in 2004 to transfer non-price regulatory functions to a national framework to be administered by the Australian Energy Market Commission (AEMC) and the Australian Energy Regulator (AER). The Ministerial Council on Energy (MCE) has scheduled the regulatory package to be introduced to the South Australian parliament in September 2009.<sup>1</sup>

Retail customers include residential, business and industrial gas users. This chapter focuses on the retailing of gas to small customers,<sup>2</sup> including households and small business users. Many energy retailers are active in both gas and electricity markets and offer *dual fuel* products. This chapter should therefore be read in conjunction with Chapter 6, 'Electricity retail markets'.

1 Sections 11.6 and 6.7 provide an update on the transition to future regulatory arrangements.

2 Small customers are defined as those using less than 1 terajoule of gas a year.

**Figure 11.1**  
Introduction of full retail contestability



FRC, full retail contestability.

While this chapter reports some data that might enable performance comparisons to be made between retailers and jurisdictions, such analysis should note that a variety of factors can affect relative performance.

## 11.1 Retail market structure

Historically, gas retailers in Australia were integrated with gas distributors and operated essentially 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<sup>3</sup> (in 2007) have privatised their state-owned gas retailers. While New South Wales has some government ownership, its gas retail sector has always been mainly in private hands.<sup>4</sup> 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. One of the two active retailers in the relatively new Tasmanian gas retail sector is state-owned.

All state and territory governments have introduced full retail contestability (FRC) for gas customers, meaning that customers can enter a supply contract with a retailer of their choice (see 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 various regulatory obligations, and new entrants. New entrants include 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 currently active in the market for residential and small business customers.<sup>5</sup> Privately owned retailers are the major players in most jurisdictions.

> In the eastern states, the leading retailers are AGL Energy, Origin Energy and TRUenergy. Each has significant market share in Victoria and South Australia. AGL Energy is the leading gas retailer in New South Wales and jointly owns (with the ACT Government) the leading ACT retailer. AGL Energy

<sup>3</sup> In Dalby and Roma the local councils operate distribution and retail services in their local areas.

<sup>4</sup> The New South Wales Government owns EnergyAustralia and Country Energy.

<sup>5</sup> Active retailers are those retailers that are offering gas supply to new small customers.

**Table 11.1 Active gas retailers: small customer market, May 2008**

RETAILER <sup>1</sup>	OWNERSHIP	VIC	NSW	QLD	SA	TAS <sup>2</sup>	ACT	WA	NT
ActewAGL Retail	ACT Government and AGL Energy								
AGL Energy	AGL Energy								
Alinta	Babcock & Brown Power								
Aurora Energy	Tasmanian Government								
Australian Power & Gas	Australian Power & Gas								
Country Energy	NSW Government								
EnergyAustralia	NSW Government								
Red Energy	Snowy Hydro <sup>3</sup>								
Simply Energy	International Power								
Option One	Babcock & Brown Infrastructure								
Origin Energy	Origin Energy								
TRUenergy	CLP Group								
Victoria Electricity	Infratil								
Active retailers		7	6	2	4	2	4	1	1
Approx. market size ('000 000 customers) <sup>4</sup>		1.68	1.02	0.15	0.37	0.003	0.09	0.57	0.001

■ Host (incumbent) retailer ■ New entrant

Notes:

1. Not all licensed retailers are listed. Some of the retailers listed only offer gas services as part of a gas and electricity contract. The list also excludes three small retailers (BRW Power Generation (Esperance), Dalby Town Council and Roma Town Council).
2. There is no host retailer in Tasmania as gas distribution and retail services have only been available 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 for Queensland, Western Australia and the Northern Territory are based on ESAA data on the number of residential and small commercial and industrial connections to the distribution network, consuming less than 10 terajoules a year (at 30 June 2007).

Source: Jurisdictional regulator websites; ESAA *Electricity Gas Australia* 2008; updated by information on retailer websites and other public sources.

acquired significant market share in Queensland via the 2006–07 privatisation process, while Origin Energy was already an established retailer in that state.

- > In Western Australia, Alinta (owned by Babcock & Brown Power) is the leading retailer and is the only retailer licensed to retail to customers consuming less than 0.18 terajoules a year.
- > In Tasmania, Option One competes with the state-owned Aurora Energy.
- > Government-owned retailers account for a significant minority of the New South Wales market.
- > Various niche players are active in most jurisdictions.

The following survey provides background on developments in each jurisdiction.

### 11.1.1 Victoria

At May 2008, Victoria had 12 licensed retailers, seven of which were active in the residential and small business market. These were:

- > TRUenergy, AGL Energy and Origin Energy, each of which is the host retailer in designated areas of Victoria<sup>6</sup>
- > four new players in the gas retail market, which were Australian Power & Gas, Red Energy, Simply Energy and Victoria Electricity.

Momentum Energy and Dodo Power & Gas held retail licences but were not actively marketing to small customers in May 2008.

6 In the late 1990s, Victoria split the Gas and Fuel Corporation into multiple retail businesses, each linked to a distribution network area, and sold each to different interests: Utilicorp and AMP Society (operating as United Energy and Pulse Energy), TXU, and Origin Energy. AGL acquired the former United Energy business in 2002 and TXU sold its retail interests to Singapore Power in 2004, which in turn sold the business to China Light and Power (now CLP Group) in 2005. The new owners rebadged TXU as TRUenergy.

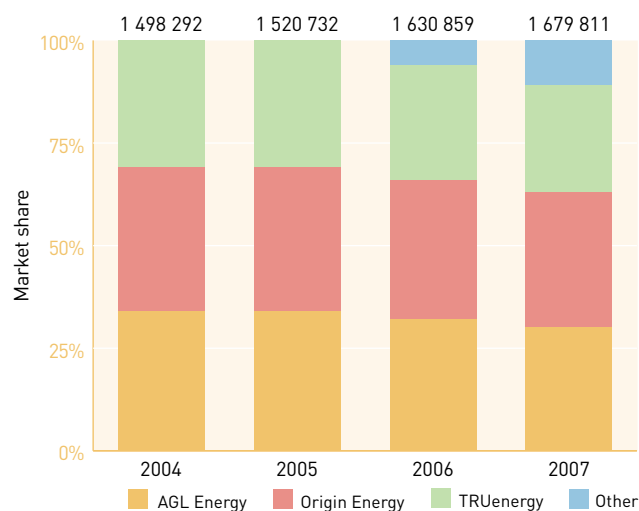
Table 11.2 and figure 11.2 set out the market share of Victorian retailers (by customer numbers) at 30 June 2007. The three host retailers (TRUenergy, AGL Energy and Origin Energy) account for about 89 per cent of the market and each retails beyond its 'local' area. While the market share of new entrants is small, new entrant penetration increased from 6 per cent of small customers in June 2006 to over 11 per cent in 2007.

**Table 11.2 Gas retail market share (small customers)—Victoria, 30 June 2007**

RETAILER	CUSTOMERS		
	Domestic	Business	Total retail
AGL Energy	29.6%	25.5%	29.4%
Origin Energy	33.4%	29.6%	33.3%
TRUenergy	25.7%	39.0%	26.0%
Other	11.4%	5.9%	11.2%
Total customers	1 634 871	44 940	1 679 811

Source: ESC, *Energy retail businesses comparative performance report for the 2006/07 financial year*, December 2007, p. 3.

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



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

Source: ESC, *Energy retail businesses comparative performance report*, various years.

### 11.1.2 South Australia

At May 2008, South Australia had 12 licensed retailers, four of which were active in the residential and small business market. These were:

- > the host retailer, Origin Energy
- > three new entrants, which were South Australia's host retailer in electricity (AGL Energy), an established interstate retailer (TRUenergy) and Simply Energy (a relatively new player in the retail market).

Country Energy, EnergyAustralia, Australian Power & Gas, Dodo Power & Gas, Jackgreen, Momentum Energy and South Australian Electricity held retail licences but were not actively marketing to small customers in May 2008. Several of these businesses are active in the South Australian electricity retail market.

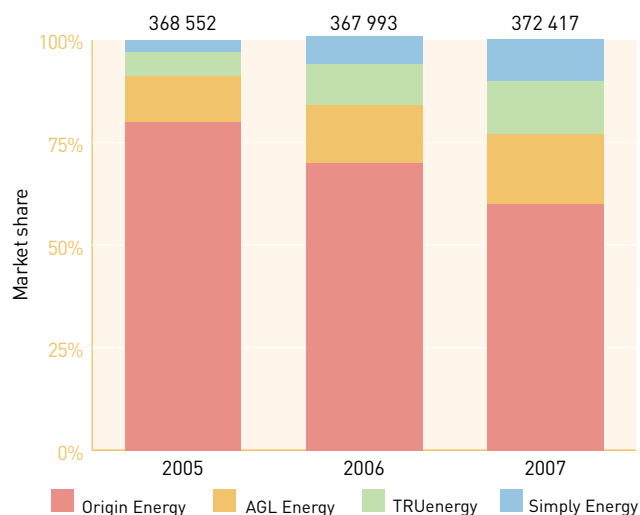
Table 11.3 sets out the market share of South Australian retailers (by customer numbers) at June 2007. New entrants account for about 40 per cent of the small customer market—up from 30 per cent in 2006 and 20 per cent in 2005 (see figure 11.3).

**Table 11.3 Gas retail market share (small customers)—South Australia, 30 June 2007**

RETAILER	CUSTOMERS		
	Domestic	Business	Total retail
Origin Energy	59.3%	88.7%	59.9%
AGL Energy	17.3%	3.4%	17.0%
TRUenergy	13.1%	5.6%	13.0%
Simply Energy	10.3%	2.3%	10.1%
Total customers	365 077	7340	372 417

Source: ESCOSA, *2006–07 Annual performance report: Performance of the South Australian energy retail market*, November 2007, p. 66.

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



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

Source: ESCOSA, *Annual performance report: Performance of the South Australian energy retail market*, various years.

### 11.1.3 New South Wales

At May 2008, New South Wales had 13 licensed retailers, six of which were active in the residential and small business market. These were:

- > the host retailers, AGL Energy, Country Energy and ActewAGL Retail
- > three new entrants, which were electricity retailer EnergyAustralia, established interstate retailer TRUenergy and Australian Power & Gas (a new player in the energy retail market).

Integral Energy and Jackgreen held retail licences but were not actively marketing to small customers in May 2008.

NERA Economic Consulting reported that at June 2007, AGL Energy continued to supply the majority of the Sydney retail gas market and had a market share of 79 per cent, while the other significant gas retailer, EnergyAustralia, had a market share of around 16 per cent.<sup>7</sup>

### 11.1.4 Queensland

At May 2008, Queensland had seven licensed retailers, two of which were active in the residential and small business market. These were the host retailers, AGL Energy (previously Sun Gas Retail)<sup>8</sup> 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.

EnergyAustralia obtained a retail licence in July 2007 and Dodo Power & Gas in March 2008, but neither were actively retailing to small customers in May 2008.

### 11.1.5 Australian Capital Territory

At May 2008, the ACT had seven licensed retailers, four of which were active in the residential and small business market. The active retailers include the host retailer, ActewAGL Retail, and three new entrants, which were established interstate retailers EnergyAustralia, Country Energy and TRUenergy.

Dodo Power & Gas and Jackgreen held retail licences but were not actively marketing to small customers in May 2008.

NERA Economic Consulting reported that at June 2007, ActewAGL Retail had a market share of 92 per cent.<sup>9</sup> EnergyAustralia and Country Energy held the remaining 8 per cent.

<sup>7</sup> NERA Economic Consulting, *The gas supply chain in eastern Australia—A report to the Australian Energy Market Commission*, March 2008, p. 89.

<sup>8</sup> AGL Energy acquired the government-owned Sun Gas Retail in 2006.

<sup>9</sup> NERA Economic Consulting, *The gas supply chain in eastern Australia—A report to the Australian Energy Market Commission*, March 2008, p. 91.

### 11.1.6 Tasmania

At May 2008, Tasmania had two gas retailers active in the small customer market: the state-owned Aurora Energy and Option One (owned by Babcock & Brown Infrastructure through Powerco, the Tasmanian distribution network business). TRUenergy and Country Energy obtained retail licences in 2008 but were not actively marketing to small customers in May 2008.

### 11.1.7 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. However, restrictions imposed by the Western Australian Government prevent Synergy from supplying gas to customers using less than 0.18 terajoules a year.<sup>10</sup>

### 11.1.8 The Northern Territory

In the Northern Territory, gas is mainly used for electricity generation. Origin Energy retails gas to small customers in Alice Springs, and NT Gas supplies a small quantity of gas to commercial and industrial customers in Darwin.

## 11.2 Trends in market integration

There has been considerable ownership consolidation in the energy retail sector, 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. The convergence between the gas and electricity retail markets is considered in section 6.2.1 of this report.

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 rising 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, there are some ownership linkages between the gas pipeline and gas retail sectors. For example, the retailers TRUenergy and Simply Energy (owned by International Power) have ownership shares in the SEA Gas Pipeline from Victoria to South Australia.

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



## 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 small customers in nominated geographical areas under a regulated standing offer (or default) contract (see section 11.4.1). Standing offer contracts often cover minimum terms and conditions and include a regulated price that is subject to some form of cap or oversight. These contracts apply to all customers who do not have a market contract. At July 2008, four jurisdictions—New South Wales, Victoria, 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.<sup>11</sup> The AEMC is assessing the effectiveness of retail competition in each jurisdiction to advise on the appropriate time to remove retail price caps. The relevant state or territory government makes the final decision on this matter. The AEMC conducted a review of the Victorian market in 2007 and is reviewing the South Australian market in 2008. In response to the review, the Victorian Government announced in September 2008 the introduction of new legislation to remove retail price caps. Further information on the AEMC reviews is provided in box 6.1 in chapter 6 of this report.

The following is a sample of public data that may be relevant to an assessment of 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 on the information provided and does not attempt to assess the effectiveness of retail competition in any jurisdiction.

11 Australian Energy Market Agreement 2004 (amended 2006), p. 28.

12 AEMC, *Review of the effectiveness of competition in electricity and gas retail markets in Victoria—First final report*, 19 December 2007, p. 60.

13 AEMC, *Review of the effectiveness of competition in electricity and gas retail markets in Victoria—First final report*, 19 December 2007, p. 62.

### 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 more flexible arrangements. Discounts may also be available for prompt payment of bills and 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 Victoria, the AEMC noted:<sup>12</sup>

Retailers offer non-price benefits in an effort to differentiate their offers from those of their rivals and to attract those customers for whom a price discount is not sufficient encouragement to switch. For some customers, the offer of physical products or other less tangible benefits such as improved environmental outcomes or community support may be greater, or an additional, inducement for switching to a market contract with a different retailer than simple discounts from the standing offer price.

The AEMC also reported that nine of 13 Victorian retailers surveyed had offered at least one non-price benefit in conjunction with market offers over the past five years. The most common non-price benefits were magazine subscriptions and vouchers.<sup>13</sup>

The variety of discounts and non-price inducements makes direct price comparisons between retail offers difficult. There is also variation in the transparency

of price offerings. Some retailers publish details of their products and prices, while others require a customer to fill out online forms or arrange a consultation. Box 11.1 provides case study material on the diversity of price and product offerings in South Australia, Queensland and Victoria.

Note that the price offers set out in box 11.1 relate to a variety of time periods and product structures, and rely on different measurement techniques. The price offers are therefore not directly comparable between jurisdictions. Section 11.4 of this report also considers data on retail price outcomes.

### 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 and/or better offers from competing retailers, successful marketing by retailers, and customer dissatisfaction with some service providers.

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

Switching rates may also be affected by 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. For example, consumers are more likely to be responsive to energy offers and actively seek out cheaper services if the cost of gas services represents a relatively high proportion of their budget.

Gas churn data is published by independent market operators: the Gas Market Company (New South Wales and the ACT), VENCORP (Victoria and Queensland) and REMCO (South Australia). For each, 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 (see table 11.5 and figure 11.4).<sup>17</sup>

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 as it does not account for the efforts of host retailers to maintain market share.

Figure 11.4 illustrates that switching activity continued strongly in Victoria and South Australia in 2007–08. Queensland, New South Wales and the ACT had switching rates of less than half those recorded in the other states. Table 11.5 shows that only 5 per cent of small customers in Queensland, New South Wales and the ACT changed gas retailer in 2007–08, compared to 23 per cent in Victoria and 13 per cent in South Australia. At June 2008, cumulative switching rates in Victoria (99 per cent) and South Australia (67 per cent) were more than double the New South Wales and ACT rate (27 per cent). The relatively low rate of customer switching in Queensland reflects the recent introduction of FRC in that state (1 July 2007). The gas retail switching rates in each jurisdiction were lower than switching rates in electricity.

17 The New South Wales, ACT, Queensland and Victorian data are based on transfers at delivery points. As most residential customers receive gas from only one delivery point, the data approximates the number of customers transferring to another retailer.

### Box 11.1 Case study—diversity of price and product offerings to small customers

Information is available in South Australia, Queensland and Victoria on the price and product offerings of gas retailers.

The Essential Services Commission of South Australia (ESCOSA) and the Queensland Competition Authority (QCA) provide online estimator services that allow consumers to make rough but quick comparisons of retail offers.<sup>14</sup> The estimators do not account for all elements of retail offers, such as sign-up bonuses. Table 11.4 sets out the estimated annual gas bill in April 2008 for customers in South Australia and Queensland using 60 gigajoules of gas per year, based on peak usage and not using gas for hot water.

Victoria's Essential Services Commission (ESC) undertakes annual independent research that compares some gas market contract prices in different host retailer areas.<sup>15</sup> The ESC found that market offers at a discount from the standing contract price were available in all host retailer areas, as well as additional

monetary inducements of up to \$50 a year. Table 11.4 sets out results of the ESC research from May 2007.

Table 11.4 indicates that there is some price diversity in the gas retail markets, though often less so than for electricity (see box 6.2 in chapter 6 of this report). The price spread in Victoria was about \$200, and just over \$100 in South Australia. In Queensland the price spread was just under \$80. Discounts off the regulated retail price of up to 14 per cent were available in Victoria (compared with 10 per cent for electricity), and of up to 7 per cent in South Australia (consistent with electricity). Retail gas prices in Queensland are not regulated.

Market analysis in Victoria undertaken by CRA International in August 2007 found that market contracts typically have a range of monetary and non-monetary inducements. Variable-term contracts tended to offer smaller discounts and fewer non-monetary benefits than fixed-term contracts.<sup>16</sup>

14. The estimators are available at <http://www.escosa.sa.gov.au> and <http://www.qca.org.au>.

15. ESC, *Energy retail businesses comparative performance report for the 2006–07 financial year*, December 2007.

16. CRA International, *Impact of prices and profit margins on energy retail competition in Victoria*, November 2007, pp. 65–66.

**Table 11.4 Gas retail price offers for a customer using 60 GJ per year in South Australia (April 2008), Queensland (April 2008) and Victoria (May 2007)**

PROVIDER	N° OF PRODUCTS	ANNUAL COST (\$) <sup>1,2</sup>										ADDITIONAL BENEFITS	
		600	700	800	900	1000	1100	1200	1300	1400	1500		
<b>SOUTH AUSTRALIA (ORIGIN ENERGY)</b>													
Regulated price													—
AGL Energy	4												Joining bonus
Origin Energy	3												Prompt payment discount
TRUenergy	2												Joining bonus; loyalty bonus
<b>QUEENSLAND (NO REGULATED PRICE)</b>													
AGL Energy	2												—
Australian Power & Gas	4												Joining bonus; prompt payment discount
Origin Energy	2												—
<b>VICTORIA (AGL SOUTH)</b>													
Regulated price													—
AGL Energy	1												Joining bonus
Origin Energy	1												Joining bonus
EnergyAustralia <sup>3</sup>	2												Loyalty bonus
TRUenergy	1												Prompt payment discount
Victoria Electricity	1												Prompt payment discount
<b>VICTORIA (AGL NORTH)</b>													
Regulated price													—
AGL Energy	1												Joining bonus
TRUenergy	1												Prompt payment discount
Victoria Electricity	1												Prompt payment discount
<b>VICTORIA (ORIGIN METRO)</b>													
Regulated price													—
AGL Energy	1												Joining bonus
EnergyAustralia <sup>3</sup>	2												Loyalty bonus
Origin Energy	1												Loyalty bonus
TRUenergy	1												Prompt payment discount
Victoria Electricity	1												Prompt payment discount
<b>VICTORIA (ORIGIN SOUTH EAST)</b>													
Regulated price													—
EnergyAustralia <sup>3</sup>	2												Loyalty bonus
Origin Energy	1												Loyalty bonus
TRUenergy	1												Prompt payment discount
Victoria Electricity	1												Prompt payment discount
<b>VICTORIA (ORIGIN NORTH)</b>													
Regulated price													—
AGL Energy	1												Joining bonus
EnergyAustralia <sup>3</sup>	2												Loyalty bonus
TRUenergy	1												Prompt payment discount
Victoria Electricity	1												Prompt payment discount
<b>VICTORIA (TRU EAST)</b>													
Regulated price													—
AGL Energy	1												Joining bonus
EnergyAustralia <sup>3</sup>	2												Loyalty bonus
TRUenergy	1												Prompt payment discount
Origin Energy	1												Loyalty bonus
Victoria Electricity	1												Prompt payment discount
<b>VICTORIA (TRU CENTRAL)</b>													
Regulated price													Prompt payment discount
AGL Energy	1												Joining bonus
EnergyAustralia <sup>3</sup>	2												Loyalty bonus
TRUenergy	1												Prompt payment discount
Origin Energy	1												Loyalty bonus
Victoria Electricity	1												Prompt payment discount

Notes:

1. Coloured bars represent the approximate range of annual charges for each retailer's products.
2. The annual costs exclude additional benefits such as prompt payment discounts, and joining and loyalty bonuses.
3. In July 2007 International Power announced its acquisition of the Energy Australia-International Power Retail Partnership. This partnership retailed gas services in Victoria under the Energy Australia trading name. International Power has since rebadged the retail business as Simply Energy.

Sources: South Australia: ESCOSA estimator, viewed 17 April 2008, <http://www.escosa.sa.gov.au>; Queensland: QCA estimator, viewed 17 April 2008, <http://www.qca.org.au>; Victoria: ESC, *Energy retail businesses comparative performance report for the 2006-07 financial year*, December 2007.

**Table 11.5 Small customers switching retailers, 2008**

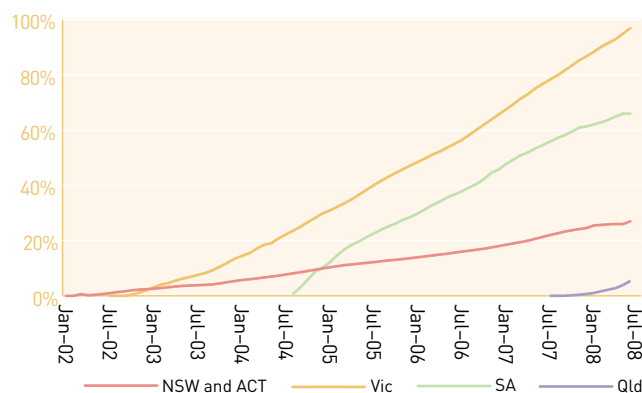
INDICATOR	NSW AND ACT	VICTORIA	QUEENSLAND	SOUTH AUSTRALIA
Percentage of small customers that changed gas retailer during 2007-08	5%	23%	5%	13%
Customer switches as a percentage of the small customer base from FRC start to June 2008 (cumulative)—Gas	27%	99%	5%	67%
Customer switches as a percentage of the small customer base from FRC start to June 2008 (cumulative)—Electricity	44%	105%	20%	86%

Note:

1. If a customer switches to a number of retailers in succession, each move counts as a separate switch. Cumulative switching rates may therefore exceed 100 per cent.
2. The customer base is estimated at 30 June 2008.

Sources: New South Wales and ACT: Gas Market Company, Market activity data January 2002–June 2008; South Australia: REMCo, Market activity reports August 2004–June 2008; Victoria and Queensland: VENCORP, Gas market reports: Transfer history January 2002–June 2008.

**Figure 11.4 Cumulative monthly customer switching of retailers as a percentage of small gas customers, to June 2008**



Sources: New South Wales and ACT: Gas Market Company, Market activity data January 2002–June 2008; South Australia: REMCo, Market activity reports August 2004–June 2008; Victoria and Queensland: VENCORP, Gas market reports: Transfer history January 2002–June 2008.

### Switches to market contracts

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 this data. In Victoria, the AEMC reported on customer switching to market contracts as part of its 2007 review of the effectiveness of retail competition.<sup>18</sup>

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

The data indicate that in addition to customer movement between retailers, a significant number of residential customers in Victoria and South Australia are choosing to move away from standing offer contracts but remain with their host retailer. Once again, switching rates are lower than for electricity (see table 6.7 in chapter 6).

### International comparisons

The VaasaETT Utility Customer Switching Research Project published its fourth report on customer switching in world energy markets in 2008. VaasaETT classified the Victorian and South Australian energy retail markets as ‘hot’ and the New South Wales and Queensland retail energy markets as ‘warm active’. Box 6.3 in chapter 6 of this report provides further details.

### 11.3.3 Customer perceptions of competition

Surveys on customer perceptions of retail competition are undertaken from time to time. Recent reviews include:

18 AEMC, *Review of the effectiveness of competition in electricity and gas retail markets in Victoria—First final report*, 19 December 2007.

**Table 11.6** Small customer transfers to market contracts

JURISDICTION	DATE	SMALL CUSTOMERS ON MARKET CONTRACTS (% OF SMALL CUSTOMER BASE)
Victoria	31 December 2006	60% of residential customers 31% of small business customers
South Australia	30 June 2007	56% of residential customers (16% with the host retailer and 40% with new entrants) 14% of small business customers (3% with the host retailer and 11% with new entrants)

Sources: Victoria: AEMC, *Review of the effectiveness of competition in electricity and gas retail markets in Victoria—First final report*, 19 December 2007, p. 89; South Australia: ESCOCA, *2006–07 Annual performance report: Performance of South Australian energy retail market*, November 2007, pp. iii and 23.

- > surveys as part of the AEMC reviews of the effectiveness of retail competition in Victoria (2007) and South Australia (2008)
- > the Independent Pricing and Regulatory Tribunal’s (IPART’s) survey of residential energy and water use in Sydney, the Blue Mountains and Illawarra (2006)
- > surveys conducted as part of ESCOSA’s monitoring of the development of energy retail competition in South Australia.

Issues covered by the surveys 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 that customer awareness of retail choice has risen over time to high levels, particularly in New South Wales and Victoria. It remains unusual for customers to approach retailers about taking out a market contract. However, increasing numbers of customers are being approached by retailers.

**Table 11.7** Residential customer perceptions of competition

INDICATOR	SOUTH AUSTRALIA			VICTORIA		NEW SOUTH WALES	
	2004	2006	2008	2004	2007	2003	2006
Customers aware of choice	78%	79%	84%	83%	91%	92%	93%
Customers receiving at least one retail offer	20%	34%	20%	22%	45%	29% <sup>1</sup>	36% <sup>1</sup>
Customers approaching retailers about taking out market contracts	8%	6%	5%	6%	6%	n/a	n/a

n/a, not available.

Note:

1. Does not include customers approached to switch to a market contract by their current retailer. By 2006, 43 per cent of households had been approached to switch to a market contract by their existing retailer.

Sources: South Australia: McGregor Tan Research, *Monitoring the development of energy retail competition—residents*, prepared for ESCOSA, February 2006, September 2004 and November 2003; McGregor Tan Research, *Review of effectiveness of competition in electricity and gas retail markets*, prepared for AEMC, June 2008; Victoria: The Wallis Group, *Review of competition in the gas and electricity retail markets—consumer survey*, prepared for AEMC, August 2007; New South Wales: IPART, *Residential energy and water use in Sydney, the Blue Mountains and Illawarra—Results from the 2006 household survey*, November 2007.

## 11.4 Retail prices

Gas retail prices paid by customers cover the costs of a bundled product made up of gas, transport through transmission and distribution pipelines, and retail services.

Figure 11.5 provides an indication of the typical make-up of a residential gas bill in Victoria and South Australia in 2007. 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 16 per cent of retail prices in Victoria and 19 per cent in South Australia.

The lead essay of this report sets out ACIL Tasman estimates of the composition of residential gas prices in five mainland capital cities (see figure E.2). The analysis notes that prices vary significantly for customers with different volume requirements and at different locations.

By far the highest proportion of total cost is associated with the distribution system, reflecting the high capital cost of servicing each customer.

### 11.4.1 Regulation of retail prices

While all jurisdictions have introduced FRC, at July 2008 New South Wales, Victoria, South Australia and Western Australia continued to regulate gas retail prices for small customers. Typically, host retailers must offer standing offer contracts to sell gas at default prices based on some form of regulated price cap or oversight. These contracts apply to customers who have not switched to a market contract. Retail gas prices are not regulated in Queensland, Tasmania, the ACT or the Northern Territory.

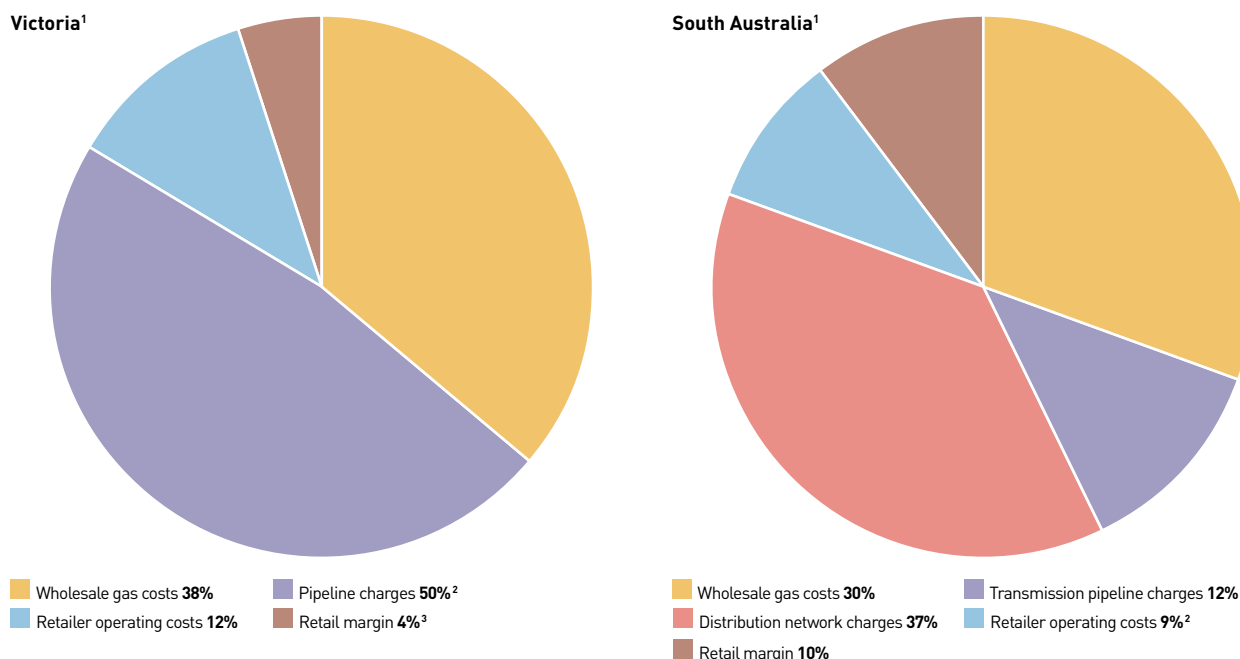
Price cap regulation was intended as a transitional measure during the development phase of retail markets. To allow efficient signals for investment and consumption, governments are moving towards removing retail price caps. As noted, the AEMC is reviewing the effectiveness of competition in electricity and gas retail markets to determine an appropriate time to remove retail price caps in each jurisdiction (see box 6.1 in chapter 6).

In setting default prices, jurisdictions take into consideration gas purchase costs, pipeline charges, retailer operating costs and a retail margin. The approach varies between jurisdictions:

- > In New South Wales, prices under standing offer contracts are controlled through voluntary agreements with host retailers that limit annual price increases.
- > Since 2003, the Victorian Government has entered into agreements with host retailers on a pricing structure for default retail prices for households and small businesses. Default arrangements ceased to apply to small businesses from 1 January 2008 and will cease for residential customers from 1 January 2009.
- > The South Australian regulator (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, gas retail prices for the major distribution systems are capped by regulations. During 2008, the Office of Energy is reviewing the level and structure of regulated retail prices.

Section 11.4.3 considers recent retail price determinations and provides detail on the progress of the Western Australian review of regulated retail prices.

**Figure 11.5**  
Indicative composition of a residential gas bill—Victoria and South Australia, 2007



**Notes:**

1. Based on 2007 prices and average annual residential consumption of 60 gigajoules.
2. Pipeline charges are an average for the three Victorian host retailers—Origin Energy, AGL Energy and TRUenergy.
3. Retail margin based on standing offer contracts.

Source: CRA International, *Final report: Impact of prices and profit margins on energy retail competition in Victoria*, November 2007, Prepared for AEMC review of effectiveness of competition in the electricity and gas retail markets—Victoria.

**Notes:**

1. Based on 2007–08 prices and average annual residential consumption of 60 gigajoules.
2. Retailer operating costs are exclusive of full retail competition costs.

Source: ESCOSA, *2008 gas standing contract price path inquiry draft inquiry report and draft price determination*, April 2008; ESCOSA, *gas standing contract price path final inquiry report and final price determination*, June 2005.

### 11.4.2 Retail price outcomes

Retail price outcomes should be interpreted with care. Trends in retail prices may reflect movements in the cost of any one 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, retail price movements are affected by regulatory arrangements. As noted in section 6.4.2, 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.



- > ESCOSA and the Queensland and Victorian regulators (QCA and ESC) provide an estimator service on their websites that can be used to compare the price offerings of different retailers (see box 11.1).
- > Retailers are not required to publish the prices struck through market contracts with customers.

### 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.<sup>19</sup> 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 the movement of real retail gas prices for households and businesses. The real price of gas for businesses has fallen 13 per cent since 1991, while the real gas price for households has increased by 18 per cent (see figure 11.7). In part, the disparity may reflect 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 the major capital cities since July 1996. Real household gas prices have risen since 1996 in all states except Victoria, but the pattern and rate of adjustment has varied. Customers in New South Wales and South Australia have experienced moderate real price increases from 2000–01 to 2007–08 of 24 per cent and 22 per cent, respectively, while real prices in Western Australia, Victoria and the ACT have remained relatively stable. Prices in Queensland were relatively stable from 2000–01 to 2004–05 but have since risen sharply.

ACIL Tasman has developed estimates of gas retail prices in mainland capital cities (published in the lead essay of this report; see figure E.2). The data indicate that gas retail prices range from around \$15.50 per gigajoule in Melbourne to almost \$28 per gigajoule in Brisbane.

Caution should be exercised when making price comparisons. Price variation between the cities (and between individual customers) reflects a variety of factors, including variations in the wholesale price of gas 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 the gas fields.
- > Western Australia traditionally has relatively low wholesale gas prices but high transport costs as most residential consumers are located a long distance from gas basins. Volumes are also relatively low.
- > Queensland prices reflect a small residential customer base and low rates of residential consumption because of that state's warm climate.

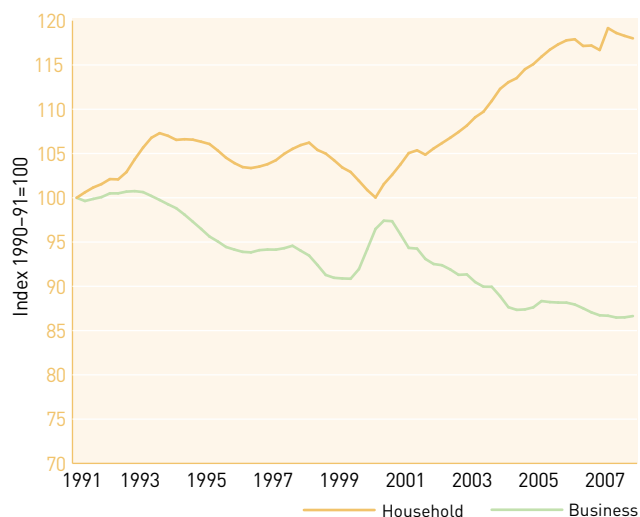
### 11.4.3 Update: retail price trends in 2007–08

Several jurisdictions have experienced rising gas wholesale and transportation costs in 2007 and 2008. These developments have raised concerns about possible effects on retailer profitability and retail prices.

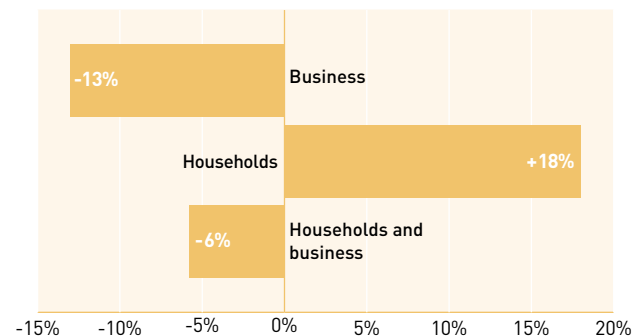
Several of the jurisdictions that continue to regulate retail gas prices have taken measures to allow pass-through of rising costs into retail prices. Table 11.8 compares recent movements in regulated tariffs in Victoria, New South Wales, South Australia and Western Australia and the mechanisms to allow further tariff revision. The decisions relate to the supply of gas by host retailers to customers on default arrangements. Different approaches between jurisdictions reflect a range of factors and should be interpreted with care. In particular, there are differences in the operating environments of retail businesses.

19 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 2008



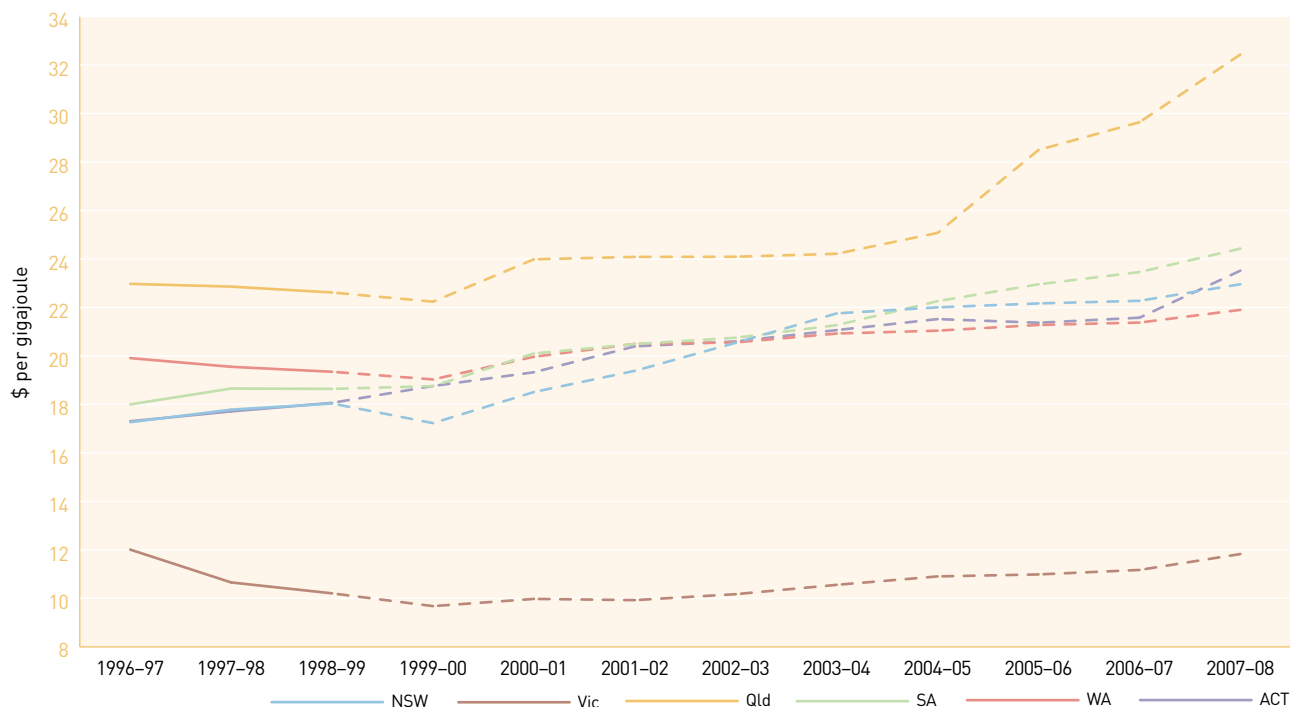
**Figure 11.7**  
Change in the real price of gas—Australia, June 1991–March 2008



Note: The households index is based on capital city consumer price indexes for 'gas and other household fuels' deflated by the capital city consumer price index (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 GST on 1 July 2000, which increased prices paid by households for gas services.

Sources for figures 11.6 and 11.7: ABS cat. no. 6401.0 and 6427.0.

**Figure 11.8**  
Real retail gas prices—state and territory, July 1996–June 2008



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 2008, Canberra, cat. no. 6401.0.

**Table 11.8 Recent changes in regulated gas retail prices**

JURISDICTION	CURRENT PERIOD	RELEVANT RETAILERS	INCREASE IN REGULATED TARIFF	PASS THROUGH MECHANISM FOR WHOLESALE ENERGY COSTS
Victoria	1 January 2008–31 December 2008	TRUenergy Origin Energy AGL Energy	CPI + 3.1% CPI + 5.3% CPI + 5.4%	Annual price determination. No further adjustment permitted.
New South Wales	1 July 2007–30 June 2010	Origin Energy ActewAGL Retail AGL Energy Country Energy	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. In 2008, IPART made a determination under these provisions to increase tariffs for Country Energy (by 12.2%), ActewAGL Retail (by 5.8–6.1%) and AGL Energy (by 5.24%). <sup>1</sup>
South Australia	1 July 2008–30 June 2011	Origin Energy	2008–09: 8.25% 2009–10 to 2010–11: CPI + 1% annually	Increased costs incurred from prescribed events can be recovered through tariff increases and the determination may be reopened.
Western Australia	1 July 2008–30 June 2009	Alinta	5.4 to 16.5%	Government decision to be implemented through regulations.

CPI, Consumer Price Index; IPART, Independent Pricing and Regulatory Tribunal.

Note:

1. Estimated increase for a typical retail customer in each of the Country Energy, ActewAGL Retail and AGL Energy supply areas.

Sources: Victoria: Department of Primary Industries, *Victorian energy prices factsheet*, p. 2; New South Wales: IPART, *Regulated gas retail tariffs and charges for small customers 2007–10: Gas Final report and voluntary transitional pricing arrangements June 2007*, p. 2; South Australia: ESCOSA, *2008 Gas standing contract price path inquiry: Final inquiry report and final price determination*, June 2008; Western Australia: *Energy Coordination (Gas Tariffs) Regulations 2000*; Office of Energy, *Gas tariffs review—Interim Report*, June 2008.

In 2008, the New South Wales regulator (IPART) approved special retail price increases of between 5.24 and 12.2 per cent<sup>20</sup> for the host retailers AGL Energy, ActewAGL Retail and Country Energy because of rising wholesale gas and transmission costs:

- > AGL Energy and ActewAGL Retail were unable to secure sufficient transmission on the Eastern Gas Pipeline for gas required for peak winter usage and incurred additional costs in sourcing gas from the Cooper Basin via the Moomba to Sydney Pipeline. There were also significant changes to the contractual arrangements for transport of gas on the Moomba to Sydney Pipeline.
- > Following compression issues in the Victorian transmission system during winter 2007, Country Energy incurred additional costs in securing alternative gas supply arrangements.

In Western Australia, wholesale gas prices rose sharply in 2007 to levels of up to three times those experienced

earlier in the decade. The Office of Energy expressed concern that these increases could act as a barrier to entry in the gas retail market and could affect retail margins in the future—particularly for new entrant retailers needing to secure wholesale gas supplies.<sup>21</sup> In 2008, the Office of Energy reviewed the level and structure of gas tariffs and in June 2008 made an interim recommendation to increase regulated tariffs by between 5.4 per cent and 16.5 per cent (depending on the customers' geographic location and the level of their gas consumption).<sup>22</sup> The Minister for Energy confirmed that the Western Australian Government will accept this interim recommendation.<sup>23</sup>

The South Australian regulator (ESCOSA) has indicated that an increase in the regulated tariff of 8.25 per cent in 2008–09 largely reflects an increase in wholesale gas supply costs and an increase in the retail margin.<sup>24</sup>

20 Estimated increase for a typical retail customer.

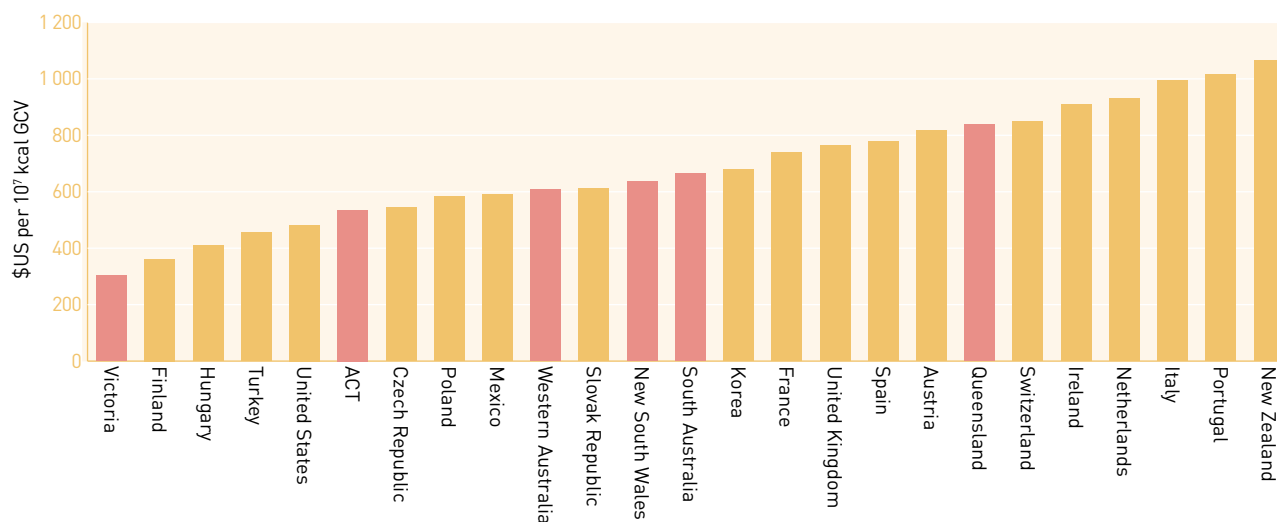
21 Office of Energy, *Gas Tariffs Regulations review report*, October 2007, pp. 9, 15–17, 20.

22 Office of Energy, *Gas tariffs review—Interim report*, June 2008.

23 Minister for Energy (WA) (Hon. Francis Logan), *Review of gas tariff cap*, media statement, 20 June 2008.

24 ESCOSA, *2008 Gas standing contract price path inquiry: Final inquiry report and final price determination*, June 2008.

**Figure 11.9**  
International gas prices for households, 2006



kcal, kilocalorie; GCV, gross calorific value.

Notes:

1. Latest data available December 2006.
2. Price data for Australia is based on AER estimates benchmarked against the US average. The data for each jurisdiction is for 2006 and is estimated by inflating 2000 AGA data by the capital city consumer price index series for gas and other household fuels.

Sources: AGA, *Gas statistics Australia 2000*, Canberra, August 2000, p. 118; ABS, *Consumer price index, Australia*, March quarter 2008, Canberra, cat. no. 6401.0; IEA, *Natural gas information*, table 20, Natural gas price for households in \$US, Q4 2006, published 2007; ATO, *Foreign exchange rates: End of financial year rates*, US rate for 31 December 2006; Energy Administration Information, *Official energy statistics from the US Government*, Natural gas prices from 2006.

Queensland does not regulate retail prices but has recently experienced significant retail price increases (see figure 11.8). In 2008, the Queensland Minister for Mines and Energy directed the Queensland regulator (QCA) to review small customer prices and competition in the gas retail market to determine whether additional measures are required to encourage competitive outcomes for customers, existing retailers and new entrants.<sup>25</sup> The QCA released an issues paper for the review in May 2008.<sup>26</sup>

#### 11.4.4 International price comparisons

Figure 11.9 compares estimated residential gas prices in six Australian states and territories with selected Organisation for Economic Cooperation and Development (OECD) countries. The data indicate that Australian gas retail prices are generally lower than in many OECD countries. For example, retail prices

in most Australian states are lower than in New Zealand, Italy, the United Kingdom, France and Korea. However, Australian retail prices are generally higher than prices in the United States. Only Victoria—with among the world's lowest gas retail prices—has lower prices than the United States.

#### 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 that retailers must meet when supplying gas to small retail customers. As discussed in section 6.5, jurisdictional regulators monitor and report on quality of service in the retail sector to enhance transparency and accountability.

25 Minister for Mines and Energy (Qld) (Hon. Geoff Wilson), *Minister directs review of gas market pricing*, media statement, 2 May 2008.

26 QCA, *Review of small customer gas pricing and competition in Queensland—Issues Paper*, May 2008.

**Figure 11.10**  
Gas residential disconnections as a percentage of the customer base

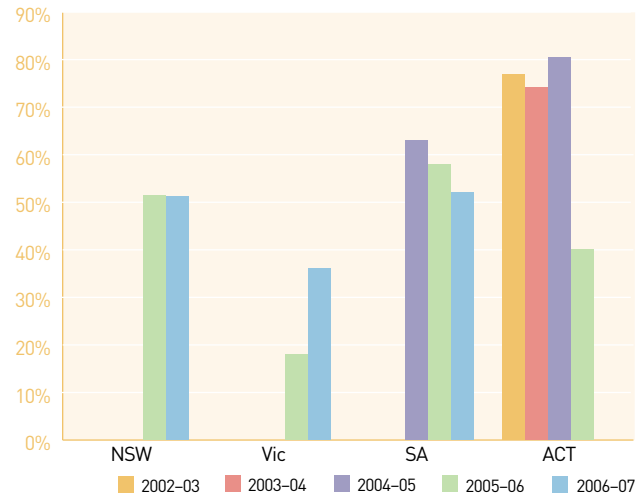


Notes:

1. ACT figures include residential and non-residential customers but exclude disconnections by EnergyAustralia.
2. New South Wales data is only available from 2005-06. ACT data is only available to 2005-06.

Source: See figure 11.13.

**Figure 11.11**  
Residential gas customers reconnected within seven days as a percentage of customers disconnected



Notes:

1. Victorian data for 2005-06 only includes six months of data from January-June 2006.
2. New South Wales and Victorian data is only available from 2005-06. South Australian data is only available from 2004-04. ACT data is only available to 2005-06.

Source: See figure 11.13.

Most jurisdictions also have an ombudsman who investigates and reports on complaints.

In May 2007, the Utility Regulators Forum (URF) recommended an extension of national reporting arrangements for electricity retail businesses to include the gas retail sector from 2007-08.<sup>27</sup> The URF reporting criteria address:

- > customer affordability and access to services
- > quality of customer services.

New South Wales, Victoria, South Australia and the ACT have reported performance against the URF indicators but each jurisdiction applies different methodologies and assumptions. The validity of any national performance comparisons may be limited by differences in approach between the jurisdictions.

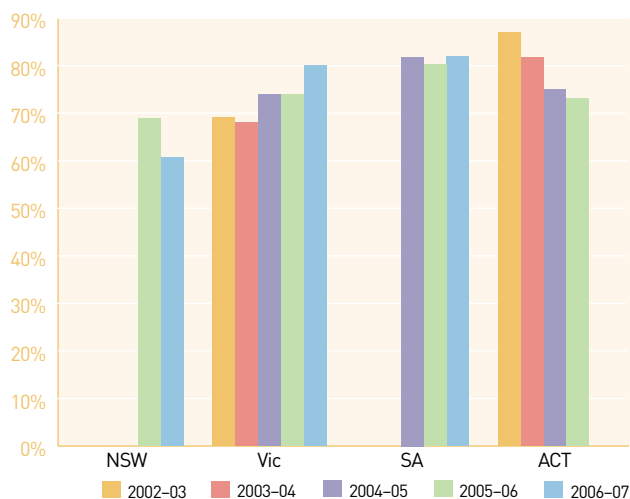
### 11.5.1 Affordability and access indicators

The rate of residential customer disconnections for failure to meet bill payments (see figure 11.10) and the rate of disconnected customers reconnected within seven days (see figure 11.11) are key affordability and access indicators.

In 2006-07, the rate of residential customer disconnections rose from the previous year in New South Wales, Victoria and South Australia. Disconnection rates in Victoria and South Australia remained below 1 per cent, but exceeded 2 per cent in New South Wales. The ACT has recorded rising disconnection rates since 2002-03.

27 Utility Regulator Forum, *National energy retail performance indicators*, Final paper, May 2007, p. ii.

**Figure 11.12**  
**Percentage of gas retail customer calls answered within 30 seconds**



Notes:

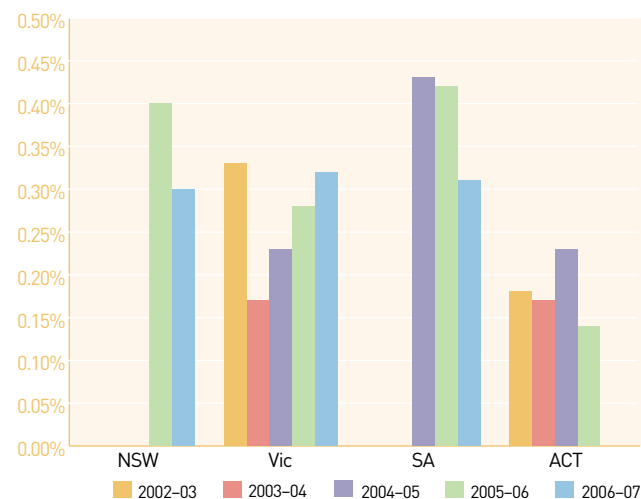
1. South Australian statistics include data for gas and electricity.
2. New South Wales data is only available from 2005-06. South Australian data is only available from 2004-05. ACT data is only available to 2005-06.

Source: See figure 11.13.

A number of factors may have contributed to these outcomes. For example, the ESC noted that 2005-06 rates were very low in Victoria following the introduction of legislation to compensate customers for wrongful disconnection. The ESC observed that the increase in rates since 2005-06 may indicate that rates are returning to average historical levels.<sup>28</sup>

The rate at which disconnected customers were reconnected in 2006-07 (figure 11.11) fell slightly from the previous year in South Australia but improved sharply in Victoria to around 36 per cent. The rate was around 50 per cent in New South Wales and South Australia.

**Figure 11.13**  
**Retail gas customer complaints as a percentage of total customers**



Note: New South Wales data is only available from 2005-06. South Australian data is only available from 2004-05. ACT data is only available to 2005-06.

Sources for figures 11.10, 11.11, 11.12 and 11.13: New South Wales: IPART, *Gas retail businesses' performance against customer service indicators for the period of 1 July 2005 - 30 June 2007, 2008*. Victoria: ESC, *Energy retail businesses comparative performance report 2006-07*, December 2007; South Australia: ESCOSA, *2006-07 Annual performance report: Performance of South Australian energy retail market*, November 2007; ACT: ICRC, *Licensed electricity, gas and water and sewerage utilities performance report*, various years.

### 11.5.2 Customer service indicators

Customer service measures provide an indication of customer satisfaction with the quality of retailer service. Indicators include:

- > the percentage of customer calls answered within 30 seconds (see figure 11.12)
- > retail customer complaints as a percentage of total customers (see figure 11.13).

Call centre performance varied across the jurisdictions in 2006-07 (figure 11.12). In Victoria and South Australia, around 80 per cent of customer calls were answered within thirty seconds. New South Wales recorded a lower rate of about 60 per cent.

28 ESC, *Energy retail businesses comparative performance report 2006-07*, December 2007, p. 39.

The rate of gas complaints by residential customers was around 0.3 per cent of the customer base in New South Wales, Victoria and South Australia in 2006–07. The rate has increased in Victoria since 2003–04, but fallen in New South Wales since 2005–06 and South Australia since 2004–05. The ACT tends to have a lower complaints rate than the other jurisdictions shown in figure 11.13. The ESC noted that the increase in the number of Victorian complaints in 2006–07 was mainly associated with issues other than affordability.<sup>29</sup>

As noted in section 6.4.2, 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 they have access to sufficient information to make informed decisions. Victoria, 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, there is still a requirement for host retailers to offer small customers a standard contract. This contract must be published on the retailers' website and notified to the Queensland regulator (QCA).

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.

The codes may:

- > constrain how retailers may contact potential customers
- > require precontract 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, jurisdictions have introduced supplier of last resort arrangements to ensure customers can be transferred from a failed or failing retailer to another. Section 6.5.3 provides further background on consumer protection arrangements for energy retail customers.

### 11.6 Future regulatory arrangements

State and territory governments are currently responsible for the regulation of retail energy markets. Governments agreed in the Australian Energy Market Agreement 2004 (amended 2006) to transfer non-price regulatory functions to the national framework.<sup>30</sup> These functions include:

- > the obligation on retailers to supply customers at a default tariff with minimum terms and conditions
- > arrangements to ensure customer supply continuity and wholesale market financial integrity in the event of a retailer failure
- > minimum contract terms and conditions applying to small customer market contracts
- > small customer marketing conduct obligations
- > retailer general business authorisations (where necessary for matters other than technical capability and safety).

This framework will be administered by the AEMC and AER. Further information on the transfer of regulatory arrangements is set out in section 6.7 of this report.

29 ESC, *Energy retail businesses comparative performance report 2006–07*, December 2007, p. 59.

30 This commitment did not cover the Northern Territory or Western Australia.