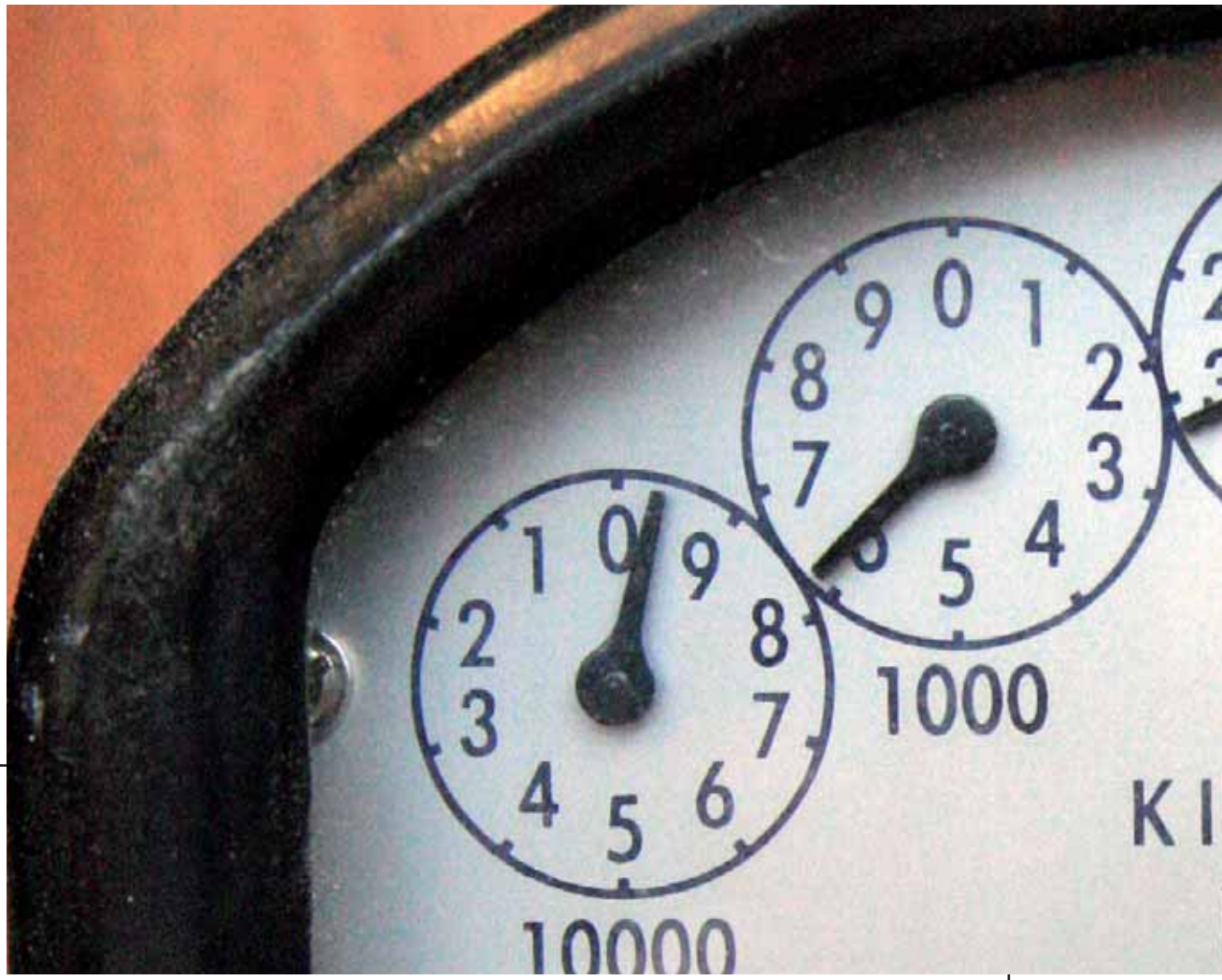
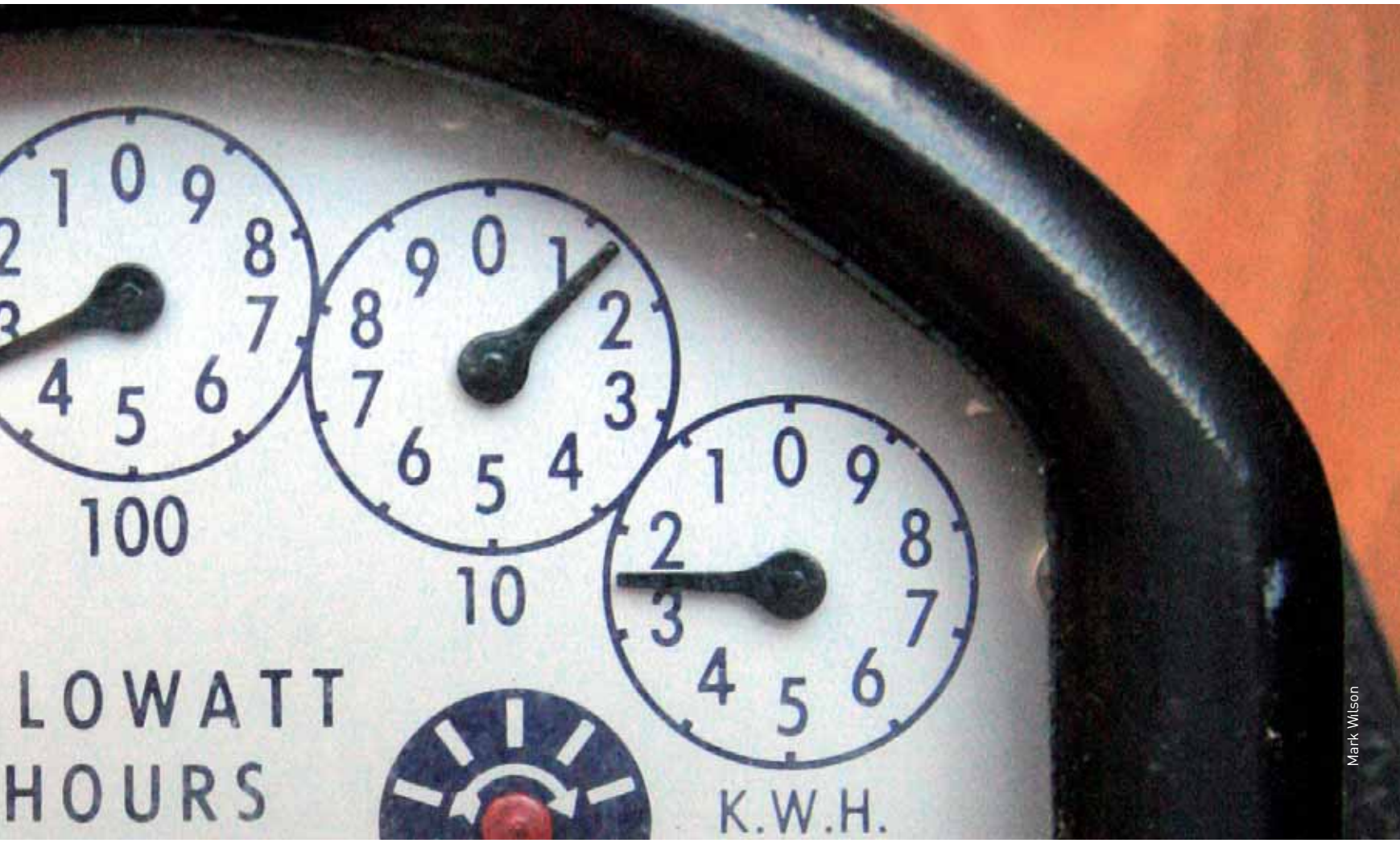


6 ELECTRICITY RETAIL MARKETS



The retail market is the final link in the electricity supply chain. It provides the main interface between the electricity industry and customers, such as households and small business. Because retailers deal directly with consumers, the services they provide can significantly affect perceptions of the performance of the electricity industry.

Retailers buy electricity in the wholesale market and package it with transportation for sale to customers. Many retailers also sell 'dual fuel' products that bundle electricity and gas services. While retailers provide a convenient aggregation service for electricity consumers, they are not direct providers of network services.

6 ELECTRICITY RETAIL MARKETS

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

- the structure of the retail market, including:
  - industry participants
  - ownership changes
  - convergence between electricity and gas retail markets
  - trends towards integration of the electricity generation and retail sectors
- 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 several 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 transfer of responsibilities to occur from July 2008.

This chapter focuses on the retailing of electricity to 'small customers' using less than 160 megawatt hours (MWh) a year.[1] This encompasses most customers and includes households and small business users. Large customers are typically major industrial users. Although relatively few, large customers buy the bulk of electricity sold by volume.

While this chapter includes data that might enable performance comparisons to be made between retailers, such analysis should note that a variety of factors can affect relative performance. These factors are noted, where appropriate, in the chapter.

1 Queensland reviewed its definition of 'small customer' in 2006 as part of its introduction of retail customer choice and set a breakpoint of 100 MWh a year.

6.1 The retail sector

Historically, state-owned utilities ran the entire electricity supply chain in all states and territories. In the 1990s, governments began to disaggregate the utilities. Victoria and South Australia privatised their distribution and retail sectors as stapled entities. The retail businesses were then spun off separately. Queensland privatised most of its energy retail entities in 2006–07, which largely separated that sector from distribution. New South Wales and Tasmania retain common ownership in distribution and retailing, with ring fencing for operational separation. The Australian Capital Territory Government formed a joint venture with the private sector to provide distribution and retail services, which was later separated into separate entities. These changes were accompanied by regulatory reforms to allow new retailers to enter the market.

These events have led to significant ownership changes in the retail sector. Table 6.1 lists licensed retailers that were active in the market for residential and small business customers in July 2007. High prices in the wholesale energy market put some pressure on the retail sector in 2007. One new entrant, Energy One, suspended its energy retailing business in June 2007 and cited the effects of high forward prices on profitability. Another retailer, Momentum Energy, sold part of its customer base in July 2007 due to rising wholesale costs.

Table 6.1 Active electricity retailers: small customer market (July 2007)

RETAILER	OWNERSHIP	VIC	NSW	QLD	SA	TAS	ACT	WA	NT
ActewAGL Retail	ACT Government & AGL Energy								
AGL Energy	AGL Energy								
Aurora Energy	Tasmanian Government								
Australian Power & Gas	Australian Power & Gas								
Country Energy	NSW Government								
EnergyAustralia	NSW Government								
EnergyAustralia – International Power Retail Partnership	EnergyAustralia & International Power								
Ergon Energy	Queensland Government								
Horizon	WA Government								
Integral Energy	NSW Government								
Jackgreen (International)	Jackgreen								
Origin Energy	Origin Energy								
Power and Water Corporation	NT Government								
Powerdirect	AGL Energy								
Red Energy	Snowy Hydro								
South Australia Electricity/ Victoria Electricity	Infratil								
Sun Retail	Origin Energy								
Synergy	WA Government								
TRUenergy	China Light and Power								

Host (local or incumbent) retailer New entrant

1. Not all licensed retailers are listed. Some generators are licensed retailers but are active only in the market for larger industrial users. The following generators have retail licenses: CS Energy, Delta Energy, Eraring Energy, International Power, NRG Flinders, Stanwell and Tarong Energy. The following distributors also have retail licenses: CitiPower, PowerCor, SP AusNet.
2. The Queensland Government privatised Sun Retail (formerly the retail business of ENERGEX) and Powerdirect (formerly owned by Ergon Energy) in 2006–07. It sold Sun Retail to Origin Energy and Powerdirect to AGL.
3. In 2007, International Power announced its full acquisition of the EnergyAustralia—International Power Retail Partnership, and from August 2007 will retail energy in its own right.

Source: Jurisdictional regulator websites, updated by information on retailer websites and other public sources.

Louie Douvis (Fairfax Images)

Not all licensed retailers are active in the small customer market. Some retailers target only large customers. Others may have been active in the past, or may have acquired a licence with a view to future marketing.

The retail players in each jurisdiction include:

- one or more 'host' retailers (also referred to as incumbent, local, standard or tier-1 retailers)[2] that are subject to various regulatory obligations. In some jurisdictions host retailers must offer to supply customers in a designated geographical area at standard terms and conditions, and often at capped prices. Some jurisdictions have several host retailers, each of which has obligations in specific geographical areas. The host retailer is typically the entity that sold electricity to all customers when competitive market arrangements began. Some have changed hands through privatisation or acquisitions.
- new entrants, including established interstate players, gas retailers branching into electricity retailing, and new players in the energy retail sector.

State government-owned host retailers in New South Wales, Tasmania, Western Australia and the Northern Territory are the major players in those jurisdictions, and some have acquired market share in Victoria and South Australia. Following privatisation and ownership consolidation there are now three major private retailers—AGL Energy, Origin Energy and TRUenergy. Each has significant market share in Victoria and South Australia and is building market share in New South Wales. AGL Energy and Origin Energy entered the Queensland small customer market in 2006–07 via the privatisation of two government owned retailers. In 2007, International Power fully acquired its retail partnership with EnergyAustralia, and from August 2007 will retail energy in its own right in Victoria and South Australia. The partnership had already garnered some market share in those states. Aside from the leading private retailers, a number of niche players are active in Victoria, South Australia and New South Wales.

The following survey provides background on developments in each jurisdiction.

Victoria

In the 1990s Victoria split its retail sector into five separate businesses, each stapled to a local distribution network area, and sold them to different private interests. Some of the businesses have since changed hands, reducing the number of host retailers to three. The opening of the sector to competition has also led to new entry by established interstate retailers and new players. At March 2007, Victoria had 26 licensed retailers, 12 of which were active in the residential and small business market. These were:

- AGL Energy, Origin Energy and TRUenergy—each of which is the host retailer in designated areas of Victoria
- nine new entrants, including established interstate retailers EnergyAustralia (in partnership with International Power) and Country Energy; and seven new players (Jackgreen, Momentum Energy, Powerdirect, Red Energy, Victoria Electricity, Energy One and Australian Power and Gas).

At March 2007, Click Energy and Our Neighbourhood Energy had applied for retail licences but were not actively marketing retail services to small customers.

Table 6.2 sets out the market share of Victorian retailers (by customer numbers). The three host retailers account for about 87 per cent of the market, and each has acquired market share beyond its local area. Significantly, new entrants without any local customer base have increased their market share from 5 per cent of small customers in 2004 to over 13 per cent in 2006 (figure 6.1).

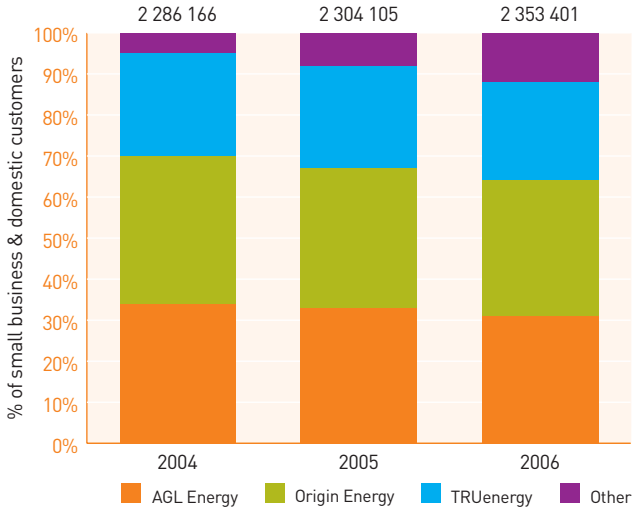
Table 6.2 Electricity retail market shares —Victoria, 30 June 2006

RETAILER	DOMESTIC CUSTOMERS	BUSINESS CUSTOMERS	TOTAL RETAIL CUSTOMERS
AGL Energy	31%	24%	31%
Origin Energy	32%	38%	33%
TRUenergy	24%	23%	24%
Other	13%	15%	13%
Total customers	2 077 135	276 266	2 353 401

Source: ESC, *Energy retail businesses comparative performance report for the 2005-06 financial year*, November 2006, p. 2.

2 The terminology varies between jurisdictions.

Figure 6.1
Electricity retail market shares (small customers)—Victoria



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

South Australia

South Australia sold its integrated distribution and retail business to Cheung Kong Infrastructure Holdings and Hong Kong Electric International Limited in 1999. The retail business was on-sold to AGL Energy in 2000.

The introduction of retail competition has led to new entry by established interstate retailers and new players. In March 2007, South Australia had 16 licensed electricity retailers, of which nine were active in the small customer market. These were:

- AGL Energy—South Australia's host retailer
- eight new entrants, including South Australia's host retailer in gas (Origin Energy); established interstate retailers (TRUenergy, EnergyAustralia—in partnership with International Power, Country Energy and Aurora Energy); and three new players (Momentum Energy, Powerdirect and South Australia Electricity).

At March 2007, Jackgreen and Red Energy held retail licences but were not actively marketing to small customers.

Table 6.3 sets out the small customer market share of South Australian retailers (by customer numbers). Four retailers account for 98 per cent of the market. The host retailer—AGL Energy—supplies 68 per cent of small customers. Origin Energy and TRUenergy have been actively seeking market share, and each has acquired more than 10 per cent of the small customer base. South Australia has registered three new active retailers since November 2005, but apart from the EnergyAustralia—International Power Retail Partnership the newer players have a negligible market share.

Table 6.3 Electricity retail market shares (small customers)—South Australia, 30 June 2006

RETAILER	SMALL CUSTOMERS
AGL Energy	68.7%
Origin Energy	10.4%
TRUenergy	10.9%
EnergyAustralia	7.9%
Powerdirect	1.8%
Country Energy	0.2%
Momentum Energy	<0.1%
Aurora	<0.1%
SA Electricity	<0.1%
Total customers	760 600

Source: ESCOSA, *SA energy retail market 05/06*, November 2006, p. 72

New South Wales and the Australian Capital Territory

In March 2007 New South Wales had 24 licensed retailers, of which 13 supply (or intend to supply) residential and/or small business customers. The active retailers included:

- EnergyAustralia, Country Energy and Integral Energy—the government-owned host retailers
- seven new entrants including the state's host retailer in gas (AGL Energy), established interstate players (Origin Energy, TRUenergy and ActewAGL Retail) and new players (Powerdirect, Jackgreen and Energy One).

At March 2007, Momentum Energy, Australian Power & Gas and New South Wales Electricity held retail licences but were not actively marketing to small customers.

Available information for 2006–07 indicated that new entrants had acquired at least 9 per cent of the small customer market from the government-owned incumbents. AGL Energy had acquired about 6 per cent of the market[3] and Origin Energy had acquired around 3 per cent.[4] The Independent Pricing and Regulatory Tribunal (IPART) published data in 2007 on the market share of host retailers in their local supply areas. In July 2006, EnergyAustralia and Integral Energy retained about 80 per cent of small customers in their local supply areas. IPART considered that this was reflective of a market in transition from the previous monopoly arrangements towards a competitive market. Country Energy has retained a market share of about 97 per cent in its local supply areas. IPART considered that this most likely indicates there are barriers to entry in that market.[5]

The Australian Capital Territory has 14 licensed retailers, of which three were active in the residential market at April 2006—ActewAGL Retail (the host retailer), EnergyAustralia and Country Energy.[6]

Queensland

In Queensland, there has been some new entry by retailers to supply large customers, but regulatory restrictions prevented new entry in the small customer market prior to July 2007.

Until 2006, Queensland's small customer market was divided between two government-owned businesses—ENERGEX and Ergon Energy. Queensland restructured the electricity retail sector in 2006 by creating two new businesses—Sun Retail (800 000 ENERGEX customers) and Powerdirect (400 000 ENERGEX customers, 17 000 Ergon Energy customers and 55 000 interstate customers).[7] Origin Energy acquired Sun Retail in November 2006 and AGL Energy acquired Powerdirect in February 2007. The government has retained ownership of Ergon Energy's retail business, now consisting of 600 000 'unprofitable' customers in rural and regional areas.

Other jurisdictions

Government-owned incumbents control the small customer markets in Western Australia, Tasmania and the Northern Territory. Regulatory restrictions prevent new entry to supply small customers.

Western Australia restructured Western Power in March 2006 and divided the small customer retail market between two new government-owned energy retailers, Synergy and Horizon. Each retailer is stapled to a designated geographical area. The *Electricity Corporations Act 2005* requires the Minister for Energy to undertake a review in 2009 with the aim of further extending contestability.

Small customers in Tasmania and the Northern Territory are serviced by government owned retailers Aurora Energy and Power and Water Corporation respectively.

6.1.1 Trends in market integration

A variety of ownership consolidation activity has occurred in the energy retail sector in recent years, including:

- retail market convergence between electricity and gas
- vertical integration between electricity retailers and generators.

3 AGL, *The Australian Gas Light Company scheme booklet – part 1*, 10 August 2006.

4 Power Industry News, Edition 531, 5 March 2007.

5 IPART, *Promoting retail competition and investment in the NSW electricity industry, regulated electricity retail tariffs and charges for small customers 2007–2010, Electricity draft report and draft determination*, April 2007.

6 ICRC, *Final report: retail prices for non-contestable electricity customers*, April 2006.

7 The Queensland government established a third new retailer, Sun Gas Retail with about 71 000 gas customers. AGL Energy acquired Sun Gas Retail in November 2006.

Energy retail market convergence

Electricity and gas were traditionally marketed as separate services by separate retailers. This reflected regulatory arrangements that required separate provision. In the past few years, regulatory reform and the economics of energy retailing have changed this position. Many energy retailers are now active in both electricity and gas markets, and offer 'dual fuel' retail products.

Several factors are driving retail convergence. The sharing of billing, call centre, marketing and administrative overheads offers cost savings. The provision of dual fuel offers can also help to attract and retain customers. At the same time, convergence can create hurdles for new entrants—especially small players—which may need to offer a broader range of services to win customer share. New entrants also need to deal with different market arrangements and different risks in the provision of electricity and gas services, particularly in the wholesale energy sector.

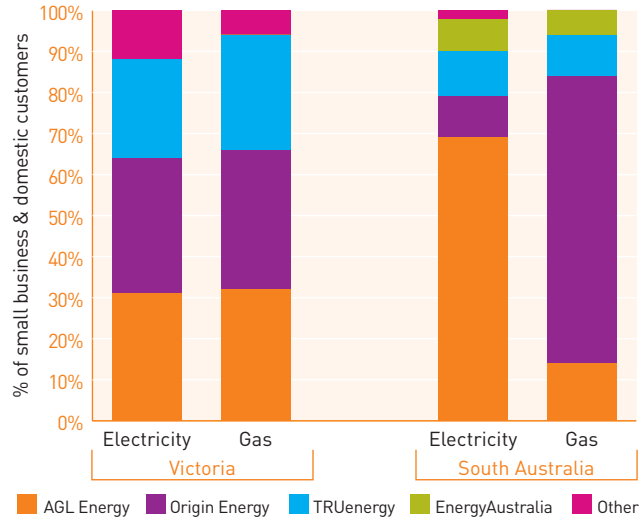
There has been significant retail convergence in Victoria, where AGL Energy, Origin Energy and TRUenergy jointly account for around 87 per cent of small electricity retail customers and 94 per cent of small gas retail customers. The market share of AGL Energy and Origin Energy is similar in each sector. TRUenergy has a higher market share in gas than electricity. The principal difference between the two sectors is the lack of penetration by niche players in gas (figure 6.2).

AGL Energy, Origin Energy and TRUenergy are active in both electricity and gas retailing in South Australia (figure 6.2) and New South Wales. Similar trends are emerging in other jurisdictions, where the incumbent retailers in electricity and gas are active in the energy retail market as a whole.

Vertical integration in the electricity sector

The energy market reforms introduced by governments in the 1990s included the structural separation of the power supply industry into generation, transmission, distribution and retail businesses. Where linkages remain between contestable and non-contestable sectors (for example, distribution and retail), regulators apply ring-fencing arrangements to ensure operational separation of the businesses.

Figure 6.2
Electricity and gas retail market shares (small customers)—Victoria and South Australia, 30 June 2006



Note: In Victoria and South Australia, EnergyAustralia operated a retail partnership with International Power (the EnergyAustralia–International Power Retail Partnership). International Power acquired the partnership outright in 2007.

Sources: ESC, *Energy retail businesses comparative performance report for the 2005-06 financial year*, November 2006; ESCOSA, *SA energy retail market 05/06*, November 2006.

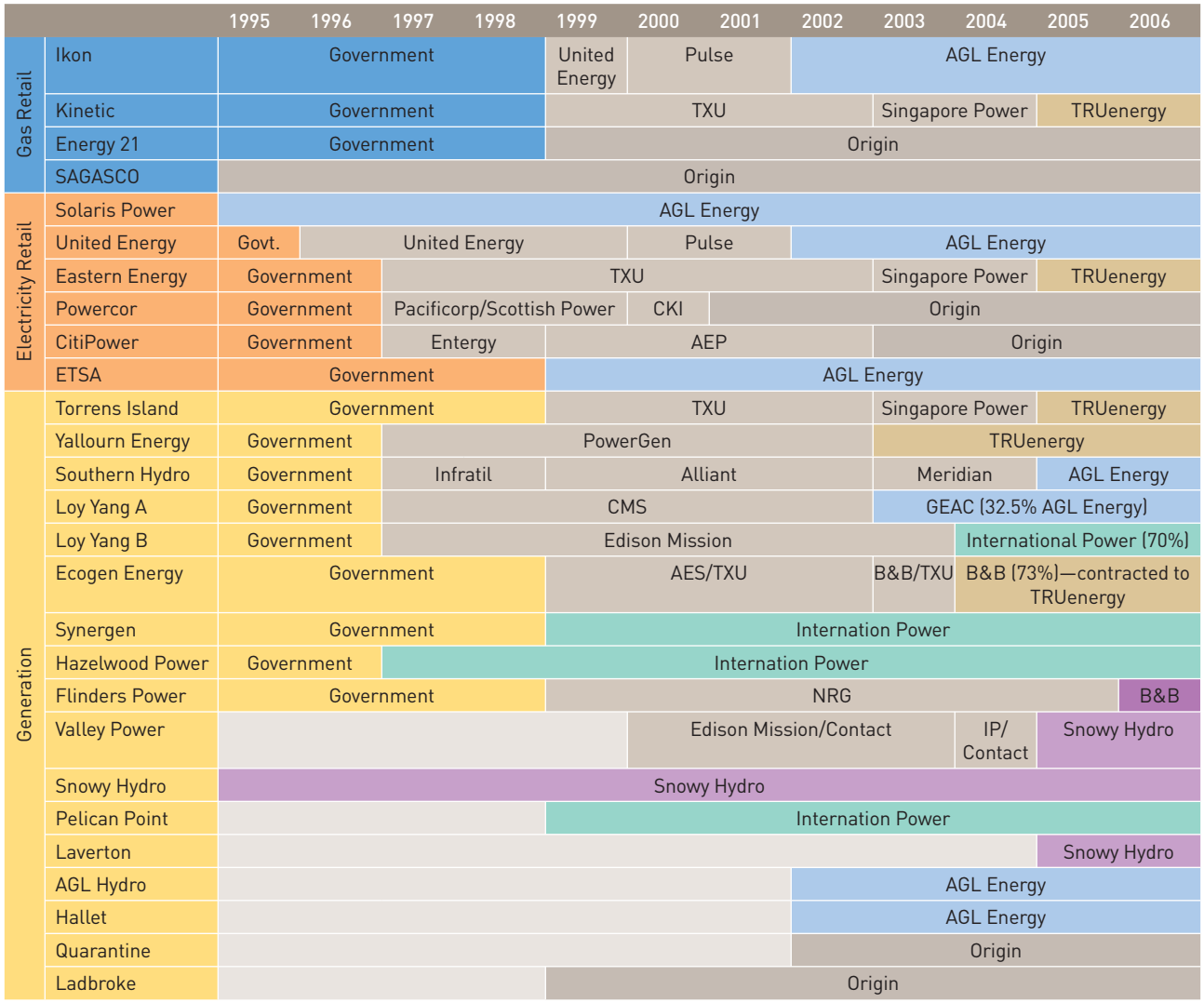
A recent phenomenon is a shift towards vertical integration of privately owned electricity retailers and generators in Victoria and South Australia. Vertical integration provides a means for retailers and generators to manage the risk of price volatility in the electricity spot market. If wholesale prices rise, the retailer can balance the increased cost against higher generator earnings. Ownership consolidation therefore provides a 'natural hedge' against price volatility in the wholesale market by offsetting the complementary price risks faced by generators and retailers.[8]

8 There has been debate as to whether this form of ownership consolidation might in some contexts pose a barrier to entry for new entrant retailers. See, for example, Energy Reform Implementation Group, *Energy reform: the way forward*, A Report to COAG, January 2007, p. 125-6.

Figure 6.3 illustrates the changes in generation and retail (electricity and gas) ownership since 1995 in these jurisdictions. Figure 6.4 compares generation and retail market shares in 2006.[9] Two of the three major retailers, AGL and TRUenergy, have significant generation interests. The third, Origin Energy, has limited generation capability at present, but has proposed the development of new capacity. In addition, the major generator International Power formed a retail partnership with EnergyAustralia in Victoria and South Australia, and announced in 2007 that it would become a retailer in its own right. There have been proposals for further consolidation, both between the major retailers and between the retail and generation sectors (see table 2, Executive overview).

Figure 6.3

Changes in generation and retail (electricity and gas) ownership 1995–2006 in Victoria and South Australia



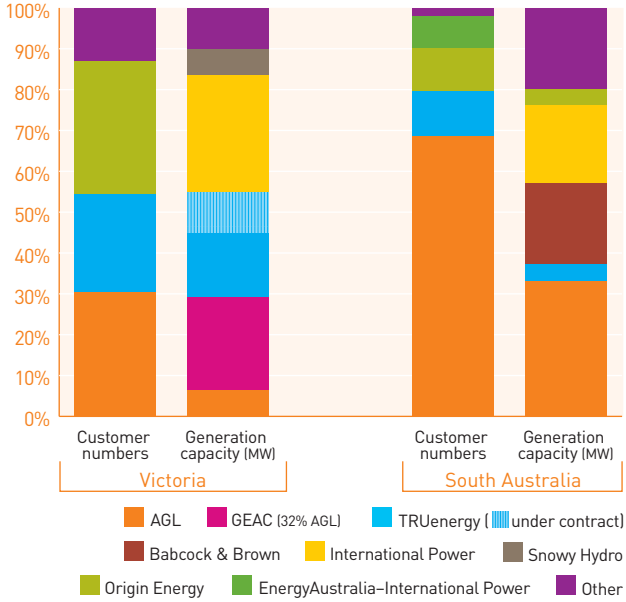
Notes: 1. B&B: Babcock & Brown. 2. AGL and TRUenergy exchanged ownership of Torrens Island and Hallett in 2007.

Source and chart design: Origin Energy (with minor revisions)

9 Figure 6.4 should be interpreted with caution as market shares in each sector are based on different variables. Retail shares relate to small customer numbers, while generation shares relate to capacity.

Figure 6.4

Market shares in the Victorian and South Australian retail and generation sectors, 2007



Notes:

1. In Victoria, TRUenergy holds a long-term hedge contract with Ecogen (owned by Babcock & Brown).
2. AGL entered agreements in January 2007 to acquire the 1260 MW Torrens Island power station in South Australia from TRUenergy, and to sell its 155 MW Hallett power station to TRUenergy. The transaction was completed in July 2007, and is reflected above.
3. In 2007, International Power fully acquired its retail partnership with EnergyAustralia, and from August 2007 will retail in its own right in Victoria and South Australia.

Sources: ESC, *Energy retail businesses comparative performance report for the 2005–06 financial year*, November 2006; ESCOSA, *SA Energy Retail Market 05/06*, November 2006 (customer numbers); NEMMCO (generation capacity and ownership); company websites.

6.2 Retail competition

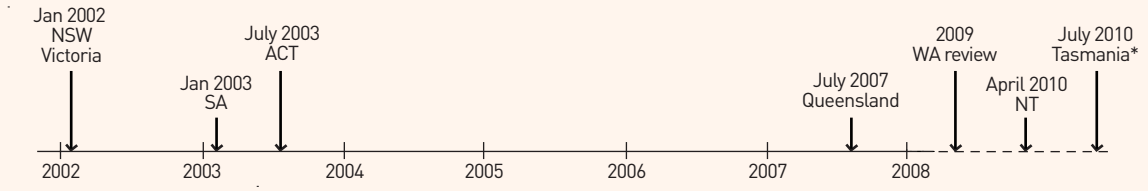
Australian governments began to phase in retail contestability (customer choice) in the late 1990s to extend the benefits of competition reforms in the electricity industry to consumers. Before the reforms, customers were obliged to buy their energy from a monopoly provider. Most governments adopted a staged timetable to introduce customer choice, beginning with large industrial customers followed by small industrial customers and finally small retail customers. Full retail contestability (FRC) is achieved when all customers are permitted to enter a supply contract with a retailer of choice.

Governments adopted different timeframes for the introduction of FRC (figure 6.5). New South Wales and Victoria introduced FRC in 2002, and were followed by South Australia and the Australian Capital Territory in 2003. Queensland introduced FRC in July 2007. Tasmania began phasing in customer choice, beginning with large customers, in July 2006. It intends to introduce choice for households and small businesses from July 2010, subject to a public benefit test. Western Australia allows contestability for customers using at least 50 MWh annually. It will review a further extension of contestability in 2009. The Northern Territory plans to introduce FRC in April 2010.[10]

While most jurisdictions have introduced or are introducing full retail contestability, it can take time for a competitive market to develop. As a transitional measure, most jurisdictions require host retailers to offer to supply electricity services under a regulated standing offer (or default contract) to allow consumers time to understand and adjust to the workings of the new market (see section 6.5). Default contracts cover minimum service conditions, information requirements and some form of regulated price cap or oversight. As of March 2007, all jurisdictions apply some form of retail price regulation.

10 For details on Western Australia and the Northern Territory see chapter 7 of this report.

Figure 6.5
Introduction of full retail contestability



* Introduction of FRC in Tasmania is subject to a public benefit test

Australian governments have agreed to review the continued use of retail price caps and to remove them where effective competition can be demonstrated.[11] The AEMC will assess the effectiveness of retail competition in each jurisdiction to determine the appropriate time to remove retail price caps. The AEMC will conduct sequential assessments, starting with Victoria in 2007, followed by South Australia in 2008, New South Wales in 2009 and the Australian Capital Territory (if required) in 2010. The assessments for other jurisdictions will occur following their introduction of full retail competition.

In October 2006 governments agreed on the following AEMC assessment criteria for effective competition:

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

The following section provides a sample—rather than an exhaustive survey—of public data that may be relevant to an assessment of some of the criteria. In particular, it sets out data on the diversity of price and product offerings of retailers, the exercise of market choice by customers, including switching behaviour, and customer perceptions of competition. There is also some consideration of retail profit margins. Other sections of this chapter touch on other indicators—for example, section 6.2 considers new entry.

The report provides this material for information purposes, but does not seek to draw conclusions. More generally, the AER does not purport to assess the effectiveness of retail competition in any jurisdiction.

6.2.1 Price and non-price offerings

A competitive retail market is likely to exhibit some diversity in price and product offerings as sellers try to win market share. There is evidence of retail price diversity in electricity markets that have introduced full retail contestability (boxes 6.1 and 6.2). In particular, both host and new entrant retailers tend to offer market contracts at discounts against the 'default' regulated terms and conditions.

There is some price diversity associated with product differentiation. For example, retailers might offer a choice of standard products, dual fuel contracts (for gas and electricity) and green products, each with different price structures. Environmentally friendly offerings sometimes attract a premium. The Essential Services Commission (ESC) has linked the state's high switching rates (section 6.2.2) to an expansion in dual fuel offers.[12]

11 Australian Energy Market Agreement 2004 (amended 2006).

12 ESC, *Energy retail businesses comparative performance report for the 2004 calendar year*, 2005, p. 22.

Box 6.1 Case study—Price and non-price offerings in South Australia

The Essential Services Commission of South Australia (ESCOSA) provides an estimator that allows consumers to make rough but quick comparisons of retail offers in South Australia (www.escosa.sa.gov.au). Table 6.4 sets out the estimated price offerings in March 2007 for a customer using 6500 kWh a year, based on peak usage, and not using electricity for hot water. The estimator provides an indicative guide only, but takes account of discounts and other rebates. It does not account for elements of retail offers that are not price related. For example, some retailers were offering free DVDs on sign up, and discounts for prompt payment. Others were offering a percentage of supplied electricity from accredited renewable energy sources.

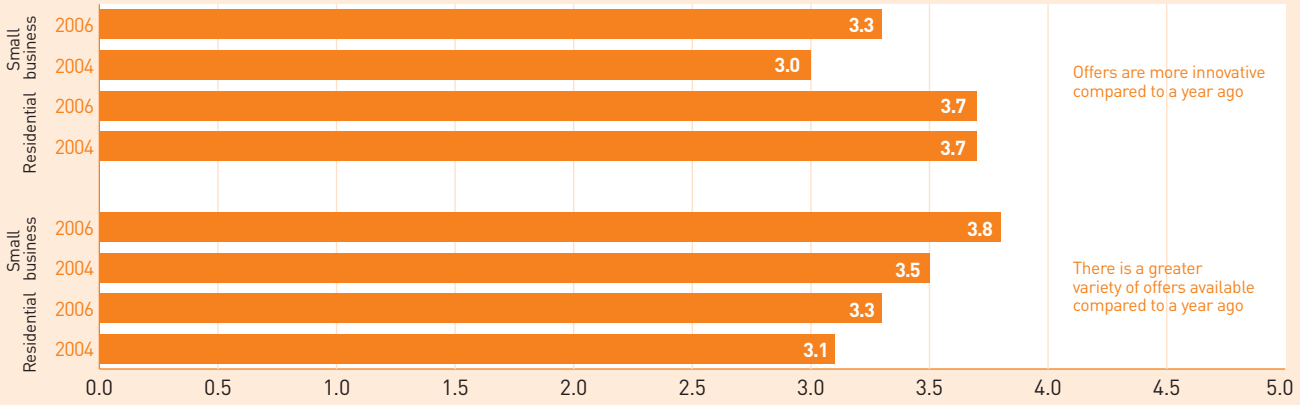
Table 6.4 indicates some price diversity in South Australia's retail market, especially when discounts and rebates are taken into account. The host retailer, AGL, is discounting against its own default tariffs under its Freedom 5% service. There is a price spread of around $150 across all retail offers, and discounts of up to 10 per cent against the standing contract.

South Australia conducted surveys in 2004 and 2006 on customer perceptions of variety and innovation in retailer product offerings in energy (electricity and gas) markets. Figure 6.6 provides summary data, based on customer responses to propositions on a scale of 1 to 5 (1 = strongly disagree; 5 = strongly agree). The results suggest that South Australian customers have a reasonably strong perception that product variety and innovation in the retail market is increasing.

It should be noted that the Victorian and South Australian retail price offers in figure 6.7 and table 6.4 relate to different periods and different product structures and rely on different measurement techniques. The price sets are therefore not directly comparable. Section 6.4 of this report considers comparable public data on retail price outcomes.

Figure 6.6

Customer perceptions of diversity of energy products—South Australia



Source: ESCOSA, *Monitoring the development of energy retail competition in South Australia*, Statistical report, 2006, pp. 28, 38.

Table 6.4 Electricity retail price offers in South Australia—March 2007

RETAILER AND TARIFF OFFER	COST BEFORE INCENTIVES	DIRECT DEBIT REBATE	OTHER REBATES	ESTIMATED ANNUAL COST	ESTIMATED ANNUAL SAVINGS	ONE-OFF JOINING BONUS
AGL Standing Contract	$1 361	–	–	$1 361	–	–
AGL Freedom 5%	$1 299	–	–	$1 299	$62	–
AGL Freedom 5% + AGL Green Spirit	$1 351	–	–	$1 351	$10	–
Country Energy Premium	$1 251	–	–	$1 251	$110	–
EnergyAustralia Easy Saver	$1 293	–	–	$1 293	$68	–
EnergyAustralia Green	$1 361	–	–	$1 361	–	–
EnergyAustralia Green Saver 2	$1 333	–	–	$1 333	$28	–
EnergyAustralia Green Saver Premium	$1 361	–	$25	$1 336	$25	–
EnergyAustralia Maxi Saver	$1 279	–	–	$1 279	$82	–
EnergyAustralia Qantas Frequent Flyer	$1 361	–	–	$1 361	–	–
EnergyAustralia Qantas Frequent Flyer Green Saver	$1 361	–	–	$1 361	–	–
EnergyAustralia RAA Green Saver	$1 333	–	$25	$1 308	$53	–
EnergyAustralia RAA Saver	$1 279	$11	–	$1 268	$93	–
Momentum Energy Residential Anytime	$1 212	–	–	$1 212	$149	–
Origin Energy GreenEarth	$1 412	–	–	$1 412	–	–
Origin Energy GreenEarth Extra	$1 516	–	–	$1 516	–	–
Origin HomeChoice	$1 293	–	–	$1 293	$68	–
Red Energy Red Easy Saver	$1 260	–	–	$1 260	$101	–
Red Energy Red Fixed Term Saver	$1 234	–	–	$1 234	$127	–
South Australia Electricity	$1 266	–	–	$1 266	$95	–
TRUenergy At Home	$1 284	$12	$25	$1 247	$114	–
TRUenergy Go Easy	$1 320	–	–	$1 320	$41	–
TRUenergy Go For More	$1 267	–	–	$1 267	$94	–
TRUenergy Go Green	$1 320	–	–	$1 320	$41	–

Source: ESCOSA estimator, viewed 20 March 2007, <http://www.escosa.sa.gov.au/site/page.cfm?u=18>.

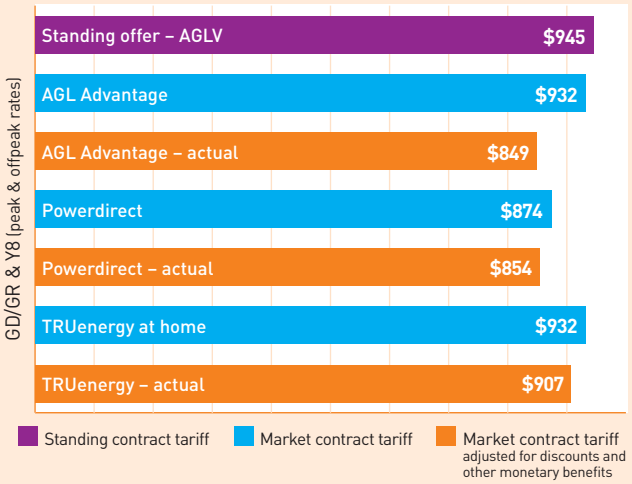
Box 6.2 Price and non-price offerings in Victoria

In May 2006, the ESC undertook mystery shopper research that compared electricity market contract prices against the standing offers of host retailers. Figure 6.7 compares the annual electricity bill for a consumer using 6500 kilowatt hours (kWh) a year—consisting of 4000 kWh peak and 2500 kWh off-peak consumption—under three scenarios: the host retailer's standing (default) contract offer, the market contract offers of all retailers (based solely on tariffs), and the market contract offers adjusted for other monetary benefits and discounts.

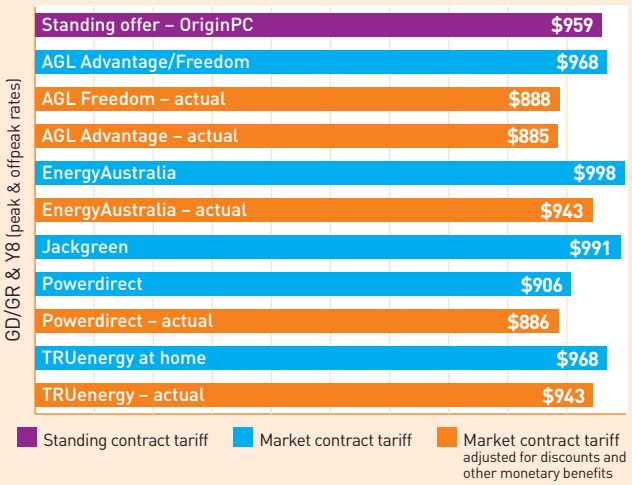
Figure 6.7

Comparison of market offers—Victoria, May 2006

Host retailer AGL



Host retailer Origin Energy

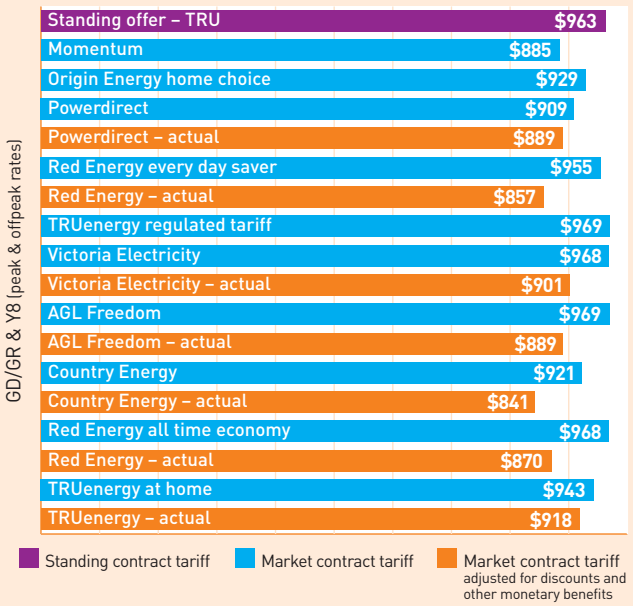


The research found that retailers tend to make market offers at a discount from the standing contract price, as well as additional monetary benefits or inducements to consumers. For example:

- domestic customers, with an annual consumption of 6500 (4000 kWh peak and 2500 kWh off-peak) would pay less than the AGL standing contract price, based solely on tariff offers. The market contract prices offered in comparison to the Origin Energy and TRUenergy standing contract price were more diverse.
- the benefits of market contracts increased when other factors were taken into account—for example, discounts for on-time payment, up-front incentives and loyalty payments. These benefits ranged from $50 to $100 a year.
- small business or commercial customers could receive much higher savings in the AGL area, ranging from $600 and $800 a year. Savings in the TRUenergy area were less substantial.

The research did not account for dual fuel contracts where further savings would have been available.

Host retailer TRUenergy



Notes: For customers with annual consumption of 4000 kWh peak and 2500 kWh off peak. The ESC study included a separate analysis for customers using 4000 kWh a year based only on peak rates, and for business customers.

Source: ESC, *Energy retail businesses, comparative performance report for the 2005–06 financial year*, November 2006.

Some product offerings cover energy services bundled with inducements such as customer loyalty bonuses, awards programs, free subscriptions and prizes. Discounts and other offers tend to vary depending on the length of a contract. Some retail products offer additional discounts for prompt payment of bills or direct debit bill payments. Many contracts carry a severance fee for early withdrawal. More generally, retail price offerings may vary with the location of the customer.

The variety of discounts and non-price inducements makes direct price comparisons 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. Boxes 6.1 and 6.2 provide case study material on the diversity of price and product offerings to small customers in Victoria and South Australia.

6.2.2 Customer switching

The rate at which customers switch their supply arrangements is an indicator of customer participation in the market. While switching (or churn) rates can also indicate competitive activity, they should be interpreted with care. Switching rates are sometimes high at a relatively early stage of market development, when customers are first able to exercise choice, and can stabilise even as a market acquires more depth. Similarly, it is possible to have low switching rates in a very competitive market if retailers are delivering good quality service that gives customers no reason to switch.

Time series data on small customer switching is available for New South Wales, Victoria and South Australia. Until 2006, South Australia applied a different indicator from that used in Victoria and New South Wales (box 6.3).

The National Electricity Market Management Company (NEMMCO) publishes churn data measuring the number of customer switches from one retailer to another. NEMMCO has published this data for New South Wales and Victoria since the introduction of FRC in 2002 and for South Australia since 1 October 2006. The data covers 'gross' and 'net' switching.

- Gross switching measures the total number of customer switches in a period, including switches from a host retailer to a new entrant, switches from new entrants back to a host retailer, plus switches from one new entrant to another. If a customer switches to a number of retailers in succession, each move counts as a separate switch. Over time, cumulative switching rates may therefore exceed 100 per cent.
- Net switching measures the total number of customers at a specified time who are no longer with the host retailer and have switched to a new entrant. This indicator counts each customer once only.

Both indicators exclude customers who have switched from a default arrangement to a market contract with their existing retailer. This exclusion may understate the true extent of competitive activity in that it does not account for the efforts of host retailers to retain market share.

A churn rate measures customer switches as a percentage of the underlying customer base. The local energy regulator in each state publishes retail customer numbers on an irregular basis.

Table 6.5 and figures 6.8–6.9 illustrate small customer churn activity in Victoria, New South Wales and South Australia. As noted, the South Australian data is only available from October 2006. Switching activity in Victoria and New South Wales steadily gathered pace after the introduction of FRC in 2002. At December 2006, gross switching rates in Victoria (72 per cent) and South Australia (57 per cent) were more than double the New South Wales rate (28 per cent). Similarly, around 40 per cent of small customers were not with their host retailer in Victoria and South Australia—compared to less than 20 per cent in New South Wales (figure 6.9).

Box 6.3 Customer switches to market contracts

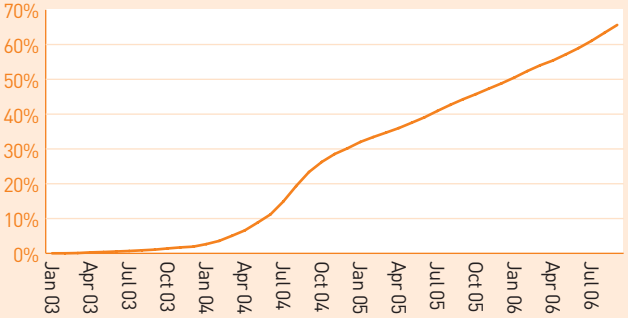
While NEMMCO reports on customer switching between retailers, an alternative approach is to measure customer switching from regulated 'default' contracts to market contracts. Until October 2006 South Australia published monthly data on customer switching to market contracts. The data did not distinguish between switches to market contracts with new entrants and the host retailer.

Figure 6.10 shows cumulative gross switching in South Australia from 2003 to October 2006, based on this measure. The data shows a sharp acceleration in customer transfers in 2004, followed by steady monthly churn of about 1.5–2 per cent in 2005 and 2006. The high transfer rates in 2004 were likely influenced by the South Australian Government's $50 electricity transfer rebate offer, which ended in August 2004. At September 2006, there had been around 499 000 small customer transfers to market contracts since FRC began (equal to about 66 per cent of small customers). Successive switches by a customer counted as separate switches. Net switching data indicated that by June 2006, around 50 per cent of small customers were on market contracts, with the remaining 50 per cent on default arrangements.

IPART published data in 2007 on the number of New South Wales customers remaining on regulated tariffs in the local supply areas of each host retailer. In 2005–06, around 58 per cent of customers in the EnergyAustralia supply area remained on regulated tariffs, compared with 71 per cent for Integral Energy, and 95 per cent for Country Energy (figure 6.11). IPART noted that these outcomes were indicative of significant differences in competitive activity between metropolitan and non-metropolitan areas.

Figure 6.10

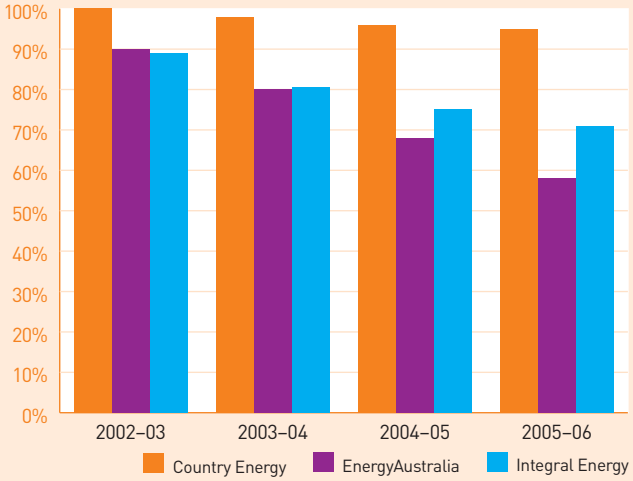
Cumulative monthly switches as percentage of small customer base—South Australia



Source: ESCOSA, *Completed small customer electricity & gas transfers to market contracts*, Schedule, October 2006.

Figure 6.11

Percentage of small customers on regulated tariffs in standard supply areas—New South Wales



Source: IPART, *Promoting retail competition and investment in the NSW electricity industry, Regulated electricity retail tariffs and charges for small customers 2007–2010, Electricity draft report and draft determination*, April 2007.

Table 6.5 Small customer churn—New South Wales, Victoria and South Australia

INDICATOR	NEW SOUTH WALES	VICTORIA	SOUTH AUSTRALIA
Percentage of small customers that changed retailer during 2006	11%	23%	na
Customer switches as a percentage of the small customer base from the start of FRC until December 2006	28%	72%	57%

na: not available.

Note: If a customer switches to a number of retailers in succession, each move counts as a separate switch. Customer base is estimated as at 30 June 2006.

Figure 6.8
Cumulative monthly switches as percentage of small customers—New South Wales, Victoria and South Australia

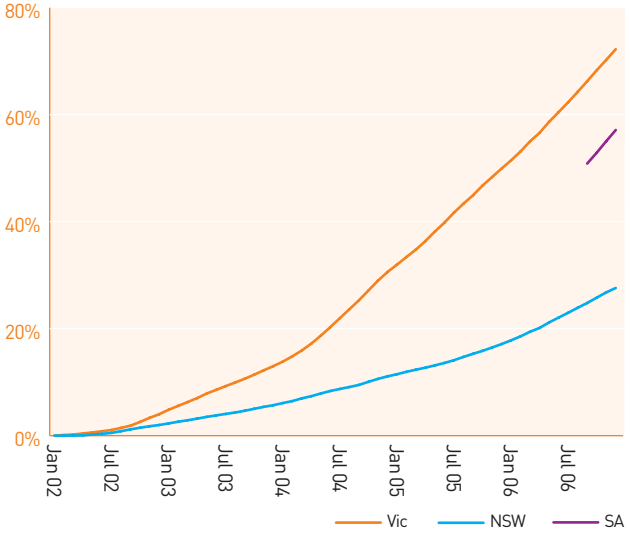
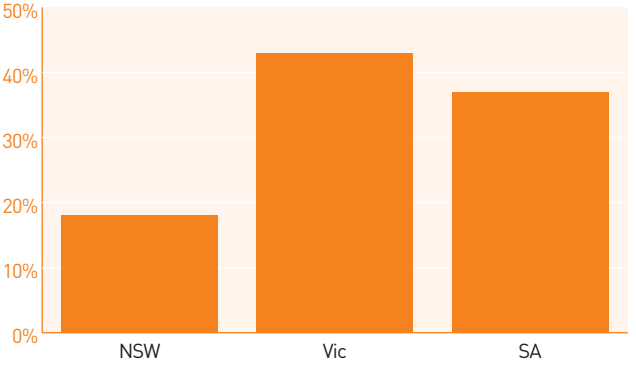


Figure 6.9
Customers not with their host retailer at 31 December 2006—New South Wales, Victoria and South Australia



Sources for table 6.5 and figures 6.8–9:

Customer switches: NEMMCO; Customer numbers: IPART, *NSW electricity information paper no. 4 — Retail businesses' performance against customer service indicators, 1 July 2001 to 30 June 2006*; ESCOSA, *2005–06 Annual performance report: performance of South Australian energy retail market*, 2006, p. 72. ESC, *Energy retail businesses comparative performance report for the 2005–06 financial year*, 2006, p. 2.

The Australian Capital Territory

The Australian Capital Territory regulator, the Independent Competition and Regulatory Commission (ICRC), refers to customer churn rates from time to time but does not provide monthly switching data. As at February 2006:

- over 20 000 customers (about 17 per cent of the customer base) had elected to enter into market contracts with the host retailer, ActewAGL Retail
- about 5000 customers (about 4 per cent of the customer base) had elected to enter into market contracts with new entrant retailers.[13]

International comparisons

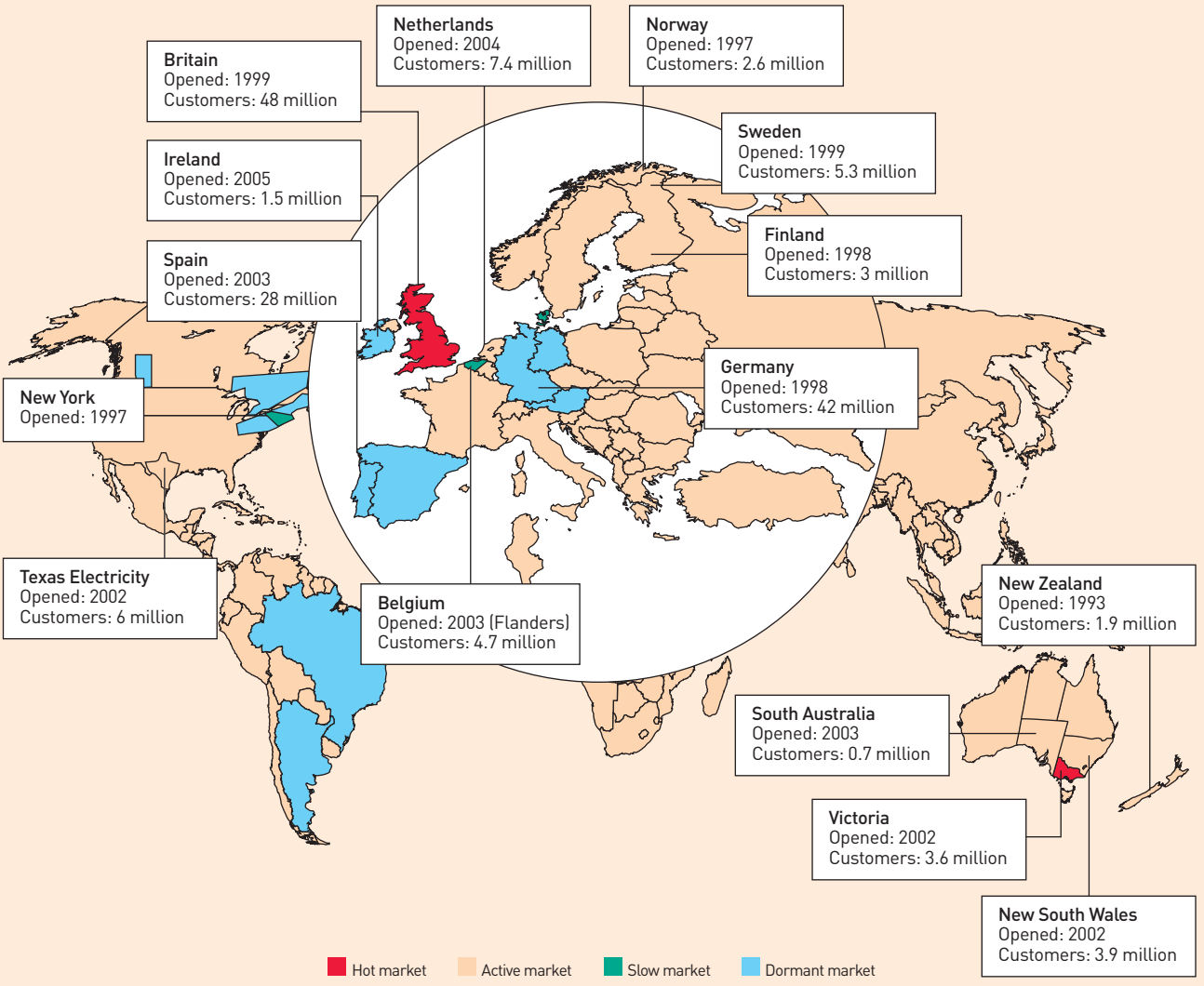
The Utility Customer Switching Research Project founded by First Data Utilities and VaasaEMG published its second report on customer switching in world energy markets in 2006. The report classified competition on a scale ranging from 'hot' to 'dormant'. It found that Victoria and Great Britain had the 'hottest' (most active) retail markets in the world (box 6.4 and figure 6.12). South Australia and New South Wales were found to have 'active' markets.

13 ICRC, *Final report: retail prices for non-contestable electricity customers*, Canberra 2006.

Box 6.4 The Utility Customer Switching Research Project assessment of Victorian, South Australian and New South Wales retail markets (extract)

Figure 6.12

Status of energy retail markets—June 2006



'...in Australia, the state of Victoria has fast become a hotspot of energy retail competition. Following several years of competitive supply to commercial and industrial customers, Victoria introduced full retail competition for electricity and gas in 2002 and it has exhibited increased customer switching year-on-year, reaching 21 per cent in 2005. Strong competition from out-of-state incumbents and new start-up energy retailers have contributed to this dramatic level of switch activity, along with the introduction of lifestyle products and affinity programs cleverly targeted at niche customer segments, and the availability of effective websites where customers can compare suppliers' prices.

South Australia opened its doors to full retail electricity competition in 2003 and customer switch rates quickly soared. Principal reasons behind this rapid acceleration include the divestment of the retail customer base by the state government that removed the incumbent brand advantage, the granting of switching credits to a portion of the customer base, the selling experience of retailers established in neighbouring Victoria, and rising retail prices that motivated customers to shop around. Customer switching in South Australia eased in 2005 to an estimated 11 per cent.

New South Wales in Australia has exhibited a steady increase in customer switching levels since full market opening in 2002. Customer switch rates in 2005 hovered around six per cent, much lower than its neighbouring states Victoria and South Australia, but clearly active. This lesser activity relative to its neighbours has been attributed in varying degrees to the continuing state ownership of New South Wales incumbent utilities, and lower retail margins that can discourage incumbents from aggressively competing for customers and discourage new entrants from entering the market.'

Source: First Data Utilities and VaasaEMG, Utility Customer Switching Research Project, *World retail energy market rankings*, June 2006.

6.2.3 Customer perceptions of competition

New South Wales and Victoria conducted survey work on customer perceptions of retail competition in the early stages of FRC. In New South Wales, IPART conducted a survey of residential energy use in 2003 that considered customer approaches by retailers. It conducted another survey in 2006, with the results to be published in 2007. Victoria conducted surveys of customer awareness as part of its 2002 and 2004 reviews of FRC.

South Australia published surveys of customer perceptions and experiences of retail energy market conditions in 2002, 2003 and 2006. The surveys cover:

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

Table 6.6 provides summary data from the South Australian surveys. The surveys suggest that customer awareness of retail choice has risen since 2003, but has plateaued at around 80 per cent since 2004. This compares with customer awareness levels in Victoria of 90 per cent (2004 survey) and in New South Wales of 91 per cent (2006 survey).[14] While it remains unusual for customers to approach retailers, there has been a steady rise in retailer approaches to customers. About two-thirds of residential customers find retailer offers easy to understand.

Table 6.6 Residential customer perceptions of competition—South Australia

INDICATOR	2003	2004	2006
Customers aware of choice	62%	79%	79%
Customers approaching retailers about taking out market contract	3%	10%	8%
Customers receiving at least one retail offer	5%	44%	52%
Customers perceiving that retailer offers are easy to understand		65%	65%

Sources: McGregor Tan Research, *Monitoring the development of energy retail competition—residents*, prepared for ESCOSA, February 2006, September 2004 and November 2003.

14 Data for New South Wales is reported in IPART, *Promoting retail competition and investment in the NSW electricity industry, Regulated electricity retail tariffs and charges for small customers 2007–2010*, Electricity draft report and draft determination, April 2007.

Box 6.5 Retail margins

Retailers need to earn sufficient profits to compensate for the risks associated with providing an energy retail service. The margins available to energy retailers are sometimes analysed as an indicator of retail competition.

The relationship between retail margins and competition is not always clear. Depending on the circumstances, either high or low margins may be consistent with competition. In a competitive market high margins should attract new entry and drive margins down to normal levels. Sustained high margins might therefore indicate a lack of competitive pressure. Alternatively, very low margins that might result from regulated price caps could deter entry and impede the development of active competition.

Table 6.7 compares published estimates of retail margins available to host retailers from regulated tariffs in selected jurisdictions. There is little public information on the actual margins earned by retailers. It should be noted that the risk profile for a 'host' retailer with a regulated tariff may differ from the risk profile for a new entrant retailer.

The margins in table 6.7 are not directly comparable because there are different approaches to measurement (as indicated). Further, the estimation of retail margins relies on accurate estimates of underlying costs. Cost data is difficult to obtain and may vary across retailers. For example, the wholesale electricity costs incurred by a retailer depend in part on the cost of managing risk

Table 6.7 Regulatory decisions on retail margins

JURISDICTION	DATE OF REGULATORY DECISION	RELEVANT RETAILER	RETAIL MARGIN
New South Wales	IPART June 2004	NSW retailers	2% of EBIT
	IPART April 2007 draft determination	NSW retailers	5% of EBITDA
Victoria	CRA recommendation to Victorian Government December 2003	Vic retailers	5–8% of total revenue
South Australia	ESCOSA 2005	AGL SA	10% of controllable costs (combined wholesale energy costs plus retailer operating costs); equivalent to about 5% of sales revenue
Tasmania	OTTER September 2003	Aurora	3% of sales revenue
Australian Capital Territory	ICRC May 2003	ACTEW	3% of sales revenue

Note: EBIT: earnings before interest and tax. EBITDA: earnings before interest, tax, depreciation and amortisation. Frontier Economics estimates that a 5 per cent EBITDA is equivalent to around 4 per cent on an EBIT basis.

Sources: ESCOSA, *Electricity standing contract price path,* Final inquiry report and final determination, June 2005; OTTER, *Investigation of prices for electricity distribution services and retail tariffs on mainland Tasmania, Final report and proposed maximum prices*, September 2003; CRA Asia Pacific, *Electricity and gas standing offers and deemed contracts (2004–2007)*, Report submitted to the Department of Infrastructure, December 2003; IPART, *NSW electricity regulated retail tariffs 2004/05 to 2006/07,* Final report and determination, June 2004; IPART, *Promoting retail competition and investment in the NSW electricity industry, Regulated electricity retail tariffs and charges for small customers 2007–2010,* Electricity draft report and draft determination, April 2007; Frontier Economics, *Mass market new entrant retail costs and retail margins,* Final report, March 2007, p. 68; ICRC, *Final determination—investigation into retail prices for non-contestable electricity customers in the ACT*, May 2003.

exposure to electricity spot prices. A retailer with vertically integrated generation interests may have different risk management requirements from a retailer that does not own a generator. There may also be differences across retailers in the risks associated with regulatory arrangements, customer default and bad debt, working capital requirements, and competition from electricity substitutes.

Comparisons across jurisdictions should take account of different regulatory approaches to determining costs and margins. Until 2007 the New South Wales regulator, IPART, set relatively low retail margins because the Electricity Tariff Equalisation Fund (ETEF) managed energy purchasing risks for host retailers, eliminating the need for a risk premium. It reviewed this position in its 2007–10 determination in light of the proposed phasing out of ETEF. IPART's 2007 draft determination proposed an increase in the retail margin to 5 per cent on an earnings before interest, tax, depreciation and amortisation basis.

The Victorian Government engaged consultants CRA Asia Pacific in 2003 to review the costs that Victorian electricity retailers faced in supplying standard domestic and small business customers. CRA recommended a retail margin of 5–8 per cent under a benchmarking approach. The report informed the government in responding to retailer pricing proposals for 2004.

ESCOSA used a benchmarking process to set the retail margin for AGL Energy in South Australia. ESCOSA also conducted a return on investment analysis to quantify an appropriate retail margin. The results of the return on investment analysis were used to 'sense check' the benchmark retail margin.

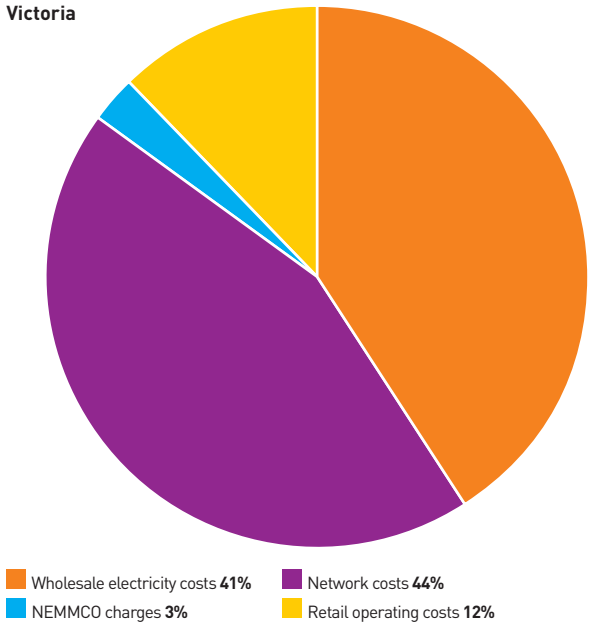
6.3 Retail price outcomes

Retail customers pay a single price for a bundled electricity product made up of electricity, transport through the transmission and distribution networks, and retail services. Data on the underlying composition of retail prices is not widely available. Figure 6.13 provides indicative data for residential customers in Victoria and South Australia, based on historical information. The charts indicate that wholesale and network costs account for the bulk of retail prices. Retail operating costs (including margins) account for around 12 per cent of retail prices.

While retail price outcomes are of critical interest to consumers, the interpretation of retail price movements is not straightforward. First, trends in retail prices may reflect movements in the cost of any one, or a combination of, underlying components—wholesale electricity prices, transmission and distribution charges or retail operating costs and margins. The cost of each component may change for a variety of reasons. Similarly, differences in retail price outcomes between jurisdictions may reflect a range of factors, such as differences in underlying cost structures (for example, differences in fuel costs and the proximity of generators to retail markets), industry scale, the existence of historical cross-subsidies, differences in regulatory arrangements and different stages of electricity reform implementation.

Second, there are differences in jurisdictional regulatory arrangements that affect price outcomes. In New South Wales, Victoria, South Australia and the Australian Capital Territory, the electricity prices paid by residential customers are a mix of prices set (or oversighted) by governments and regulators and prices offered under market contracts. In other jurisdictions, all residential prices are regulated. Regulated prices can reflect a mix of social, economic and political considerations that are not always transparent. To better facilitate efficient signals for investment and consumption, governments are considering removing price caps, and more immediately, aligning them more closely with underlying supply costs.

Figure 6.13
Composition of a residential electricity bill



Source: Victoria—Charles River and Associates 2003, *Electricity and gas standing offers and deemed contracts 2004–2007*, 2003; South Australia—ESCOSA, *Inquiry into retail electricity price path*, Discussion paper, September 2004.

Particular care should be taken in interpreting retail price trends in deregulated markets. While competition tends to deliver efficient outcomes, it may sometimes give a counter-intuitive outcome of *higher* prices as in the following examples.

- Energy retail prices for some residential customers were traditionally subsidised by governments and other customers (usually business customers). A competitive market will unwind cross-subsidies, which may lead to price rises for some customer groups.
- Some regulated energy prices were traditionally at levels that would be too low to attract competitive new entry. It may sometimes be necessary for retail prices to rise to create sufficient 'headroom' for new entry.

6.3.1 Sources of price data

There is little systematic publication of the actual prices paid by electricity retail customers. The ESAA previously published annual data on retail electricity prices by customer category and region but discontinued the series in 2004.

At the state level:

- All jurisdictions publish schedules of regulated 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.
- Retailers are not required to publish the prices struck through market contracts with customers, although some states require the publication of market offers.
- The Victorian and South Australian regulators (ESC and ESCOSA) publish annual data on regulated and market prices. The ESC and ESCOSA websites also provide an estimator service by which consumers can compare the price offerings of different retailers (section 6.2.1).

Consumer Price Index and Producer Price Index data

The Australian Bureau of Statistics (ABS) Consumer Price Index and Producer Price Index track movements in household and business[15] electricity prices. The indexes are based on surveys of the prices paid by households and businesses and therefore reflect a mix of regulated and market prices.

Figure 6.14 tracks real electricity price movements for households and business customers since 1990. The introduction of competition reforms saw real household electricity prices rise between 2000 and 2003, and then stabilise. In the same period, real business prices trended downwards. Since 1990, real household prices have risen by 4 per cent, but business prices have fallen by 23 per cent (figure 6.15). In part, this reflects the unwinding of cross-subsidies from business to household customers that began in the 1990s. There has also been more intensive competition in the business sector due to the earlier phase-in of retail competition for this customer class.

While business prices have fallen substantially, there has been some volatility since 1999. This reflects that business prices are exposed to volatility in the wholesale and contract markets for electricity (see chapters 2 and 3). In most jurisdictions, residential prices have been shielded from volatility by price cap regulation and retailers' hedging arrangements.

Figure 6.16 tracks real electricity price movements for households in Sydney, Melbourne, Adelaide, Brisbane and Perth since 1990. Price variations between the cities may reflect a variety of factors, including differences in generation and network costs, industry scale, historical cross-subsidies, differences in regulatory arrangements and different stages of electricity reform implementation. Price rebalancing to phase out cross-subsidies caused some price volatility in Melbourne and Adelaide after 2000. Most notably affected was Adelaide where prices rose by about 25 per cent in 2003.

Figure 6.14
Retail electricity price index (CPI adjusted)—Australian capital cities

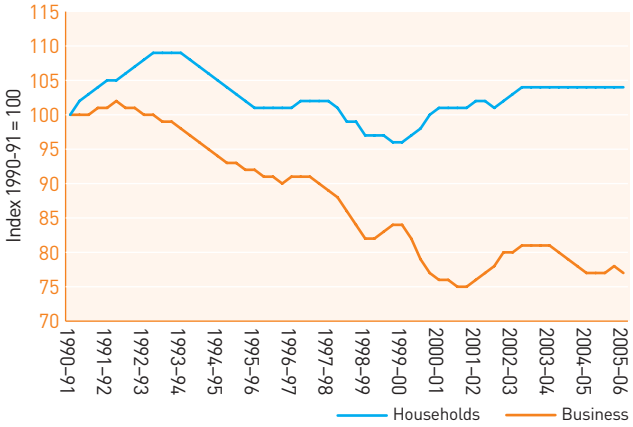
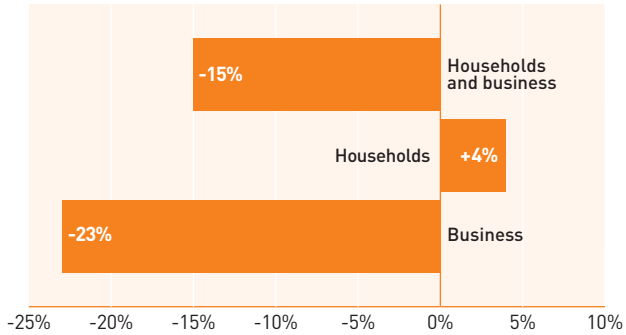


Figure 6.15
Change in the real price of electricity—Australia, 1990–91 to 2005–06

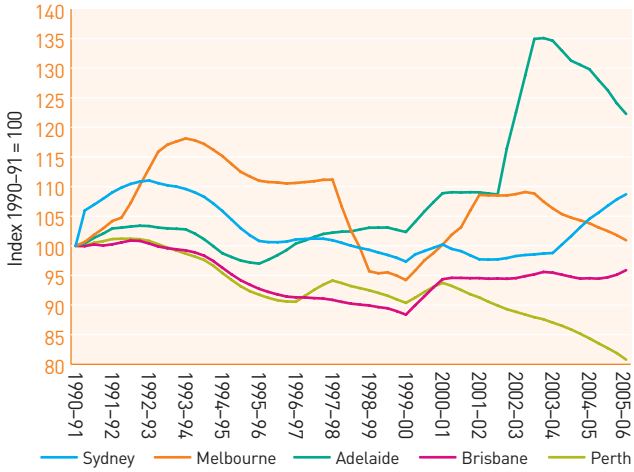


Data source for figure 6.14 and figure 6.15: ABS Cat no.s 6401.0 and 6427.0; AER. The household index is based on the consumer price index for household electricity, deflated by the CPI series for all groups. The business index is based on the producer price index for electricity supply in 'Materials used in Manufacturing Industries,' deflated by the CPI series for all groups.

In Melbourne and Adelaide, prices have trended downwards since 2003. Conversely, Sydney prices remained relatively stable for a decade, before trending up from 2004. In Brisbane where the retail market was heavily regulated until 2007, real prices remained constant from 2001. While retail prices have declined in Perth, they nonetheless remain high compared with some eastern capital cities (see chapter 7).

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

Figure 6.16
Real electricity price movements for households — capital cities



Data source: ABS

6.3.2 International price comparisons

Australian households pay similar prices for electricity to their USA counterparts, but lower prices than households in Japan and Western Europe (figure 6.17). Of the major industrialised economies, only in Canada are average prices for households significantly lower than in Australia. In several European countries, industry pays substantially lower prices for electricity prices than do households. The differential is less pronounced for Australia, with industrial prices more closely aligned with international prices (figure 6.18). The average prices paid by Australian industry are significantly lower than prices in Italy, Japan and Germany, and similar to those in South Korea and the USA.

6.4 Quality of retail service

The jurisdictional regulators monitor and report on quality of service in the retail sector to enhance transparency and accountability, and to facilitate 'competition by comparison'.[16] All jurisdictions have their own monitoring and reporting framework. In addition, the Utility Regulators Forum (URF) developed a national framework in 2002 for electricity retailers to report against common criteria on service performance.[17] The criteria address:

- access and affordability of services
- quality of customer service.

The URF measures apply to the small retail market, comprising customers using less than 160 MWh a year.[18] All NEM jurisdictions have adopted the URF reporting template, within which each applies its own implementation framework. This results in some differences in approach.

6.4.1 Affordability and access indicators

With the introduction of retail contestability, governments have strengthened consumer protection arrangements, with a particular focus on access and affordability issues. These protections are often given effect through regulated minimum standards regimes and codes.

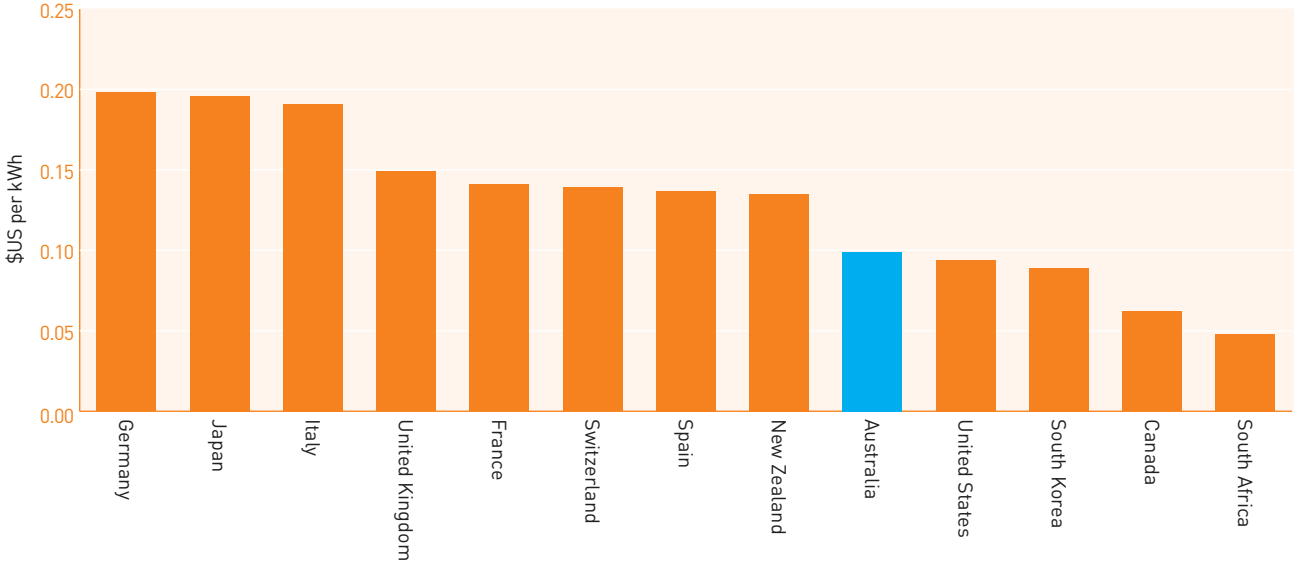
Access to electricity supplies depends on the capacity of customers to meet bill payments and so avoid disconnection. Customer access is therefore linked to the affordability of retail service but also depends on the options made available by retailers to help customers manage their bill payments. The URF has developed three categories of indicators on affordability and access, covering:

- customer access to payment plans
- customer access to security deposits or refundable advances
- rates of customer disconnections and reconnections.

16 See, for example, ESC, *Energy retail businesses, comparative performance report for the 2005-06 financial year*, November 2006, p. 1.
17 Utility Regulators Forum, *National regulatory reporting for electricity distribution and retailing businesses*, Discussion paper, March 2002.
18 Queensland reviewed its definition of 'small customer' in 2006 as part of its introduction of retail customer choice and adopted a breakpoint of 100 MWh a year.

Figure 6.17

International electricity prices for households—2005

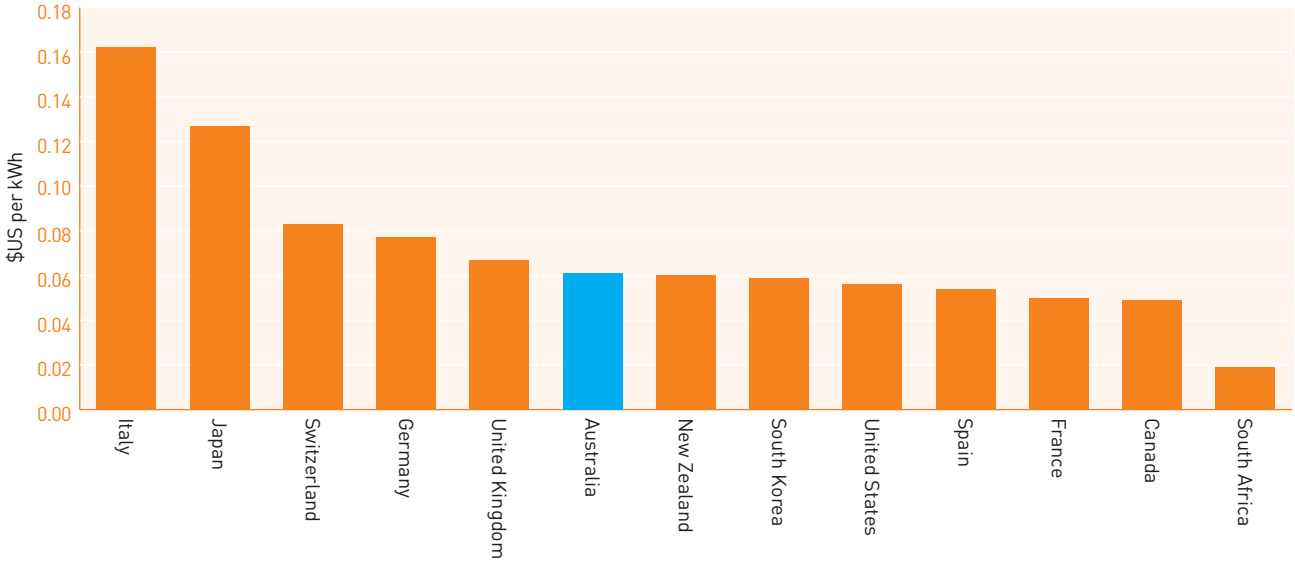


Note: Latest data available at May 2006: Canada, South Africa, Spain (2003); Australia, Germany, Italy, Japan (2004); others 2005.

Source: Energy Information Administration (USA), based on International Energy Agency data.

Figure 6.18

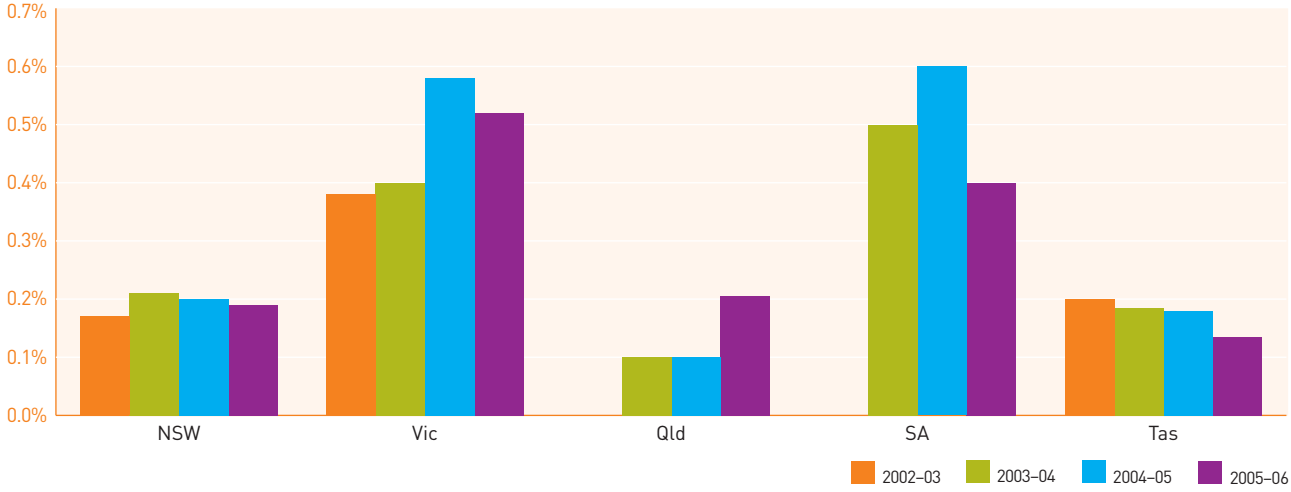
International electricity prices for industry—2005



Note: Latest data available at May 2006: Canada, South Africa, Spain (2003); Australia, Germany, Italy, Japan (2004); others 2005.

Source: Energy Information Administration (USA), based on International Energy Agency data.

Figure 6.19
Ombudsman—electricity customer contacts as a percentage of residential customers



Sources: State ombudsmen websites: www.ecpo.qld.gov.au; www.eiosa.com.au; www.ewov.com.au; www.ewon.com.au; www.energyombudsman.tas.gov.au.

6.4.2 Customer service indicators

Retail competition allows customers to transfer away from a business with poor standards. In the first instance, customers can raise complaints directly with their retailer through the retailers' dispute resolution procedure. If further action is needed they can refer complaints to their state energy ombudsman or an alternative dispute resolution body. Noting that consumers have a range of options to address service issues, the URF considered that monitoring of this area need not be comprehensive. It proposed the monitoring of:

- customer complaints—the degree to which a retailer's services meet customers' expectations
- telephone call management—the efficiency of a retailer's call centre service.

6.4.3 Performance outcomes

Tables 6.8 and 6.9 set out a sample of retailer performance outcomes for residential customers against the URF indicators. The data is derived from the reporting of individual retailers to jurisdictional regulators. The regulators consolidate and publish the data annually.[19]

It should be noted that the validity of any performance comparisons may be limited because of differences in approach between jurisdictions. In particular, measurement systems, audit procedures and classifications may differ between jurisdictions and within the same jurisdiction over time. Similarly, regulatory procedures and practices differ—for example, the procedures a retailer must follow before a customer can be disconnected. More generally, the publication of data against the URF indicators began in most jurisdictions from around 2002–03. It is normal for the quality of a data series to gradually improve as measurement techniques are refined. It should also be noted that data trends from year to year may be influenced by a range of factors, including general economic conditions.

6.4.4 Ombudsman contacts

The reporting framework proposed by the URF is based on reporting by retailers in each jurisdiction to regulators. An alternative indicator of retail service is the number of customer contacts (including enquiries and complaints) made to an ombudsman (figure 6.19). Victorian and South Australian customers have shown a greater tendency to contact an ombudsman than

19 Tables 6.11 and 6.12 relate to outcomes for residential customers on a statewide basis. State regulators also publish outcomes for particular retailers and for business customers in their jurisdiction.

customers elsewhere. This may reflect higher rates of customer concern—or a stronger awareness of the presence of an ombudsman than in other jurisdictions.

Table 6.8 Affordability and access indicators

JURISDICTION	2002–03	2003–04	2004–05	2005–06
SHARE OF RESIDENTIAL CUSTOMERS ON PAYMENT INSTALMENT PLANS				
New South Wales	1.40%	1.90%	2.80%	3.20%
Victoria	4.90%	5.10%	4.80%	4.66%
Queensland	10.12%	12.62%	0.85%	–
South Australia	–	–	1.50%	1.96%
Tasmania	1.30%[1]	1.10%[1]	1.14%	1.06%
ACT	1.50%	1.10%	–	–
SHARE OF RESIDENTIAL DIRECT DEBIT CUSTOMERS DEFAULTING				
New South Wales	–	–	–	–
Victoria	–	–	–	–
Queensland	2.03%	1.61%	0.18%	–
South Australia	–	–	4.52%	4.18%
Tasmania	0.09%[1]	0.18%[1]	0.22%	–
ACT	10.10%[1]	14.00%[1]	–	–
SHARE OF RESIDENTIAL CUSTOMERS DISCONNECTED FOR FAILURE TO PAY AMOUNT DUE				
New South Wales	0.68%	0.80%	1.00%	0.90%
Victoria	0.60%	0.80%	0.50%	0.22%
Queensland	1.31%	1.30%	1.57%	–
South Australia	0.80%	2.10%	1.20%	1.14%
Tasmania	0.80%	0.65%	0.44%	0.72%
ACT	0.40%	0.30%	–	–
SHARE OF RESIDENTIAL RECONNECTIONS WITHIN SEVEN DAYS OF DISCONNECTION				
New South Wales[2]	63.40%	58.40%	61.80%	59.60%
Victoria	51.30%	48.80%	47.80%	36.40%
Queensland	69.93%	65.99%	63.63%	–
South Australia	60.00%	47.00%	46.00%	36.00%
Tasmania	55.45%	28.70%	37.98%	36.31%
ACT	78.00%	56.90%	–	–
SHARE OF RESIDENTIAL CUSTOMERS WHO HAVE LODGED SECURITY DEPOSITS				
New South Wales	10.40%	10.30%	9.20%	7.40%
Victoria	0.02%	0.01%	0.01%	–
Queensland	20.07%	18.50%	22.25%	–
South Australia	0.00%	0.00%	0.00%	0.00%
Tasmania	0.01%	0.01%	0.01%	0.02%
ACT	0.00%	0.00%	–	–

1. Includes residential and business customers.
2. Includes all reconnections (not just within seven days of disconnection).

Table 6.9 Customer service indicators

JURISDICTION	2002–03	2003–04	2004–05	2005–06
CUSTOMER COMPLAINTS AS SHARE OF TOTAL CUSTOMERS				
New South Wales[1]	0.52%	0.44%	0.44%	0.59%
Victoria	0.41%	0.50%	0.64%	0.71%
Queensland	0.28%	0.50%	0.35%	0.35%
South Australia	0.47%	0.63%	0.66%	0.81%
Tasmania	0.87%	0.82%	0.72%	0.47%
ACT	0.06%	0.08%	–	–
SHARE OF CALLS RESPONDED WITHIN 30 SECONDS (ONCE CONNECTED TO A COMPLAINT/INQUIRY LINE)				
New South Wales	53.78%	48.23%	65.70%	71.70%
Victoria	52.74%	51.19%	65.12%	–
Queensland	66.05%	66.70%	78.75%	81.30%
South Australia	73.93%	81.50%	85.48%	80.20%[2]
Tasmania[3]	78.00%	78.00%	78.66%	79.60%
ACT	–	–	–	–
AVERAGE WAIT BEFORE CALL ANSWERED (SECONDS)				
New South Wales	–	–	–	–
Victoria	–	–	–	–
Queensland	83	53	28	29
South Australia	60	23	27	34[2]
Tasmania	33	30	39	38
ACT	–	–	–	–
SHARE OF CALLS ABANDONED				
New South Wales	8.33%	11.14%	6.70%	3.90%
Victoria	–	–	–	–
Queensland	6.57%	5.34%	3.88%	–
South Australia	4.60%	2.50%	2.20%	2.70%[2]
Tasmania	6.00%	5.00%	5.02%	4.20%
ACT	–	–	–	–

1. Small retail customers only.
2. Includes electricity and gas customers.
3. Call response rates in Tasmania are for calls answered within 20 seconds.

Sources for tables 6.8–9: Reporting against URF templates and performance reports on the retail sector by IPART (NSW), ESC (Vic), ESCOSA (SA), OTTER (Tas), QCA and the Department of Mines and Energy (Qld) and ICRC (ACT).

Box 6.6 Trends in retail service standards—a snapshot

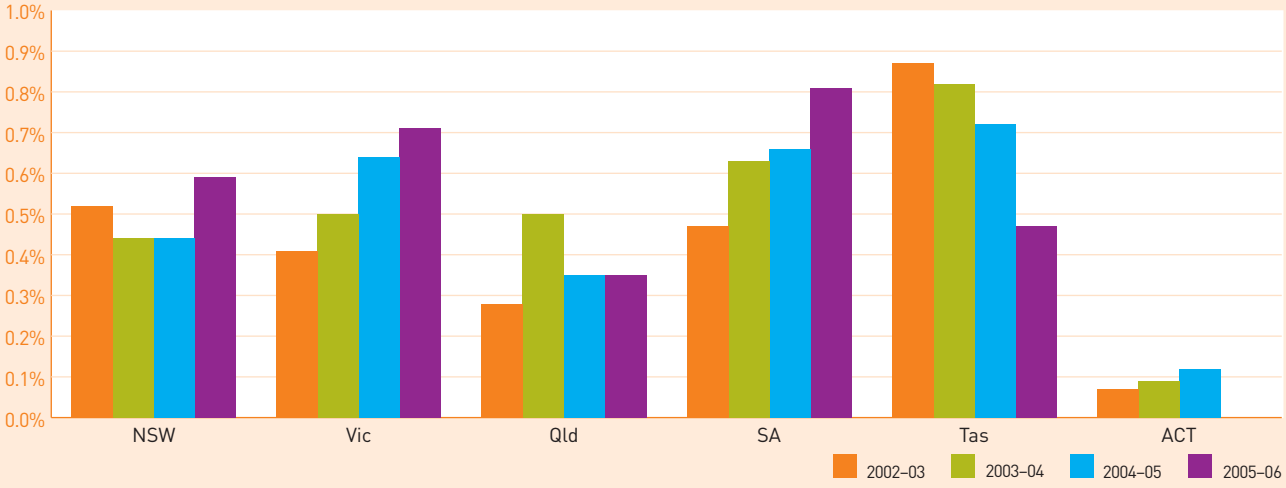
Figures 6.20–22 chart a selection of the data set out in tables 6.8 and 6.9. The rate of customer complaints (figure 6.20) rose between 2002–03 and 2005–06 in New South Wales, Victoria and South Australia, but remained below 1 per cent. The rate of complaints in Queensland and Tasmania fell over this period, and was below 0.5 per cent in 2005–06.

The rate of disconnection of residential customers for failure to meet bill payments (figure 6.21) is a key affordability and access indicator. The rate of disconnections has fallen since 2002–03 in Victoria, Tasmania and the Australian Capital Territory. Despite spikes in 2003–04 for South Australia and Victoria, these regions recorded lower disconnection rates in 2004–05 and 2005–06. A range of factors, that may vary between jurisdictions, may have contributed to these outcomes. For example, Victoria introduced legislation in 2004 providing for compensation to households that are wrongfully disconnected. More generally, the data should be considered in conjunction with reconnection data (figure 6.22).

The rate at which disconnected residential customers are reconnected within seven days[20] has fallen since 2002–03 in all jurisdictions. When considered in conjunction with falling disconnection rates, there are indications that retailers may have improved their customer management services by reducing the rate of avoidable disconnections—perhaps through better use of payments plans and other account management options.

Figure 6.20

Retail customer complaints as a percentage of total customers



20 Note that the New South Wales figures represent all reconnections, not just those within seven days of disconnection.

Figure 6.21

Residential disconnections as a percentage of customer base

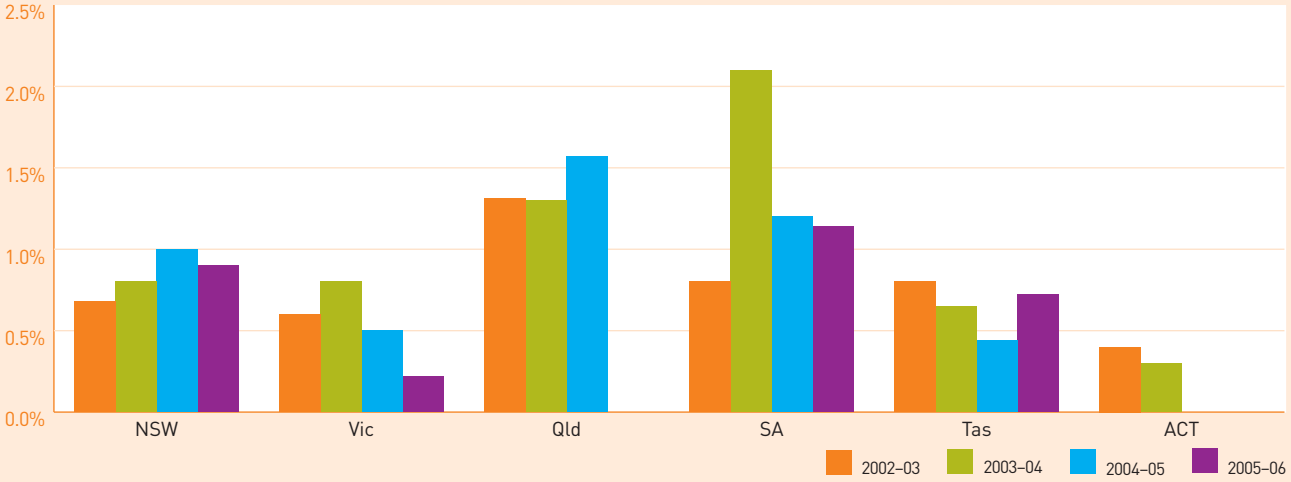
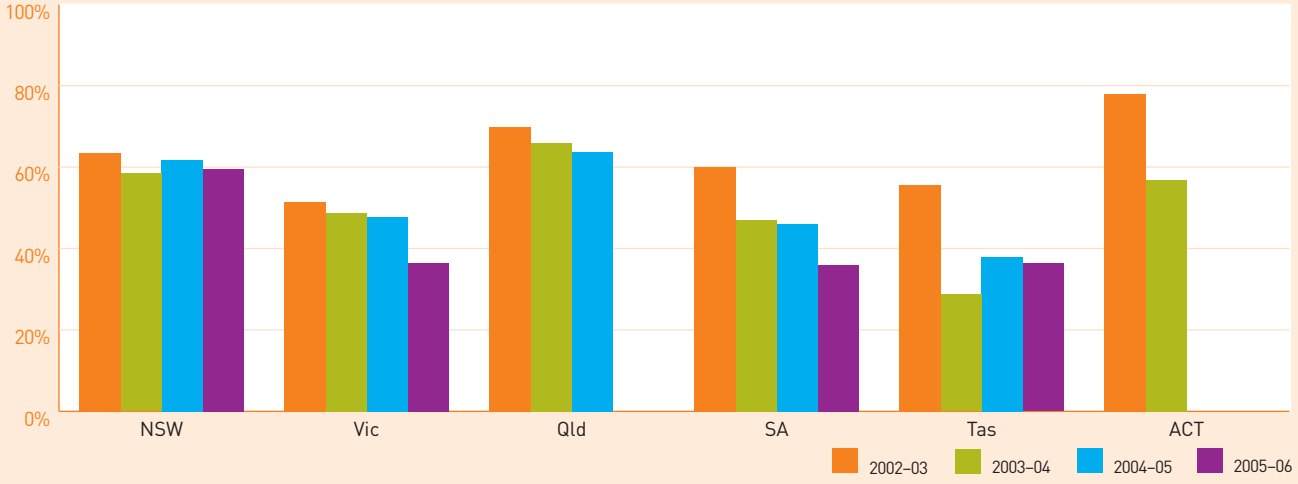


Figure 6.22

Residential reconnections within seven days (as a percentage of disconnected customers)



6.5 Regulatory arrangements

The development of competitive retail markets is occurring at different rates across the jurisdictions. While New South Wales, Victoria, South Australia and the Australian Capital Territory have introduced FRC, each continues to regulate various aspects of the market. Regulatory measures include:

- price caps for small customers
- the setting of minimum terms and conditions in 'default' service offers
- information disclosure and complaints handling requirements
- community service obligations on retailers.

6.5.1 Price caps

All jurisdictions appoint host retailers that must offer to supply small customers in nominated geographical areas at capped tariffs (see section 6.2). This provides a default option for customers who do not have a market contract. Governments that have introduced FRC continue to set default prices as a transitional measure to:

- allow consumers time to understand and adjust to the workings of the new market structure
- protect consumers entering the competitive market from the possible exercise of market power by retailers
- limit the impact of price shocks, both for consumers generally, and for particular classes of consumers.

The approach to regulating default tariffs varies between jurisdictions. For example:

- The New South Wales regulator, IPART, sets a retail price cap for small customers that do not enter a market contract. The cap is for average tariffs and changes to individual tariffs. The Government of New South Wales has extended the use of the cap until 2010. IPART noted in its review of retail prices for 2007–10 that the government aimed to reduce customer reliance on regulated prices and had directed IPART to ensure that regulated tariffs are cost reflective by June 2010.
- The Victorian government has reserve powers to regulate default tariffs charged by host retailers. In December 2003 the government entered into voluntary agreements with host retailers on default retail prices for households and small businesses until the end of 2007. The agreements, which provided for a real decrease in electricity prices over four years, were renegotiated in 2005.
- The South Australian regulator, ESCOSA, regulates standing contract prices for small customers. Small customers may request a standing contract—with regulated prices—from the host retailer, or choose an unregulated market contract from a licensed retailer. ESCOSA's current retail price determination covers January 2005 to December 2007.
- In Queensland the government has set regulated prices with reference to movements in the consumer price index. With the introduction of FRC in July 2007, the government will base annual adjustments in regulated price caps on benchmark costs. In March 2007, the government delegated the calculation of benchmark costs to the Queensland Competition Authority.

To allow efficient signals for investment and consumption, governments are moving towards removing retail price caps. Australian governments reaffirmed their commitment in 2006 to remove retail price caps where effective competition can be demonstrated. The Australian Energy Market Commission (AEMC) will assess the effectiveness of retail competition in each jurisdiction to determine the appropriate time to remove price caps. The AEMC is conducting the first of these reviews on Victoria in 2007.

6.5.2 Management of wholesale price fluctuations

In addition to regulating retail prices, Queensland and New South Wales implement schemes to minimise the risk of price volatility faced by government-owned host retailers in the wholesale market. The New South Wales scheme, the electricity tariff equalisation fund (ETEF), provides host retailers with a hedge against price volatility in the wholesale market. Retailers pay into the fund when pool prices are lower than the energy

cost component they recover from regulated customers. They can then draw on the fund if pool prices are higher than the energy cost component in the regulated tariff. The New South Wales Government-owned generators make payments to cover any shortfalls in the fund.

The New South Wales Government views ETEF as a transitional measure that provides a 'safety net' to protect small customers. Under legislation, ETEF is due to expire in June 2007. The New South Wales Government has announced that it will extend ETEF's operation, and now intends to phase it out between September 2008 and June 2010.[21]

6.5.3 Consumer protection

Governments regulate aspects of the electricity retail market to protect consumers' rights and ensure they have access to sufficient information to make informed decisions. Most jurisdictions require designated retailers to provide electricity services under a standing offer or default contract to customers in nominated geographical areas. Default contracts cover minimum service conditions, billing and payment obligations, procedures for connections and disconnections, information disclosure and complaints handling. During the transition to effective competition, default contracts also include some form of regulated price cap or prices oversight.

Some jurisdictions have established industry codes that govern the provision of electricity retail services to small customers, including under market contracts. Industry codes establish consumer protection measures including:

- minimum terms and conditions under which a retailer can provide electricity retail services
- standards for the marketing of energy services
- processes for the transfer of customers from one retailer to another.

Most jurisdictions have an energy ombudsman or an alternative dispute resolution body to whom consumers can refer a complaint they have been unable to resolve directly with the retailer. In addition to general consumer protection measures, jurisdictions establish a supplier of last resort to ensure customers can be transferred from a failed retailer to another.

In addition, states and territories provide for a range of community service obligation payments to particular customer groups—often low incomes earners. Traditionally, the payments were often 'hidden' in subsidies and cross-subsidies between different customer groups, which caused distortions to pricing and investment signals. As part of the energy reform process, governments are making community service obligations more transparent and are directly funding them out of budgets rather than by using cross-subsidises.

6.5.4 Metering

The energy consumption of end-use customers is recorded on meters at the point of connection to the distribution network. There have been developments, both nationally and in some jurisdictions, to improve the quality of electricity meters to provide better signals to consumers and investors on consumption, price and other aspects of energy use.

Electricity meters vary in the amount of information that is made available to the electricity provider and customers.

- **Accumulation meters** record the total consumption of electricity at a connection point, but not the time of consumption. Consumers are billed solely on the volume of electricity consumed.
- **Interval meters** are more sophisticated and record consumption in defined time intervals (for example, half-hour periods). This information allows time-of-use billing so the charge for electricity can be varied with the time of consumption.

21 IPART *Review of regulated retail tariffs and charges for electricity 2007 to 2010*, Issues paper, July 2006, p. 5.

- **Smart meters** are interval meters with remote communication capabilities between retailers and end users. This allows for remote meter reading, connection and disconnection of customers. It also allows retailers and distributors to manage loads to particular customers and appliances. Add-ons such as an in-house display may provide information on prices, greenhouse gas emissions and other aspects of electricity consumption.

The primary benefit of interval or smart meters is that they, together with an appropriate tariff structure, help energy users self-manage their demand in response to price signals. For example, consumers would be encouraged to reduce their use of electricity at peak times when prices are high. This may help to ease congestion in network infrastructure, allow the deferral of some capital expenditure, reduce the incidence of wholesale electricity price spikes (and retailers' hedging costs) and improve security of supply.

Other potential benefits of interval/smart meters include:

- improved network planning capabilities, using consumption data provided by the meters
- lower costs of remote meter reading, connection and disconnection of customers (for smart meters).

The costs of a meter rollout include the capital costs of the meter, infrastructure to communicate with customers, and the costs of processing and storing the information generated.

Interval meters have so far been used mainly to record the electricity consumption of large (industrial and large business) consumers. In 2007 the Council of Australian Governments agreed to a national implementation strategy for the progressive rollout of 'smart' electricity meters wherever a net benefit is expected. The MCE indicated in 2007 that the rollout is likely to take five years or more.

Mark Wilson

Electricity smart meter

Progress towards a national rollout of interval meters has varied among jurisdictions.

- Victoria—initiated a program to deploy smart meters to all small customers over four to five years from 2008. Technical and consumer response trials are to be undertaken as part of the deployment program.
- New South Wales—EnergyAustralia has committed to a rollout of interval meters for all customers that consume more than 15 MWh of electricity a year. For customers using less than that, interval meters will be provided on a new and replacement basis. Country Energy is installing interval meters on a new and replacement basis for all customers.
- Queensland and the Australian Capital Territory—the Queensland Energy Competition Committee and the ICRC have recommended the rollout of interval meters on a new and replacement basis for small customers.

- Western Australia—all new meters are to support time-of-use pricing.
- South Australia and Tasmania—concluded that the rollout of interval meters to small customers is not currently justified.

6.5.5 Future regulatory arrangements

State and territory governments and local regulators have traditionally been responsible for the regulation of retail energy markets. Governments agreed in the Australian Energy Market Agreement (2004, amended 2006) to transfer some regulatory functions to a national framework to be administered by the AEMC and the AER. The agreement scheduled for transfer the regulation of:

- the obligation on retailers to supply small 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 terms and conditions in retailer market contracts with small customers
- obligations imposed on retailers when marketing to small customers
- retailer general business authorisations (where used for matters other than technical capability and safety).

The MCE has scheduled the transfer of responsibilities to occur from July 2008. Under the current proposals, the states and territories will retain responsibility for price control of default tariffs unless they choose to transfer those arrangements to the AER and the AEMC.