6 ELECTRICITY RETAIL MARKETS

Louise Douvis (Fairfax)

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 businesses. 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 do not provide 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 and trends towards horizontal and vertical integration
- the development of retail competition
- retail market outcomes, including price and service quality
- the regulation of the retail market
- energy efficiency and demand management initiatives.

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 regulatory package to be introduced to the South Australian Parliament in September 2009.[1]

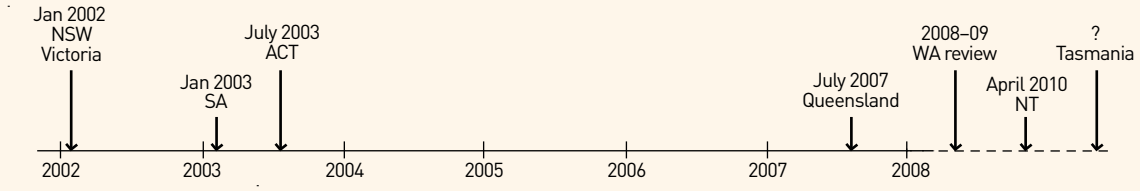
This chapter focuses on the retailing of electricity to small customers,[2] including households and small business users. While large customers such as major industrial users buy the greatest volume of electricity, they are relatively few in number. The chapter focuses mainly on the retail sector in the National Electricity Market (NEM) jurisdictions in southern and eastern Australia, but also includes some high level information on Western Australia and the Northern Territory.[3]

1 Section 6.11 provides an update on the transition to a national regulatory framework.

2 In Victoria, South Australia and New South Wales, small customers are those consuming less than 160 MWh per year. In Queensland and the Australian Capital Territory, small customers are those consuming less than 100 MWh per year. Small customers in Tasmania are those consuming less than 150 MWh per year.

3 Chapter 7 provides further information on the Western Australian and Northern Territory electricity sectors.

Figure 6.1
Introduction of 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.

6.1 Retail market structure

The privatisation of energy retail assets is continuing. Victoria and South Australia privatised their energy retail businesses in the 1990s and Queensland privatised most of its energy retail entities in 2006–07. The Australian Capital Territory (ACT) Government operates a joint venture with the private sector to provide retail services. Western Australia, Tasmania and the Northern Territory retain government ownership in the retail sector.

New South Wales retains government ownership of its energy retail businesses, but in 2008 announced its intention to privatise electricity generation and retail. In June 2008, the New South Wales Government announced that it planned to privatise the retail businesses through a combination of trade sales and share offerings.[4] The New South Wales Auditor-General reported in August 2008 that the asset sales would raise no adverse issues for taxpayers.[5] In September 2008, the New South Wales Premier announced that the sale of government retailers would proceed, but that the state would retain its generation assets.

Alongside the privatisation of energy retail businesses, Australian governments have introduced retail contestability (customer choice). Most governments have 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.

The introduction of contestability arrangements has varied between jurisdictions (see figure 6.1):

- New South Wales, Victoria, Queensland, South Australia and the ACT have introduced FRC.
- Tasmania allows contestability for customers using at least 750 megawatt hours (MWh) per year. The Office of the Tasmanian Energy Regulator (OTTER) in 2008 conducted a public benefit assessment on the introduction of FRC for electricity customers. In May 2008, OTTER released a draft recommendation that contestability be extended to consumers using at least 50 MWh per year by 1 July 2010 and that any further extension of contestability be undertaken only once certain market conditions have been met. It found that these conditions are unlikely to be satisfied by 1 July 2010.[6]

4 Treasurer (NSW) (Hon Michael Costa), *Government announces next step in plan to secure NSW energy supplies*, media statement, 25 June 2008.
5 New South Wales Auditor-General, *Oversight of electricity industry restructuring*, August 2008.
6 Office of the Tasmanian Energy Regulator, *Public benefit assessment for electricity retail competition in Tasmania—Draft report*, May 2008, pp. 81–82.

- Western Australia allows contestability for customers using at least 50 MWh annually. The Office of Energy in 2008 conducted a review of the electricity retail market, including whether FRC should be introduced for electricity customers.[7] The Western Australian Government is also required under legislation to conduct a separate review of the benefits of FRC after April 2009.[8] The recommendations arising from the 2008 review will be re-examined in the 2009 review process.[9]
- The Northern Territory plans to introduce FRC in April 2010, subject to a public benefit test.[10]

The retail players in each jurisdiction include:

- one or more 'host' retailers that are subject to various regulatory obligations
- 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. The ACT Government operates a joint venture with a privately owned business to provide electricity retail services.

Privately owned retailers are the major players in Victoria, South Australia and Queensland. The leading private retailers are 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 following the privatisation of government retailers. International Power, trading as Simply Energy, has recently emerged as a significant retail business in Victoria and South Australia.

A number of niche players are active in most jurisdictions. Despite rising wholesale energy costs in 2007–08, which may reduce profit margins in the retail sector, a number of new businesses have recently obtained or are seeking retail licences. A number of businesses that held retail licences, but were not active in the market, have now commenced marketing to small customers. Table 6.1 lists licenced retailers that were active[11] in the market for residential and small business customers in June 2008.[12]

The following survey provides background on developments in each jurisdiction.[13]

6.1.1 Victoria

At June 2008, Victoria had 29 licenced retailers, 14 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
- eleven new entrants, which were established interstate retailers (Country Energy and EnergyAustralia) and nine new players in the energy retail market (Click Energy, Jackgreen, Our Neighbourhood Energy, Powerdirect, Red Energy, Simply Energy, Victoria Electricity, Momentum Energy, and Australian Power & Gas).

Of the new entrants, Click Energy, Our Neighbourhood Energy and Simply Energy have only become active since July 2007.

Diamond Energy and Dodo Power & Gas were also granted retail licences but were not actively marketing to small customers. In response to increased wholesale electricity purchasing costs, Momentum Energy withdrew from the residential retail market in Victoria in July 2007 and its residential customers were

7 Office of Energy, *Electricity retail market review—Issues paper*, December 2007.
8 Section 55, *Electricity Corporations Act 2005* (WA).
9 Office of Energy, *Electricity retail market review—Issues paper*, December 2007, p. 37.
10 Regulation 6(4), Electricity Reform (Administration) Regulations 2008 (NT).
11 Active retailers are those retailers that are offering electricity supply contracts to customers.
12 See footnote 2 for jurisdictional classifications of 'small customers'.
13 The number of licensed retailers may not correspond with the actual number of retail licences issued as several licence holders may operate under a single trading name.

Table 6.1 **Active electricity retailers: small customer market, June 2008**

RETAILER[1]	OWNERSHIP	NSW	VIC	QLD	SA	TAS	ACT	WA	NT
ActewAGL Retail	ACT Government & AGL Energy								
AGL Energy	AGL Energy								
Alinta Sales	Babcock & Brown Power								
Aurora Energy	Tasmanian Government								
Australian Power & Gas	Australian Power & Gas								
Click Energy	Click Energy								
Country Energy	NSW Government								
EnergyAustralia	NSW Government								
Ergon Energy	Queensland Government								
Integral Energy	NSW Government								
Horizon Power	Western Australian Government								
Jackgreen	Jackgreen Limited[2]								
Momentum Energy	Momentum Energy[3]								
Our Neighbourhood Energy	Our Neighbourhood Energy								
Origin Energy	Origin Energy								
Perth Energy	Infratil								
Power and Water Corporation	Northern Territory Government								
Powerdirect	AGL Energy								
Queensland Electricity	Infratil								
Red Energy	Snowy Hydro[4]								
Simply Energy	International Power								
South Australia Electricity	Infratil								
Synergy	Western Australian Government								
TRUenergy	CLP Group								
Victoria Electricity	Infratil								
Active retailers		10	14	10	11	1	4	4	1
Approx. market size ('000 000 customers)		3.1	2.4	1.9	0.8	0.2	0.2	1.0	0.1

Host (incumbent) retailer New entrant

Notes:

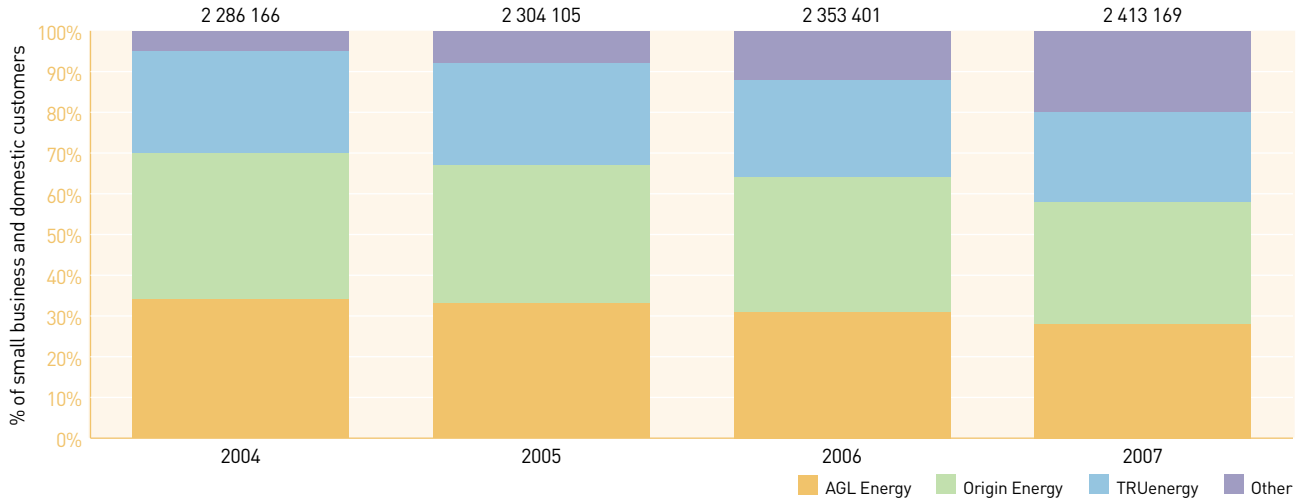
1. Not all licenced retailers are listed. Some generators are licenced retailers but are active only in the market for larger industrial users. Not all retailers listed supply electricity to all customers; for example, some retailers only market to small business users.
2. Major shareholders in Jackgreen Limited as at 1 July 2007 include Babcock & Brown Prime Broking (19.05 per cent) and Citicorp Nominees (15.89 per cent).
3. In September 2008, Hydro Tasmania acquired a controlling interest in Momentum Energy.
4. 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).

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

transferred to Australian Power & Gas. Momentum Energy was actively retailing to small and medium sized businesses in June 2008.

Table 6.2 sets out the market share of Victorian retailers (by customer numbers) at 30 June 2007. The three host retailers account for about 79 per cent of the market and each has acquired market share beyond its local area. New entrant penetration in the market has increased from 13 per cent of small customers in June 2006 to almost 20 per cent in June 2007 (see figure 6.2).

Figure 6.2
Electricity 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.

Table 6.2 **Electricity retail market share (small customers)—Victoria, 30 June 2007**

RETAILER	CUSTOMERS		
	Domestic	Business	Total retail
AGL Energy	28.0%	23.4%	27.4%
Origin Energy	29.8%	34.8%	30.4%
TRUenergy	22.5%	22.3%	22.5%
Other	19.7%	19.6%	19.7%
Total customers	2 132 226	280 943	2 413 169

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

6.1.2 South Australia

At June 2008, South Australia had 15 licenced electricity retailers, of which 11 were active in the small customer market. These were:

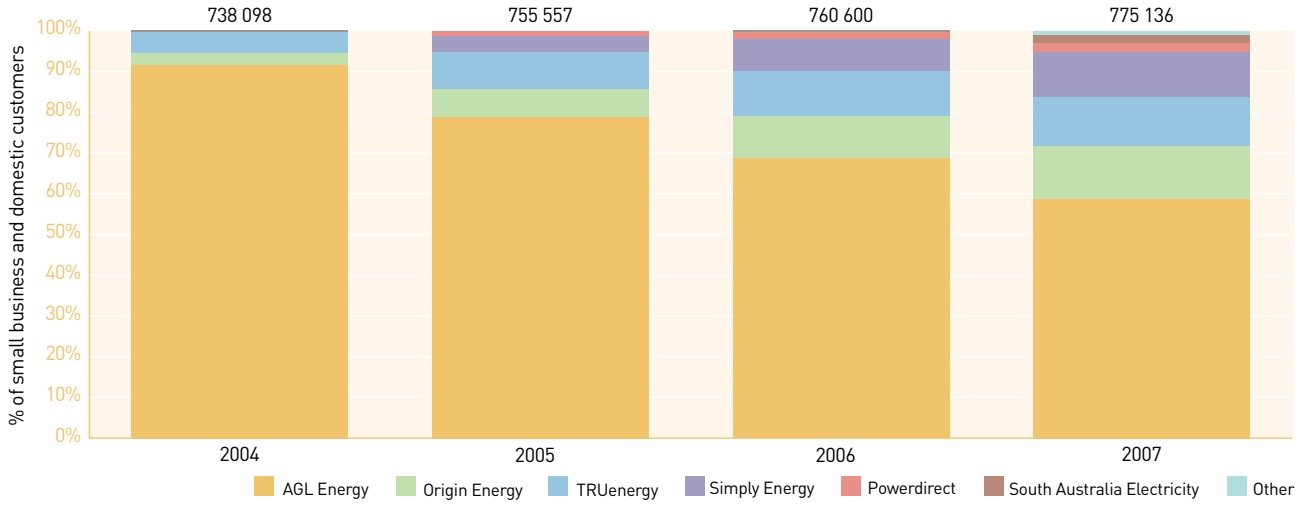
- AGL Energy, South Australia's host retailer
- ten new entrants, which were South Australia's host retailer in gas (Origin Energy), established interstate retailers (TRUenergy, Country Energy and Aurora Energy) and six new players in the energy retail market (Simply Energy, Momentum Energy, Powerdirect, South Australia Electricity, Red Energy and Jackgreen).

Of the new entrants, Red Energy and Jackgreen only became active since July 2007.

EnergyAustralia, Dodo Power & Gas, and Australian Power & Gas 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) at 30 June 2007. The host retailer—AGL Energy—supplies 59 per cent of small customers, down from 68 per cent in 2006. All other retailers have built market share, with Origin Energy, TRUenergy and Simply Energy each supplying more than 10 per cent of the small customer base. There has been only marginal penetration by niche retailers, with the four largest retailers accounting for almost 95 per cent of the market (see figure 6.3).

Figure 6.3
Electricity retail market share (small customers)—South Australia



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

Source: ESCOSA, *2006–07 Annual performance report: Performance of South Australian energy retail market*, November 2007, p. 65.

Market penetration by new entrants has been more effective for large customers, with AGL Energy's market share eroding to about 40 per cent of that market (based on sales volume).[14]

Table 6.3 **Electricity retail market share (small customers)—South Australia, 30 June 2007**

RETAILER	CUSTOMERS		
	Domestic	Business	Total retail
AGL Energy	57.6%	67.3%	58.7%
Country Energy	0.6%	1.3%	0.6%
Origin Energy	12.7%	14.7%	12.9%
Powerdirect	1.7%	5.3%	2.2%
South Australia Electricity	2.4%	0.3%	2.2%
Simply Energy	11.8%	4.1%	10.9%
TRUenergy	13.0%	6.6%	12.3%
Other	0.3%	0.4%	0.3%
Total customers	687826	87310	775136

Source: ESCOSA, *2006–07 Annual performance report: Performance of South Australian energy retail market*, November 2007, p. 65.

6.1.3 New South Wales

At June 2008, New South Wales had 25 licenced retailers, of which 10 supplied (or intended to supply) residential and/or small business customers. The active retailers were:

- EnergyAustralia, Country Energy and Integral Energy, the government-owned host retailers
- seven new entrants, which were the state's host retailer in gas (AGL Energy), established interstate players (Origin Energy, TRUenergy and ActewAGL Retail) and new players in the energy retail market (Powerdirect, Jackgreen and Australian Power & Gas).

Momentum Energy, New South Wales Electricity, Dodo Power & Gas, and Red Energy held retail licences but were not actively marketing to small customers.

New entrant retailers have acquired about 14 per cent of the small customer market (based on customer numbers) from the government-owned incumbents, with the greatest penetration occurring in the EnergyAustralia and Integral Energy local supply areas.[15]

14 ESCOSA, *2006/07 Annual performance report: Performance of South Australian energy retail market*, November 2007, Adelaide, p. 25.

15 IPART, *NSW electricity information paper no. 1/2008—Electricity retail businesses' performance against customer service indicators*, January 2008, p. 2.

6.1.4 Queensland

Until 2006, Queensland's small customer market was divided between two government owned businesses: Ergon Energy and ENERGEX. Queensland restructured its electricity retail sector in 2006 by creating two new businesses: Sun Retail and Powerdirect. Origin Energy acquired Sun Retail from the Queensland Government in January 2007 and AGL Energy acquired Powerdirect in February 2007. The Government has retained ownership of Ergon Energy's retail business, which supplies 'unprofitable' customers in rural and regional areas.

At June 2008, Queensland had 23 licenced retailers, of which 10 were active in the small customer market. These were:

- Origin Energy (previously Sun Retail) and Ergon Energy, each of which is the host retailer in designated areas of Queensland
- Powerdirect (now owned by AGL Energy)
- seven new entrants, which were established interstate retailers (EnergyAustralia, Integral Energy, AGL Energy and TRUenergy); and three new players in the energy retail market (Jackgreen, Queensland Electricity and Australian Power & Gas).

Table 6.4 sets out the estimated small customer market share of Queensland retailers (by customer numbers) at 30 June 2007. As FRC was not introduced in Queensland until July 2007, businesses could not compete for small customers. The small customer base was split between Ergon Energy (the government-owned retailer), and Origin Energy and AGL Energy, which acquired retail businesses through privatisation in 2007.

Ergon Energy is restricted to providing customer retail services to non-market customers in its designated area (predominantly rural and regional customers).

Table 6.4 Electricity retail market share (small customers)—Queensland, 30 June 2007

RETAILER	SMALL CUSTOMERS
AGL Energy	23%
Ergon Energy	33%
Origin Energy	44%
Total customers	1 890 000

Source: AER estimates.

6.1.5 The Australian Capital Territory

At June 2008, the ACT had 15 licenced retailers, of which four were active in the residential market: ActewAGL Retail (the host retailer), EnergyAustralia, Country Energy and TRUenergy. Dodo Power & Gas, Integral Energy, Jackgreen, Red Energy, Australian Power & Gas and Origin Energy held retail licences but were not actively marketing to small customers.

In 2006–07, the host retailer maintained a significant market share of around 90 per cent.[16]

6.1.6 Tasmania

Aurora Energy, the government-owned host retailer, controls the small customer market in Tasmania. Legislative restrictions prevent new entrants supplying small customers (as of June 2008).

6.1.7 Western Australia

In Western Australia, only customers consuming at least 50 MWh annually are contestable. The government-owned host retailer—Synergy—has a market share of 96 per cent in the residential market and 92.5 per cent in the non-residential market. Horizon Power services the regional areas of Western Australia and is the second largest retailer with 3.9 per cent of the residential market and 6.4 per cent of the non-residential market.[17] The remaining customers are divided between Alinta Sales (owned by Babcock & Brown Power), Perth Energy and the Rottnest Island Authority.[18]

16 Over 10 per cent of customers have switched to an alternative retailer since the introduction of FRC. ICRC, *Annual report 2006–07*, p. 14.

17 Economic Regulation Authority, *2006–07 Annual performance report—Electricity retailers*, January 2008, p. 12.

18 The Rottnest Island Authority manages the Rottnest Island Reserve and retails to customers on Rottnest Island.

6.1.8 Northern Territory

The government-owned host retailer, Power and Water Corporation, provides electricity services to customers in the Northern Territory.

6.2 Trends in market integration

Various ownership consolidation activity has occurred in the energy retail sector in recent years, including:

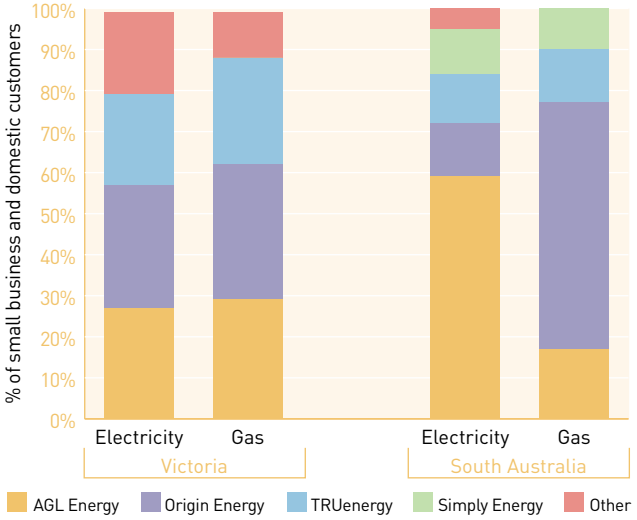
- retail market convergence between electricity and gas
- vertical integration between electricity retailers and generators.[19]

6.2.1 Energy retail market convergence

Many energy retailers offer both electricity and gas services, including 'dual fuel' retail products.[20] For example, the leading retailers in Victoria and South Australia—AGL Energy, Origin Energy and TRUenergy—jointly account for around 81 per cent of small electricity retail customers and 89 per cent of small gas retail customers (see figure 6.4). The principal difference between the two sectors is the greater penetration by niche players in electricity than in gas.

Several factors have driven retail convergence, including business cost savings and convenience for customers. At the same time, convergence can create hurdles for new entrants—especially small players—that may need to deal with different market arrangements and different risks in the provision of electricity and gas services.

Figure 6.4
Electricity and gas retail market share (small customers)—Victoria and South Australia, 30 June 2007



Sources: ESC, *Energy retail businesses comparative performance report for the 2006–07 financial year*, December 2007; ESCOSA, *Annual performance report: Performance of South Australia energy retail market 2006–07*, November 2007.

6.2.2 Vertical integration in the electricity sector

In the 1990s, governments introduced reforms to structurally separate the power supply industry into generation, transmission, distribution and retail businesses. However, some linkages between different sectors of the power supply industry remain. In particular, the New South Wales, Queensland, Tasmanian and Northern Territory governments own joint distribution-retail businesses. The ACT Government has ownership interests in both the host retailer of electricity and gas and the electricity and gas distributor. Where linkages exist between contestable and non-contestable sectors, regulators apply ring-fencing arrangements to ensure operational separation of the businesses.

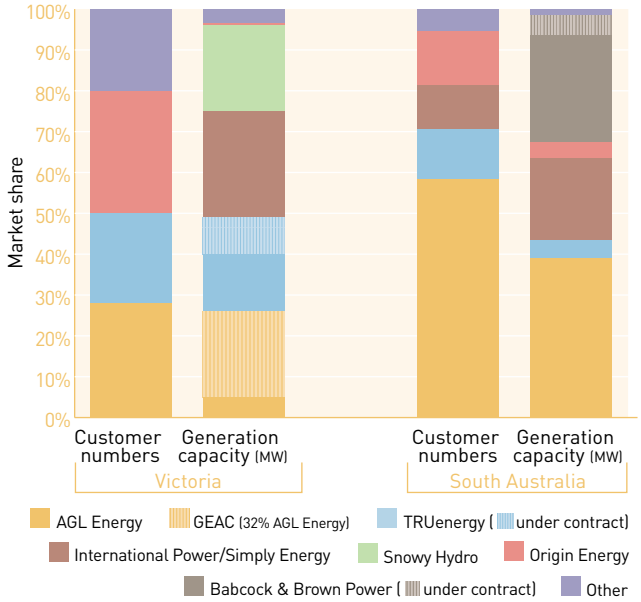
19 There has been debate as to whether this form of ownership consolidation might in some contexts pose a barrier to entry for new entrant retailers. See, for example, Energy Reform Implementation Group, *Energy reform: The way forward for Australia*, A Report to COAG, January 2007, pp. 125-6.

20 In the ACT, the host retailer in electricity and gas—ActewAGL Retail—also offers contracts that 'bundle' electricity and gas retail services with telecommunications services.

Jessica Shapiro (Fairfax)

Figure 6.5

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



Notes:

1. The figures 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.
2. In Victoria, TRUenergy holds a long-term hedge contract with Ecogen Energy (owned by Industry Funds Management).
3. In South Australia, Babcock & Brown Power bids in the facility at Osborne power station (owned by ATCO Power and Origin Energy).

Sources: ESC, *Energy retail businesses comparative performance report for the 2006–07 financial year*, December 2007; ESCOSA, *SA energy retail market 06–07, November 2007* (customer numbers); NEMMCO (generation capacity and ownership); company websites.

There is also a continuing trend towards vertical integration of privately owned electricity retailers and generators. 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.

Figure 6.5 compares generation and retail market shares in Victoria and South Australia in 2007. Two of the three major retailers—AGL Energy and TRUenergy—have significant generation interests. In July 2007, AGL Energy and TRUenergy completed a generator swap in South Australia that moved the capacity of each business into closer alignment with their retail loads. Origin Energy has limited generation capability at present but is developing new capacity. In addition, the major generator International Power operates a retail business in these jurisdictions (trading as Simply Energy) and achieved significant penetration in the South Australian market in the year to June 2007.

There has also been vertical integration in the public electricity sector. Snowy Hydro owns Red Energy, which has acquired some market share in Victoria and South Australia. In September 2008, Hydro Tasmania acquired a controlling interest in the small private retailer Momentum Energy.

6.3 Retail competition

While most jurisdictions have introduced or are introducing FRC, 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 (see section 6.4.1). Standing offer contracts cover minimum service conditions, information requirements and some form of regulated price cap or oversight. As of July 2008, all jurisdictions applied some form of retail price regulation.[21]

Australian governments have agreed to review the continued use of retail price caps and to remove them where effective competition can be demonstrated.[22] The AEMC is assessing the effectiveness of retail competition in each jurisdiction to advise on the appropriate time to remove retail price caps.[23] The relevant state or territory government makes the final decision on this matter. Box 6.1 includes a summary of progress with the AEMC reviews.

The following provides a sample of public data that may be relevant to an assessment of the effectiveness of retail competition in Australia. In particular, it sets out data on the diversity of price and product offerings

21 See section 6.4.1 for further details.

22 Australian Energy Market Agreement 2004 (amended 2006).

23 In Western Australia, the Economic Regulation Authority is responsible for this task.

Box 6.1 Australian Energy Market Commission reviews of the effectiveness of retail competition

The AEMC completed a review of the effectiveness of competition in electricity and gas retail markets in Victoria in February 2008. It is undertaking a review of the South Australian market in 2008 and reviews are scheduled for New South Wales in 2009 and the ACT (if required) in 2010.

In undertaking these reviews, the AEMC applies the following criteria to assess the effectiveness of retail competition:

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

Victoria

The AEMC review of the Victorian electricity and gas retail markets found that competition is effective in both the electricity and the gas markets:

> The majority of energy customers are participating actively in the competitive market by exercising choice among available retailers as well as price and service offerings. There is strong rivalry between energy retailers, facilitated by the current market structures and entry conditions.[24]

Retail price regulation in Victoria currently extends only to residential customers. Standing offer retail prices are negotiated between the Victorian Government and host retailers, with the government retaining the reserve power to regulate these prices.

In response to the review, the Victorian Government announced in September 2008 the introduction of new legislation to remove retail price caps. The legislation includes provisions for the Essential Services Commission of Victoria (ESC) to undertake expanded price monitoring and report publicly on retail prices. Retailers will also be required to publish a range of their offers to assist consumers in comparing energy prices. Other obligations on retailers, including the obligation to supply and the consumer protection framework, are not affected by the removal of retail price regulation. The Victorian Government retains a reserve power to reinstate retail price regulation if competition is found in the future to no longer be effective.

South Australia

During 2008, the AEMC is reviewing the South Australian electricity and gas retail markets. In September 2008, it released a first final report on its review. The AEMC's findings were that competition is effective for small electricity and gas customers in South Australia; however, competition was more intense in electricity than in gas:[25]

> There has been strong rivalry between energy retailers as they offer customers alternative combinations of price, product and service. Large numbers of electricity and metropolitan gas customers have been willing and able to respond to competitive offers and to exercise choice between the available offers when approached by retailers and given sufficient incentive.[26]

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

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

26 AEMC, *Review of the effectiveness of competition in electricity and gas retail markets in South Australia—First final report*, September 2008, p. 21.

27 AEMC, *Review of the effectiveness of competition in electricity and gas retail markets in South Australia—First final report*, September 2008, pp. 31-33.

28 NERA Economic Consulting, *Review of the effectiveness of energy retail market competition in South Australia—Phase 2 Report for ESCOSA*, June 2007.

While the AEMC considered that overall competition in electricity and gas markets was effective, it noted that the ease of entry for new retailers and expansions for existing retailers may be limited due to:[27]

- higher spot prices, increased spot price volatility and increased vertical integration in electricity markets
- structural limitations which restrict the ability of gas retailers to access firm transmission haulage services.

The South Australian regulator, the Essential Services Commission of South Australia (ESCOSA), undertook its own review of the effectiveness of competition in the South Australian electricity and gas retail markets in 2007. This review considered indicators that included the number of retailers, customer switching, barriers to entry and product innovation.

ESCOSA found that there appears to be effective competition in the electricity retail market, with the gas market moving towards effective competition. Customers for whom competition did not appear to be effective included small business gas customers and regional residential gas customers:

> In sum, our assessment of the conduct of market participants in both the electricity and gas retail market in South Australia suggests that both retailers and customers are acting in a manner that is broadly consistent with an effectively competitive market.[28]

of retailers; the exercise of market choice by customers, including switching behaviour; and customer perceptions of competition. There is also some consideration of regulated prices and retail profit margins. Elsewhere, this chapter touches on other barometers of competition; for example, section 6.1 considers new entry in the electricity retail market.

The information provided here does not seek to draw conclusions. More generally, the AER is not assessing or commenting on the effectiveness of retail competition in any jurisdiction.

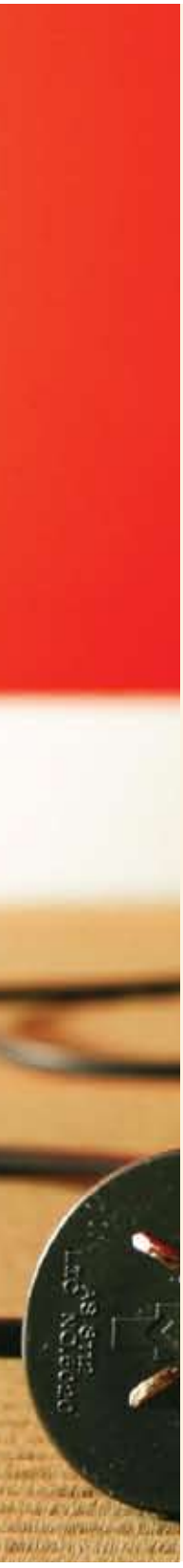
6.3.1 Price and non price diversity of retail offers

There is evidence of retail price diversity in electricity markets that have introduced FRC (see box 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, green products, 'dual fuel' contracts (for gas and electricity) and retail packages that bundle electricity and gas services with other services such as telecommunications,[29] each with different price structures.

Some product offerings bundle energy services 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.

29 In the ACT, the host retailer in electricity and gas—ActewAGL Retail—offers discounts on electricity services if the customer elects to 'bundle' electricity retail services with gas and telecommunications services.



Box 6.2 Case study: diversity of price and product offerings to small customers

ESCOSA and the Queensland Competition Authority (QCA) provide estimator services that allow consumers to make rough but quick comparisons of retail offers in their respective states. Table 6.5 sets out the estimated price offerings in April 2008 for customers in Queensland and South Australia using 4000 kilowatt hours (kWh) a year, based on peak usage, and not using electricity for hot water. The estimator does not account for all elements of retail offers, including some discounts. For example, some retailers were offering price and non-price bonuses on sign up, and discounts for prompt payment. Others were offering a percentage of supplied electricity from accredited renewable energy sources.

Table 6.5 indicates some price diversity in the Queensland and South Australian retail markets, with a spread across all retail offers of around $600 in South Australia and $500 in Queensland. The spreads are greater when discounts and rebates are taken into account. Discounts off the standing offer contract price are available from a number of retailers in each state, with the lowest rates attached to fixed-term contracts with termination fees. Retail offers in the upper price range generally provide customers with higher levels of accredited renewable energy.

In May 2007, the Essential Services Commission of Victoria (ESC) undertook independent research that compared electricity market contract prices with the standing offers of host retailers. This research was not intended to provide an exhaustive survey of retail market offers. Table 6.5 compares the annual electricity bill for a consumer using 4000 kWh a year in different host retailer areas in Victoria in May 2007.

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 benefits or inducements of up to around $100 a year. Table 6.5 indicates that there was a price spread across retail offers of between $57 (in the TRUenergy host area) and $270 (in the AGL Victoria host area). The data does not account for additional benefits such as joining bonuses or discounts. Contracts varied significantly in respect of fixed terms and termination fees. The ESC also found that incentives offered by retailers under market contracts varied between host retail areas; for example, green energy products and joining bonuses were not offered by all retailers in all regions.

The AEMC also reported price information on retail market offers as part of its review of the effectiveness of competition in Victoria (see box 6.1). The AEMC found that in June 2007, five retailers were offering market contracts at a discount from the standing offer of 2–7 per cent for domestic customers and 2–10 per cent for small business customers. When direct price benefits such as prompt payment discounts and joining bonuses were taken into account, the AEMC found that discounts of 10 per cent of the regulated tariff were available to both small business and domestic customers.[30]

Market analysis in Victoria undertaken by CRA International in August 2007 also found that market contracts typically have monetary and non-monetary inducements, that contract terms vary between retailers and that some retailers allow customers to choose the source of their electricity—for example, green energy.[31] In addition, CRA found that market offers in the residential sector varied more than those offered to small businesses, although there was little innovation in market offers regarding pricing structures and levels.[32]

30 AEMC, *Review of the effectiveness of competition in electricity and gas retail markets in Victoria—First final report*, 19 December 2007, pp. 54–55.

31 CRA International, *Impact of prices and profit margins on energy retail competition in Victoria*, November 2007, p. 43.

32 CRA International, *Impact of prices and profit margins on energy retail competition in Victoria*, November 2007, p. 65.

Table 6.5 Electricity retail price offers for a customer using 4000 kWh per year in South Australia (April 2008), Queensland (April 2008) and Victoria (May 2007)

PROVIDER	Nº OF PRODUCTS	ANNUAL COST ($)[1,2] 600 700 800 900 1000 1100 1200 1300 1400 1500	ADDITIONAL BENEFITS	ACCREDITED RENEWABLE ENERGY[3]
SOUTH AUSTRALIA (AGL ENERGY)				
Regulated price			—	N
AGL Energy	7		Joining bonus	Y (10%)
Momentum Energy	1		Prompt payment discount	Y (10%)
Origin Energy	7		Joining bonus; loyalty bonus	Y (20%; 100%)
Red Energy	3		Prompt payment discount	N
Simply Energy	11		Direct debit rebate	Y (10%)
South Australia Electricity	3		Prize draws	Y (10%; 100%)
TRUenergy	3		Prompt payment discount	Y (10%)
QUEENSLAND (ORIGIN ENERGY)				
Regulated price			—	N
AGL Energy	2		Joining bonus	Y (10%)
Australian Power & Gas	5		Joining bonus; prompt payment discount	Y (10%; 50%; 100%)
EnergyAustralia	3		Joining bonus; direct debit rebate	Y (10%; 100%)
Integral Energy	2		—	Y (10%)
Jackgreen	4		—	Y (10%; 25%; 50%; 100%)
Origin Energy	4		Joining bonus; loyalty bonus	Y (20%)
Powerdirect	1		Direct debit rebate	N
Queensland Electricity	3		Prize draws; prompt payment discount	Y (10%; 100%)
TRUenergy	3		Prompt payment discount	Y (10%)
VICTORIA (AGL VICTORIA)				
Regulated price			—	N
AGL Energy	2		Joining bonus	N
Country Energy	1		Joining bonus	N
Simply Energy	2		Loyalty bonus	Y (10%)
Jackgreen	3		—	Y (10%; 25%; 50%; 100%)
Momentum Energy	1		Joining bonus	N
Origin Energy	1		—	N
Red Energy	1		Prompt payment discount	N
TRUenergy	1		Prompt payment discount	N
Victoria Electricity	1		Prompt payment discount	N
Powerdirect	1		—	N
VICTORIA (ORIGIN POWERCOR)				
Regulated price			—	N
AGL Energy	2		Joining bonus	Y (10%)
Country Energy	1		Joining bonus	N
Simply Energy	2		Loyalty bonus	Y (10%)
Jackgreen	1		Prompt payment discount	Y (10%)
Momentum Energy	1		—	N
Origin Energy	2		Joining bonus	Y (20%)
Red Energy	1		Prompt payment discount	N
TRUenergy	2		Prompt payment discount	Y (10%)
Victoria Electricity	1		Prompt payment discount	N
Powerdirect	1		—	N
VICTORIA (TRUENERGY)				
Regulated price			—	N
AGL Energy	1		—	N
Country Energy	1		Joining bonus	N
Simply Energy	2		Loyalty bonus	Y (10%)
Jackgreen	1		Prompt payment discount	Y (10%)
Momentum Energy	1		—	N
Origin Energy	2		Joining bonus	Y (20%)
Red Energy	1		Prompt payment discount	N
TRUenergy	1		Prompt payment discount	N
Victoria Electricity	1		Prompt payment discount	N
Powerdirect	1		Loyalty bonus	N

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, joining bonuses and loyalty bonuses.
3. Percentages represent the proportion of electricity sourced from accredited renewable generation.

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

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. Victorian retailers are required to publish product information statements on their websites. Additionally, the Queensland and South Australian regulators and a number of private businesses operate websites that allow customers to compare their current electricity and gas retail contracts with available market offers. Box 6.2 provides case study material on the diversity of price and product offerings to small customers in South Australia, Victoria and Queensland.

Note that the price offers set out in box 6.2 are not directly comparable between jurisdictions. The offers relate to different periods and product structures in each jurisdiction, and rely on different measurement techniques. Nor should the data be taken as indicative of actual price outcomes. Section 6.4.2 of this report also considers data on retail price outcomes.

6.3.2 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 is sometimes high during the early stages of market development, when customers are first able to exercise choice. Switching rates sometimes 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.

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, for South Australia from October 2006 and for Queensland from July 2007.

The data indicate gross or cumulative switching rates and cover 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, and switches from one new entrant to another (see table 6.6 and figure 6.6). The data do not include 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 as it does not account for the efforts of host retailers to retain market share.

Figure 6.6 illustrates that switching activity continued strongly in Victoria and South Australia throughout 2007–08. Rapid switching growth has been observed in Queensland since the commencement of FRC in July 2007. New South Wales continues to have a switching rate that is about half that of the other states.

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. South Australia and Queensland periodically publish this data, while New South Wales and the ACT publish it on an irregular basis. In Victoria, the AEMC reported on customer switching to market contracts as part of its 2007 review of the effectiveness of retail competition.

Table 6.7 summarises the available data on switches to market contracts. The data are not directly comparable between jurisdictions because of differences in data collection methods and in the periods covered.

Table 6.6 Small customers switching retailers, 2008

INDICATOR	NEW SOUTH WALES	VICTORIA	SOUTH AUSTRALIA	QUEENSLAND
Percentage of small customers that changed retailer during 2007-08	10%	23%	18%	20%
Customer switches as a percentage of the small customer base from start of FRC to June 2008 (cumulative)	44%	105%	86%	20%

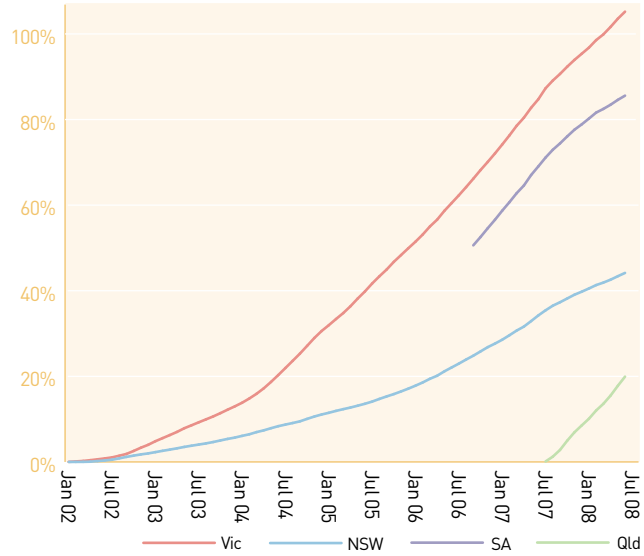
FRC, full retail contestability

Notes:

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 as of 30 June 2008.
3. The data may overstate the extent of customer switching due to some retailers transferring customers between different participant codes owned by the same retailer.

Sources: Customer switches: NEMMCO, MSATS transfer data to June 2008; Customer numbers: New South Wales: IPART, *NSW electricity information paper no 1–2008—Electricity retail businesses' performance against customer service indicators*, January 2008; South Australia: ESCOSA, *2006–07 Annual performance report: performance of South Australian energy retail market*, November 2007; Victoria: ESC, *Energy retail businesses comparative performance report for the 2006–07 financial year*, December 2007; Queensland: QCA, *Market and non-market customers as at 31 March 2008*, June 2008

Figure 6.6
Cumulative monthly customer switching of retailers as a percentage of small customers, January 2002 to June 2008



Notes:

1. In November 2006, the South Australian regulator (ESOCSA) determined (in its *2005–06 Annual performance report: performance of the South Australian energy retail market*) that the electricity retail market had matured to the extent that it was appropriate for NEMMCO to publish customer transfer data comparable to that published in Victoria and NSW. There are no comparable public data for South Australia prior to June 2006.
2. The New South Wales data exclude switches in the ACT.
3. The data may overstate the extent of customer switching due to some retailers transferring customers between different participants codes owned by the same retailer.

Sources: Customer switches: NEMMCO, MSATS transfer data to June 2008; Customer numbers: New South Wales: IPART, *NSW electricity information paper no 1–2008—Electricity retail businesses' performance against customer service indicators*, January 2008; South Australia: ESCOSA, *2006–07 Annual performance report: performance of South Australian energy retail market*, November 2007; Victoria: ESC, *Energy retail businesses comparative performance report for the 2006–07 financial year*, December 2007; Queensland: QCA, *Market and non-market customers as at 31 March 2007*, available at http://www.qca.org.au.

Table 6.7 Small customer transfers to market contracts

JURISDICTION	DATE	SMALL CUSTOMER ON MARKET CONTRACTS (% OF SMALL CUSTOMER BASE)
New South Wales	30 June 2006	42% of small customers in the EnergyAustralia supply area 29% of small customers in the Integral Energy supply area 5% of small customers in the Country Energy supply area
Victoria	31 December 2006	62% of residential customers 43% of small business customers
Queensland	31 March 2008	12% of all small customers
South Australia	30 June 2007	65% of residential customers (22% with the host retailer and 43% with new entrants) 38% of small business customers (5% with the host retailer and 33% with new entrants) 61% of residential and small business customers (averaged)
ACT	30 June 2007	27% of all small customers (17% with the host retailer and 10% with new entrants)

Sources: New South Wales: IPART, *Regulated electricity tariffs and charges for customers 2007–10—Electricity final report and final determination*, June 2007, p. 29; Victoria: AEMC, *Review of the effectiveness of competition in electricity and gas retail markets in Victoria*, First Final Report, 19 December 2007, p. 89; Queensland: QCA, *Market and non-market customers as of 31 March 2008*; ACT: ICRC, *Annual report 2006–07*, pp. 14–15; South Australia: ESCOSA, *2006–07 Annual performance report: Performance of South Australian energy retail market*, November 2007, pp. iii, 21–22.

Box 6.3 The Utility Customer Switching Research Project assessment of Australian retail markets

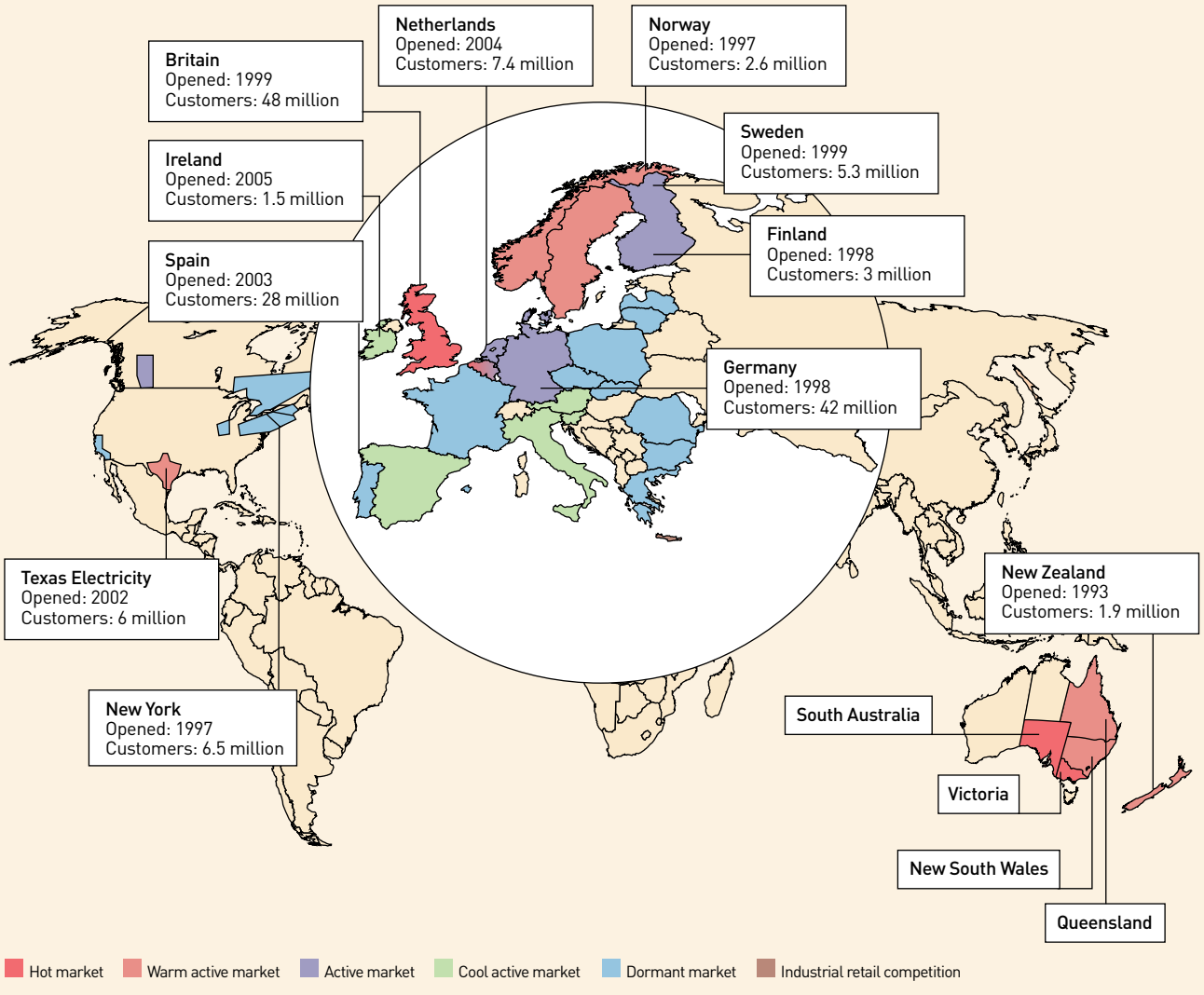
In its 2008 energy market switching report, VaasaETT noted that Australia retains its position as the most active region in the world (figure 6.7). Victoria topped the ranking, having experienced the highest level of switching ever recorded for any market. South Australia had the second highest switching levels despite the rate dropping off substantially from the middle of 2007.

The report stated that rising electricity retail prices throughout 2007–2008—resulting from drought and increased gas-fired electricity generation pushing up wholesale energy costs—contributed to the ongoing high levels of customer switching, especially in Victoria where regulated retail prices rose to the greatest extent.

In its first year of full retail contestability, Queensland was one of the most active electricity markets. New South Wales was also considered as an active market despite being described as Australia's least active market. The report states that differences betweenstates may be due to differing levels of price capping, state involvement and competitiveness within the respective markets.

Figure 6.7

Status of energy retail markets—June 2007



Source: VaasaETT Utility Customer Switching Research Project, *World retail energy market rankings*, October 2008.

The data indicate that in addition to customer movement between retailers, a significant number of small customers in several jurisdictions are choosing to move away from standing offer contracts but remain with their host retailer. South Australia and Victoria have reported relatively high rates of customer switching to market contracts compared to the other states. The relatively low rate of movement to market contracts in Queensland reflects that the state only recently introduced FRC. In New South Wales, the Independent Pricing and Regulatory Tribunal (IPART) has noted significant differences in the rate of switching to market contracts between host retail areas. For example, the switching rate of 42 per cent in EnergyAustralia supply areas compares with only 5 per cent in Country Energy areas. IPART considered this to indicate significant differences in competitive activity between metropolitan and non-metropolitan areas.[33]

International comparisons

The VaasaETT Utility Customer Switching Research Project published its fourth report on customer switching in world energy markets in 2008. The report classified competition on a scale ranging from 'hot' to 'dormant' (see box 6.3 and figure 6.7).

6.3.3 Customer perceptions of competition

Surveys on customer perceptions of retail competition are undertaken irregularly within jurisdictions. Recent surveys include:

- surveys as part of the AEMC's review of the effectiveness of retail competition in Victoria (2007) and South Australia (2008)
- 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 (2006).

Issues covered by the surveys include:

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

Table 6.8 provides a summary of survey data on customer perceptions of retail competition. The surveys suggest that customer awareness of retail choice has risen over time. While it remains unusual for customers to approach retailers, there has been a steady rise in retailer approaches to customers.

Table 6.8 **Residential customer perceptions of competition**

	SOUTH AUSTRALIA				VICTORIA			NEW SOUTH WALES	
INDICATOR	2003	2004	2006	2008	2002	2004	2007	2003	2006
Customers aware of choice	62%	79%	79%	82%	n/a	90%	94%	74%	92%
Customers receiving at least one retail offer	5%	44%	52%	68%	17%	33%	73%	27%[1]	53%[1]
Customers approaching retailers about taking out market contracts	3%	10%	8%	10%	3%	8%	10%	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, 44 per cent of households in New South Wales 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.

33 IPART, *Regulated electricity tariffs and charges for customers 2007 to 2010—Electricity final report and final determination*, June 2007, p. 29.

6.4 Retail prices

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 are not widely available. Figure 6.8 provides indicative data for residential customers in New South Wales and Queensland 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 13 per cent of retail prices in New South Wales and 10 per cent in Queensland.

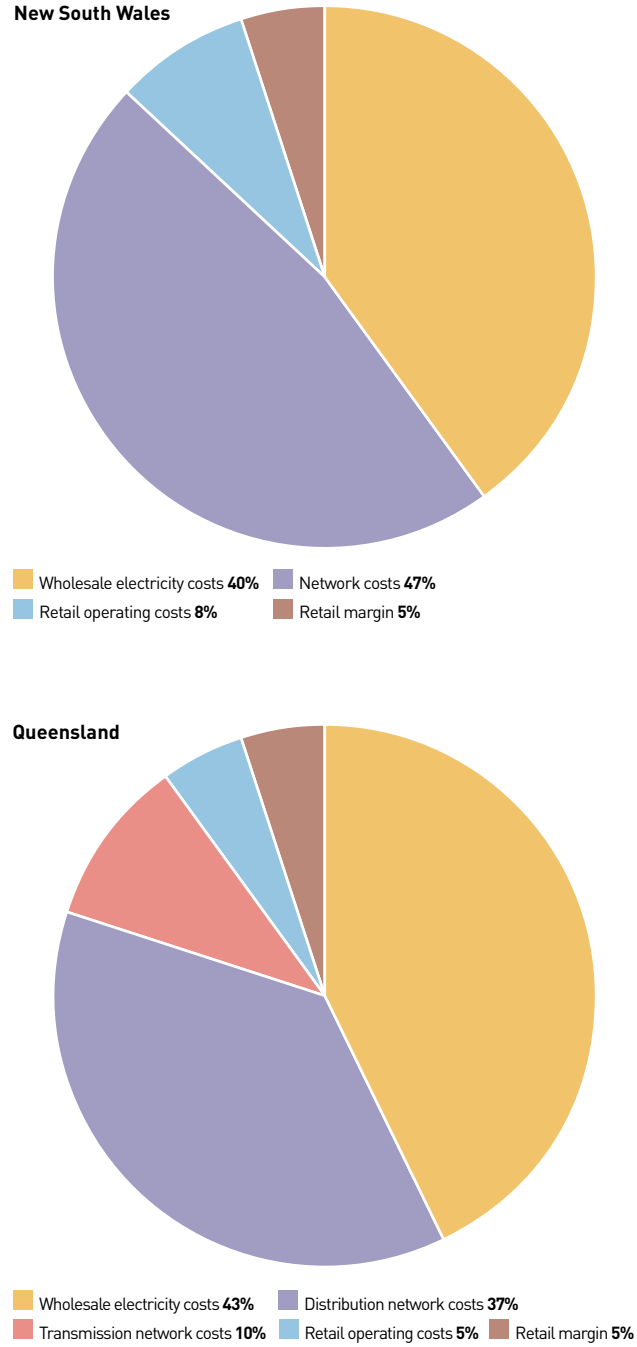
6.4.1 Regulation of retail prices

As at July 2008 all jurisdictions continue to apply retail price regulation to protect small customers. Typically, host retailers must offer to sell electricity at default prices based on some form of regulated price cap or oversight. Small customers may request a standing offer contract—with default prices—from the host retailer or choose an unregulated market contract from a licensed retailer.

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 (and the Economic Regulation Authority in Western Australia) 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 setting default tariffs, jurisdictions take into consideration energy purchase costs, network charges, retailer operating costs and a retail margin. The approach varies between jurisdictions.

Figure 6.8
Composition of a residential electricity bill



Sources: New South Wales: IPART, *Regulated electricity tariffs and charges for customers 2007 to 2010—Electricity final report and final determination*, June 2007, p. 2; Queensland: QCA, *Final Decision—Benchmark Retail Cost Index for Electricity: 2008–09*, May 2008.

- The New South Wales regulator, IPART, sets a retail price cap for small customers that do not enter a market contract. IPART noted in its review of retail prices for 2007–10 that the New South Wales Government aimed to reduce customer reliance on regulated prices and had directed IPART to ensure that regulated tariffs are cost reflective by June 2010.[34]
- 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 price arrangements ceased to apply to small businesses from 1 January 2008, and will cease for residential users from 1 January 2009.
- The South Australian regulator, ESCOSA, regulates default prices for small customers. In 2007 ESCOSA made a determination on default prices for 3.5 years commencing on 1 January 2008.
- In Queensland, the government bases annual adjustments in regulated price caps on changes in benchmark costs. In March 2007, the government delegated the calculation of benchmark costs to the QCA.
- When requested by the ACT Government, the ACT regulator (the Independent Competition and Regulatory Commission) determines the maximum prices for small customers on a standing offer contract. The regulator makes annual adjustments to the regulated tariff to reflect changes in benchmark costs.
- In Western Australia, electricity retail prices for non-contestable customers are regulated under statutory requirements and the prices for these customers are set out in by-laws. All non-contestable customers are entitled to a uniform price regardless of their geographic location. Regional customers are subsidised by the Tariff Equalisation Fund, which is administered by the Office of Energy.[35]

Table 6.9 in section 6.4.3 refers to recent retail price determinations.

6.4.2 Retail price outcomes

While retail price outcomes are of critical interest to consumers, the interpretation of retail price movements is not straightforward. 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.

Particular care should be taken when 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—especially in the early stages of competition—as in the following examples.

- Energy retail prices for some residential customers were historically 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 have been too low to attract competitive new entrants. It may sometimes be necessary for retail prices to rise to create sufficient 'headroom' for new entry.

Sources of price data

There is little systematic publication of the actual prices paid by electricity retail customers. The Energy Supply Association of Australia (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.

34 IPART, *Regulated electricity tariffs and charges for customers 2007–2010—Electricity final report and final determination*, June 2007, p. 2.
35 Office of Energy, *Electricity Retail market review—Issues paper*, December 2007, p. 7.

- The Victorian and South Australian regulators (ESC and ESCOSA) publish annual data on regulated and market prices.
- ESCOSA, QCA and ESC websites provide an estimator service that consumers can use to compare the price offerings of different retailers (see box 6.2).

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 household and business electricity prices.[36] 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 6.9 tracks real electricity price movements for households and business customers. There is some volatility in the data for business customers, reflecting that large energy consumers are exposed to price volatility in the wholesale and contract markets for electricity (see chapters 2 and 3). In most jurisdictions, residential prices are at least partly shielded from volatility by price cap regulation and retailers' hedging arrangements.

Since 1991, real household prices have risen by 7 per cent, while business prices have fallen by 21 per cent (figure 6.10). In part, this reflects the unwinding of cross-subsidies from business to household customers that began in the 1990s. While business prices have fallen substantially since 1991, they rose in 2007 due to rising wholesale electricity costs (see section 6.4.3).

It is possible to estimate retail price outcomes for households by extrapolating from the historic ESAA data, using the CPI. Figure 6.11 estimates real electricity prices for households in Sydney, Melbourne, Adelaide, Brisbane, Hobart, Canberra and Perth since 1 July 1996. Price variations between the cities 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.

From 2001 to 2007, real electricity prices in Melbourne and Perth trended downwards. Sydney and Canberra prices trended upwards but remain low compared with the other capitals. In Brisbane (where small customer prices remained fully regulated until 2007) and Hobart (where small customer prices are still fully regulated), real prices have remained relatively stable since 2001. Price rebalancing to phase out cross-subsidies caused significant price rises in Melbourne and Adelaide early in the current decade.

6.4.3 Update: Retail price trends in 2007–08

Several jurisdictions announced significant increases in regulated default prices in 2007 and 2008 in response to rising wholesale energy and hedging costs. In particular, wholesale prices in the NEM reached record levels, flowing through to higher contract prices for electricity derivatives. These developments raised concerns about possible effects on retailer profitability and retail prices.

Differences in the level of default price increases 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. The degree of retailer exposure to wholesale costs depends on a variety of factors, including the nature and shape of a retailer's load, the extent of hedging in financial markets to provide protection against price volatility and the strike price of financial contracts. Some retailers have vertical relationships with generators to cushion the impact of volatile wholesale costs.

There were also differences in price levels prior to the current determinations. In addition, jurisdictions adopt different approaches to determining costs and margins. For example, 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. IPART reviewed this position in its 2007–10 determination in light of the proposed phasing out of ETEF.

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

Figure 6.9
Retail electricity price index (inflation adjusted)—Australian capital cities, June 1991 to March 2008

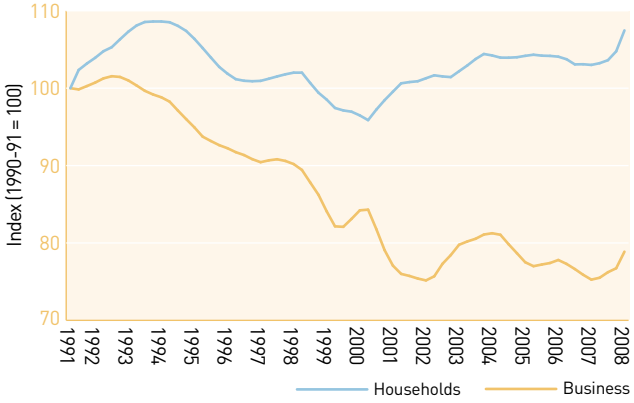
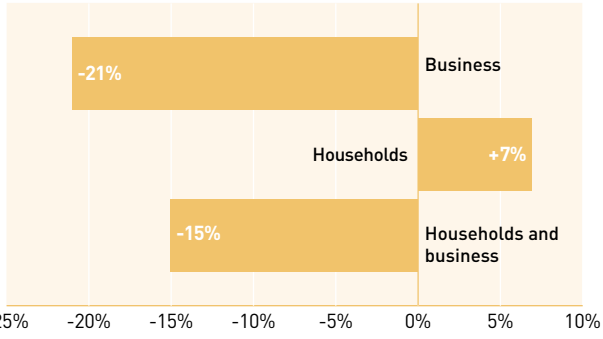


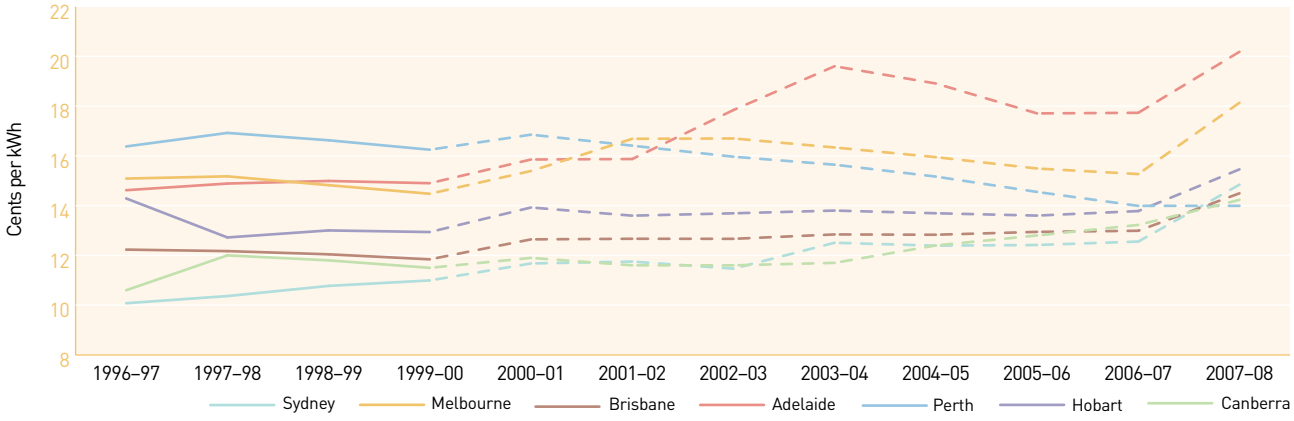
Figure 6.10
Change in the real price of electricity—Australia, June 1991 to March 2008



Note: The household index is based on the CPI 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.

Sources for figure 6.9 and figure 6.10: ABS, *Consumer Price Index*, March quarter 2008, cat. no. 6401.0 and 6427.0.

Figure 6.11
Real electricity prices for households—Australian capital cities, July 1996 to March 2008



KWh, kilowatt hours.

Note:
1. The dashed lines are estimates based on extrapolating ESAA data published in 2004 using the CPI series for electricity and other household fuels for each capital city.
2. 2007–08 is the three quarters to March 2008.

Sources: ABS, *Consumer Price Index*, March quarter 2008, cat no. 6401; ESAA, *Electricity prices in Australia 2003–04*, 2003.

Table 6.9 compares recent movements in regulated default prices and retail margins under regulatory or government decisions. The decisions relate to the supply of electricity by host retailers to customers on standing offer contracts. As noted, several jurisdictions have allowed significant increases in default prices. Some have also taken measures to allow further revisions to default price paths in the event of ongoing volatility in the wholesale market.

Victoria cited the effect of the drought on the cost of generating electricity as the primary reason for substantial increases in default prices. The Department of Primary Industries noted that the drought reduced the output of hydroelectric plants in favour of more

Table 6.9 **Recent regulatory decisions—electricity retail prices**

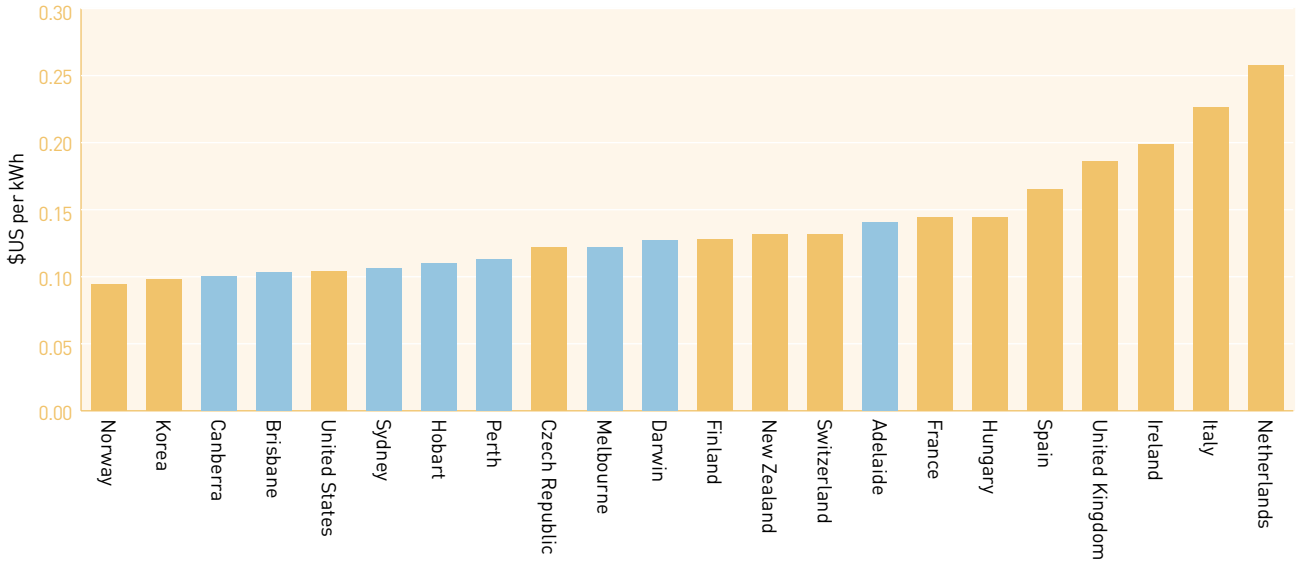
JURISDICTION	CURRENT PERIOD	RETAILERS	INCREASE IN REGULATED TARIFF	PASS-THROUGH MECHANISM FOR WHOLESALE ENERGY COSTS	RETAIL MARGIN
New South Wales	1 July 2007 to 30 June 2010	EnergyAustralia Integral Energy Country Energy	CPI + 4.1% CPI + 4.9% CPI + 3.7% (annual adjustments)	Annual review of electricity purchase costs. The retail price path will be adjusted if the review finds that forecast electricity purchase costs differ by more than 10% from the costs used to set the price path.	5% of EBITDA
Victoria	1 January 2008 to 31 December 2008	AGL Energy Origin Energy TRUenergy	CPI + 10.7% CPI + 10.9% CPI + 15.5%	Annual price determination. No adjustments permitted.	5–8% of total revenue
Queensland	1 July 2008 to 30 June 2009	All licenced retailers	5.4%	Prices are adjusted annually in accordance with a benchmark retail cost index.	5% of total revenue
South Australia	1 January 2008 to 30 June 2011	AGL Energy	12.3% in 1 Jan 08 to 30 Jun 08; and then CPI—only increase to Jul 2011	No provision to adjust price path due to changes in electricity purchase costs. However, the price determination can be reopened in circumstances where a fundamental basis of the price determination has been undermined.	10% of controllable costs (equivalent to about 5% of sales revenue)
Tasmania	1 January 2008 to 30 June 2010	Aurora Energy	16.0% in 1 Jan 08 to 30 Jun 08; 4.0% in 2008–09; and 3.8% in 2009–10	No provision to adjust price path due to changes in electricity purchase costs as the average price the regulator is to assume for each period is set out in regulations. The regulator also has limited discretion to reopen a price determination in the event of an unforeseen material change in circumstances.	3% of sales revenue
ACT	1 July 2008 to 30 June 2009	ActewAGL Retail	7.11%	Annual price determination. No adjustments permitted.	5% of sales revenue
Western Australia	1 July 2009	Synergy Horizon Power	10.0%	Government decision to be implemented through by-laws. Further price rises will be phased in over 6 to 8 years (after 30 June 2010).	n/a

n/a, not available; EBITDA, earnings before interest, tax, depreciation and amortisation; EBIT, earnings before interest and tax.

Note: Frontier Economics estimates that a 5 per cent EBITDA is equivalent to around 4 per cent on an EBIT basis.

Sources: Frontier Economics, *Mass market entrant retail costs and retail margins,* Final report, March 2007, p. 68; New South Wales: IPART, *Regulated electricity retail tariffs and charges for small customers 2007 to 2010 Electricity: Final report and final determination*, June 2007; Victoria: Department of Primary Industries, *Victorian Energy Prices Fact Sheet*, November 2007; Queensland: QCA, *Final decision: benchmark retail cost index for electricity 2008–09*, May 2008; South Australia: ESCOSA, *2007 Review of retail electricity price path final inquiry report and price determination*, November 2007; Tasmania: OTTER, *Investigation of prices for electricity distribution services and retail tariffs on mainland Tasmania: Final report and proposed maximum prices*, September 2007; ACT: ICRC, *Final decision and price direction retail prices for non-contestable electricity customers report 4 of 2008*, June 2008; Western Australia: *Energy Operators (Regional Power Corporation) (charges) By-laws 2006* (WA); Premier (WA) (Hon. Alan Carpenter), *State government to phase in electricity price increases*, media statement, 4 April 2007.

Figure 6.12
International electricity prices for households, 2006



kWh, kilowatt hours.

Note: Price data for Australia are AER estimates converted to US$. The data for each jurisdiction is for 2006 and is estimated by extrapolating the ESAA data published in 2004 using the CPI series for electricity and other household fuels for each capital city.

Sources: IEA, *Electricity information 2007*, table 3.7, Electricity prices for households in US dollars/kWh; ATO, Foreign exchange rates, End of financial year rates, US rate for 31 December 2006; ESAA, *Electricity prices in Australia 2003–04*, 2003; ABS, *Consumer price index*, cat. no. 6401.0, tables 3 and 4.

expensive gas-fired generation and that the increase in regulated electricity tariffs is an accurate reflection of increased costs incurred by retailers.[37] Similarly, the ACT has identified the lack of availability of hydroelectric power from the Snowy region and the lack of water for cooling base load generators in Queensland as driving factors behind the need to increase regulated retail tariffs by 16.7 per cent in 2007–08.[38]

In Western Australia, the Office of Energy is reviewing the electricity retail market in 2008. The Office of Energy noted in April 2008 that residential prices have not increased since June 1997 and that by June 2009 this will represent a real price reduction of about 30 per cent.[39] It also recommended that prices would need to increase by 47 per cent in 2009–10 and 15 per cent the following year to achieve cost reflective outcomes.[40] The Western Australian Government rejected the draft recommendation and announced that residential prices will increase by 10 per cent in 2009–10, with further increases to be phased in over the following 6–8 years.[41]

6.4.4 International price comparisons

Figure 6.12 compares estimated residential electricity prices in Australian capital cities with prices in selected Organisation for Economic Cooperation and Development (OECD) countries. The data indicate that average electricity prices in Australian capital cities are generally lower than in many OECD countries.

37 Minister for Energy and Resources (Victoria) (Hon Peter Batchelor), *Drought impact on power prices*, media statement, 30 November 2007; Department of Primary Industries, *Energy retail price adjustments* 2008, November 2007.

38 ICRC, *Final decision increases retail electricity tariff*, media statement, 15 June 2007.

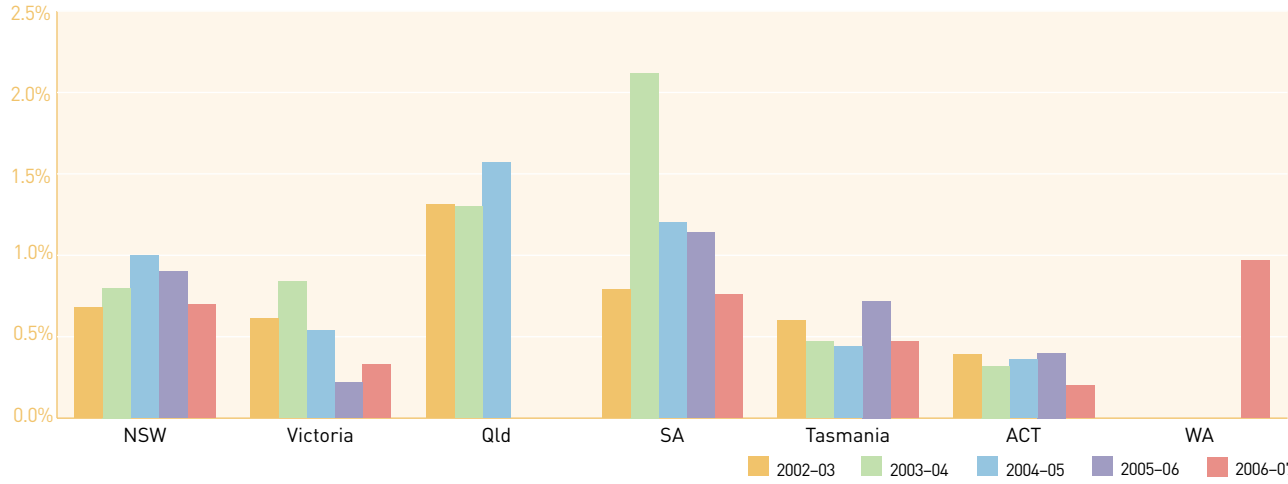
39 Office of Energy, *Electricity Market Review draft recommendations report—Review of electricity tariff arrangements*, April 2008, p. 7.

40 Office of Energy, *Electricity Market Review draft recommendations report—Review of electricity tariff arrangements*, April 2008, p. 3.

41 Premier (WA) (Hon Alan Carpenter), *State government to phase in electricity price increases*, media statement, 4 April 2007.

Figure 6.13

Electricity residential disconnections as a percentage of small customer base



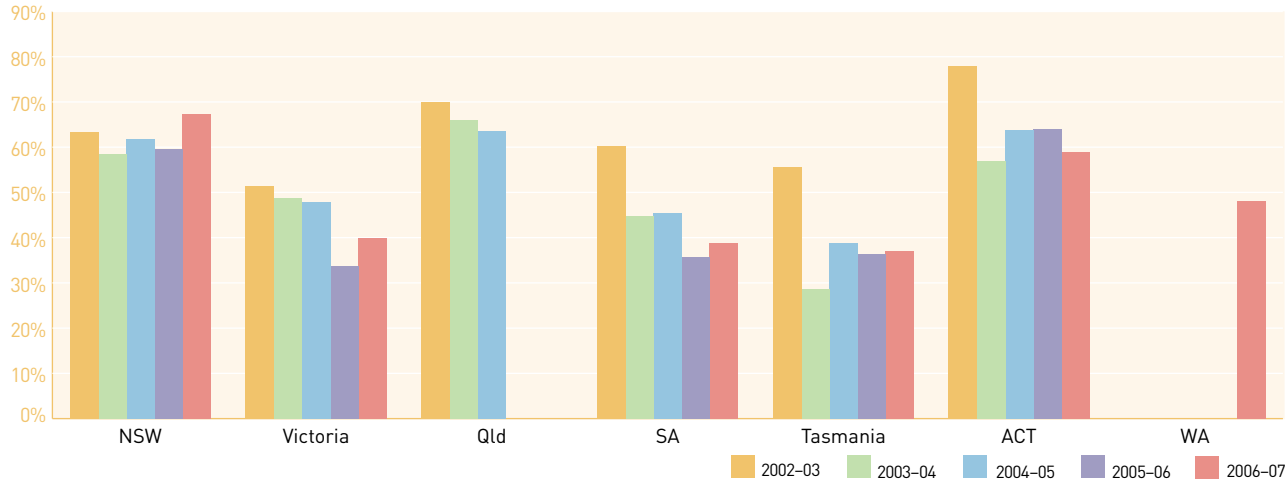
Notes:

1. Figure relates to outcomes for residential customers on a state-wide basis. State regulators also publish outcomes for particular retailers and for business customers in their jurisdiction.
2. Queensland data are only available to 2004–05. Western Australian data are available only for 2006–07.

Source: see figure 6.16.

Figure 6.14

Electricity residential reconnections within seven days as a percentage of disconnected customers



Notes:

1. New South Wales includes all reconnections (not just within seven days of disconnection)
2. Queensland data is only available to 2004–05. Western Australian data is available only for 2006–07.

Source: see figure 6.16.

For example, average prices in the United Kingdom, Italy, Spain and France are higher than in Australian capital cities. However, prices in most Australian capital cities are higher than average prices in the United States.

6.5 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'.[42] The Utility Regulators Forum (URF) developed a national framework in 2002 for electricity retailers to report against common criteria on service performance.[43] The criteria address:

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

The URF measures apply to the small customer retail market.[44] All NEM jurisdictions have adopted the URF reporting template but each jurisdiction applies its own implementation framework. In addition, jurisdictions have their own monitoring and reporting requirements. This results in some differences in approach.

URF data published by jurisdictional regulators are derived from the reporting of individual retailers. The regulators consolidate and publish the data annually. 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.

6.5.1 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.

Retailers provide options to help customers manage their bill payments. The URF reporting template covers a number of affordability indicators, including rates of customer disconnections and reconnections.

The rate of residential customer disconnections for failure to meet bill payments (figure 6.13) and the rate of disconnected residential customers who are reconnected within seven days (figure 6.14) are key affordability and access indicators. The rate of disconnections fell in all jurisdictions other than Victoria in 2006–07, and rates are below 2002–03 levels in all jurisdictions except New South Wales and Queensland. A range of factors, varying between jurisdictions, may have contributed to these outcomes. For example, recently introduced hardship policies and the recommendations of the newly established disconnection working group in New South Wales may have contributed to the reduction in the disconnection rate of 0.2 per cent in that state since 2005–06.[45] Also, the decrease in disconnection rates in South Australia may have been assisted by an increase in the use of instalment plans.[46] More generally, the data should be considered in conjunction with reconnection data (figure 6.14).

42 See, for example, ESC, *Energy retail businesses, comparative performance report for the 2006–07 financial year*, December 2007.
43 Utility Regulators Forum, *National regulatory reporting for electricity distribution and retailing businesses*, Discussion paper, March 2002.
44 See footnote 2 for jurisdictional classifications of 'small customers'.
45 IPART, *Electricity retail businesses' performance against customer service indicators 2002–2007*, 2008.
46 ESCOSA, *2006–07 Annual performance report: performance of South Australian energy retail market*, November 2007.

The rate at which disconnected residential customers are reconnected within seven days (figure 6.14) increased in most jurisdictions in 2006–07, although rates are below 2002–03 levels in all jurisdictions except New South Wales. When considered in conjunction with falling disconnection rates, the data indicate that retailers may have improved their customer management services by reducing the rate of avoidable disconnections—perhaps through better use of payment plans, as in South Australia, and through other account management options.[47]

6.5.2 Customer service indicators

There are a range of methods by which customers can seek to resolve service issues with energy retailers. In the first instance, customers can raise complaints directly with their retailer through the retailer's dispute resolution procedure. If further action is needed, they can refer complaints to their state energy ombudsman or an alternative dispute resolution body. Additionally, retail competition allows customers to transfer away from a business providing poor service.

URF monitoring in this area includes:

- 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.

In 2006–07, the rate of customer complaints fell slightly from the previous year in New South Wales, Tasmania and South Australia. While the rate rose in Victoria, complaints remain below 1 per cent of customers in all jurisdictions (see figure 6.15). Western Australia recorded a relatively low complaints rate for its first year of published data (2006–07).

Call centre performance varied across the jurisdictions in 2006–07 (see figure 6.16), when the percentage of customer calls answered within 30 seconds ranged from about 65 to 82 per cent. Tasmania and South Australia have recorded consistently high call centre performance results. In New South Wales and Victoria, the rate in 2006–07 was lower than the previous year, but remained higher than in 2003–04. The ACT has improved its call centre performance from 64 per cent in 2002–03 to 77 per cent in 2007–08.

6.5.3 Consumer protection

Governments regulate aspects of the electricity retail market to protect consumers and ensure they have access to sufficient information to make informed decisions. Most jurisdictions require designated host retailers to provide electricity services under a standing offer or default contract to particular customers. Most jurisdictions impose this obligation on retailers on a geographical basis. Queensland, however, requires default contracts to be offered by the financially responsible market participant—generally the current retailer—for each property. Obligations for new connections are imposed on a geographical basis.[48]

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 (see section 6.4.1).

Some jurisdictions have established industry codes that govern the provision of electricity retail services to small customers, including under market contracts. Industry codes cover 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 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 retailer to another.

47 ESCOSA, *2006–07 Annual performance report: performance of South Australian energy retail market*, November 2007.

48 The AEMC, in its review of the effectiveness of the Victorian energy retail market, recommended Victoria move to a financially responsible market participant model.

Figure 6.15

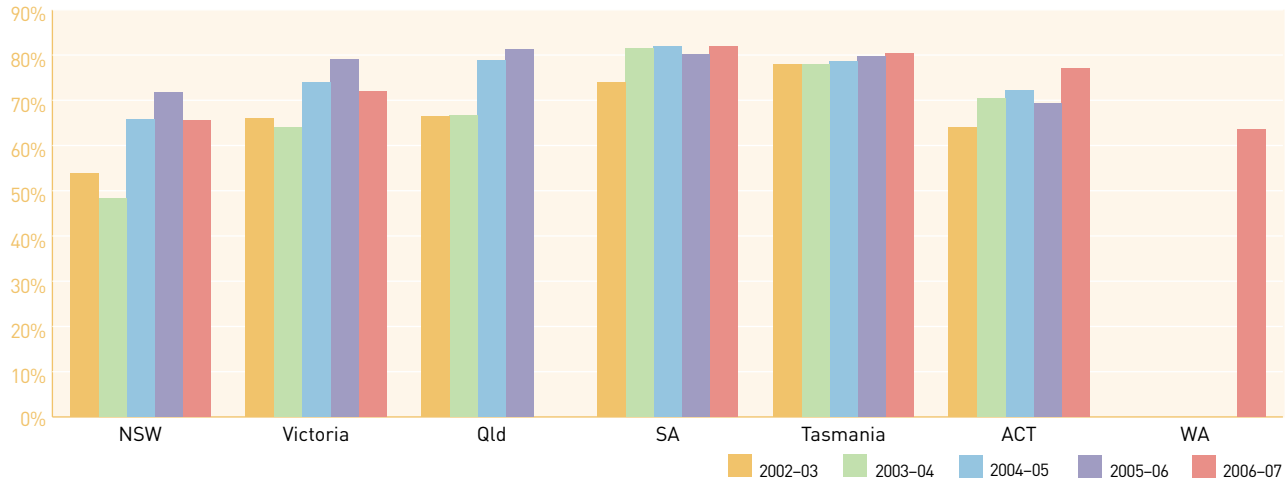
Electricity retail customer complaints as a percentage of total customers

Note: Queensland data are only available to 2004–05. Western Australian data are available only for 2006–07.

Source: see figure 6.16.

Figure 6.16

Percentage of electricity retail customer calls answered within 30 seconds



Notes:

1. South Australian data for 2005–06 and 2006–07 include electricity and gas customers. Call response rates in Tasmania are for calls answered within 20 seconds.
2. Queensland data are only available to 2004–05. Western Australian data are available only for 2006–07.

Sources for figures 6.13–6.16: Reporting against URF templates and performance reports on the retail sector by IPART (New South Wales), ESC (Victoria), ESCOSA (South Australia), OTTER (Tasmania), QCA and the Department of Mines and Energy (Queensland) and ICRC (Australian Capital Territory); ERA, *2006–07 Annual performance report electricity retailers*, January 2008 (Western Australia). The 2005–06 and 2006–07 data for the ACT are preliminary data provided by the ICRC.

States and territories also provide 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 their budgets rather than using cross-subsidises.

In April 2008, the Productivity Commission recommended establishing a national consumer protection regime for energy services and a single set of consumer protection requirements in all NEM jurisdictions.[49] The commission also recommended a more consistent approach to complaint-handling and reporting processes by jurisdictional energy ombudsmen and, ultimately, the establishment of a national energy ombudsman.[50]

6.6 Demand management and energy efficiency

Energy efficiency and demand management measures are an important feature of an effective energy market. Demand management relates to strategies that address growth in demand (especially peak demand) for electricity. Energy efficiency refers to products or strategies that use less energy for the same or higher performance than an existing system or product. While energy efficiency and demand management measures can improve the efficiency of energy use, there are wider benefits. For example, the measures can help 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. A number of measures to improve energy efficiency are currently being implemented through the retail sector, as set out in the following text. Some demand management programs operate via the distribution network sector (see section 6.6.3).

6.6.1 National framework for energy efficiency

The National Framework for Energy Efficiency was launched in 2004 to better utilise energy efficient technologies to lower greenhouse gas emissions and deliver other benefits from reduced energy use. The framework is being implemented cooperatively by the Australian and state and territory governments.

Stage one of the framework focused on improved national coordination of existing energy efficiency measures. It focused on policies such as design standards for residential, commercial, industrial and government buildings; commercial and industrial efficiency; appliance and equipment efficiency; trade and professional training and accreditation; and consumer and finance sector awareness.

Stage two of the framework, agreed by the MCE in December 2007, covers schemes such as extending the Minimum Energy Performance Standards program and increasing the efficiency of heating, ventilation, air conditioning, lighting and hot water systems.[51]

6.6.2 Jurisdictional energy efficiency initiatives

Many state governments are implementing programs to promote energy efficiency:

- The Victorian Energy Efficiency Target Scheme, commencing in 2009, will set an overall target for energy savings (2.7 million tonnes annually for the first three years). The scheme will require energy retailers to meet individual targets through energy efficiency activities, such as providing householders with energy saving products and services.[52]

49 Productivity Commission, *Inquiry report: Review of Australia's consumer policy framework*, 30 April 2008, pp. 66–67.
50 Productivity Commission, *Inquiry report: Review of Australia's consumer policy framework*, 30 April 2008, p. 71.
51 MCE, *Communiqué*, 31 December 2007; The National Framework for Energy Efficiency, viewed June 2008, http://www.nfee.gov.au.
52 Victorian Department of Primary Industries, *Victorian Energy Efficiency Target Scheme fact sheet*.

- South Australian retailers will be subject to the Residential Energy Efficiency Scheme from January 2009. The scheme requires retailers to meet targets to improve household energy efficiency (for example, through the use of ceiling insulation, draught proofing and more efficient appliances) and provide energy audits to low income households. A consultation paper on the scheme was released in February 2008.[53]
- The New South Wales Energy Savings Fund is providing $200 million over five years for projects to save energy and reduce peak electricity demand. It also aims to stimulate investment in innovative measures and increase public awareness of the benefits of energy savings.

Similarly, the Queensland Sustainable Energy Innovation Fund provides grants to assist organisations with the development and commercialisation of sustainable technologies. In May 2008, Queensland also introduced the Smart Energy Savings Program. This program requires medium to large energy users to complete energy conservation audits and develop action plans to reduce their energy use. The program also includes a fund that encourages energy efficiency initiatives by encouraging investment in commercial energy saving projects.

6.6.3 Demand management

As noted, demand management relates to strategies to manage growth in demand (especially peak demand) for electricity. One strategy is to encourage customers to adjust their energy consumption in response to price signals. For example, a customer may be offered financial incentives to reduce consumption at times of high system demand.

While demand management schemes ultimately target retail customers, some measures are implemented via the network sector. In particular, some jurisdictions provide incentives to distribution businesses to undertake demand management projects:

- In New South Wales, network businesses are permitted to recover expenditure on approved demand management projects through their regulated prices.
- In South Australia, ETSA Utilities was provided with a $20 million allowance in its current determination to undertake pilot demand management initiatives—for example, load control for domestic equipment such as air conditioners and pool pumps; incentive payments to customers to reduce demand at peak times; and working with developers to encourage more sophisticated design of air conditioning and lighting control systems. Similar incentives are offered in Victoria.
- While there are currently no demand-management incentives for distribution businesses in the other NEM jurisdictions, Queensland distributors are undertaking a number of projects. For example ENERGEX is conducting a trial of the direct control of small customer air conditioner loads (known as 'Cool Change'). Under this trial, some small customers have permitted ENERGEX to connect a controlling device that cycles their air conditioner compressors on and off.

In November 2007, the AEMC published a proposal from the Total Environment Centre to amend the National Electricity Rules to improve the incentives offered to electricity network businesses to undertake demand management in preference to network expansion.[54] The AEMC is also reviewing demand management in the NEM to determine whether there are barriers to effective demand management, including in the regulation of electricity networks and network planning.[55]

In addition to the national and jurisdictional schemes, some large customers manage their demand by purchasing electricity only when it remains below a given price. Some retailers also manage demand by asking customers to load shed if the price reaches a predetermined level.

53 South Australian Department for Transport, *Energy and Infrastructure, Residential Energy Efficiency Scheme consultation paper*, February 2008.

54 AEMC, *Demand management*, viewed 11 June 2008, http://www.aemc.gov.au/electricity.php?r=20071115.124352.

55 Australian Energy Market Commission, *Review of demand side participation in the national electricity market*, viewed 11 June 2008, http://www.aemc.gov.au/electricity.php?r=20071025.174223.

6.6.4 Metering

Effective metering can encourage more active demand management by customers. Meters record the energy consumption of end-use customers at the point of connection to the distribution network. There are two main types of meters:

- The older-style '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 allows time-of-use billing so the charge for electricity can be varied with the time of consumption. Interval meters are generally used by industry.

To provide better signals to consumers and investors on consumption, price and energy use, plans are being considered at the national and state levels to introduce 'smart meters', an advanced type of interval meter. Smart meters have remote communication capabilities between retailers and users that allow for remote meter reading, connection and disconnection of customers. They also allow 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 smart meters is that, together with an appropriate price structure, they can help energy users self-manage their demand in response to price signals.

At June 2007, interval meters accounted for about 10 per cent of all meters in Australia. The rollout has varied among jurisdictions, with the greatest number of meters having been installed in New South Wales:

- In New South Wales, distribution businesses are rolling out interval meters for customers using more than 15 MWh of electricity a year. For smaller customers, interval meters are provided on a new and replacement basis.
- The Victorian Government has initiated a program to provide smart meters to all small customers over a four-year period from 2009.
- The Queensland Energy Competition Committee has recommended the rollout of interval meters on a new and replacement basis for small customers.
- Since 2005, the Independent Competition and Regulatory Commission (ACT) has required the installation of interval meters on a new and replacement basis and when requested by a customer.
- In Western Australia, all new meters installed must support time-of-use pricing.
- The South Australian and Tasmanian governments concluded that the rollout of interval meters to small customers is not currently justified.

In 2007, the Council of Australian Governments agreed to a national implementation strategy for the progressive rollout of smart meters where the benefits outweigh costs. A cost–benefit assessment published in March 2008 found that a national rollout would achieve a net benefit.[56] In June 2008, the MCE reviewed the cost-benefit analysis for the national smart meter rollout and estimated that a continued rollout in Victoria and New South Wales should result in more than 50 per cent of all Australian meters being replaced by 2017. It considered that other jurisdictions should progress pilot programs. The MCE will consider a timetable for any further rollout of smart meters by June 2012.[57]

56 NERA, *Cost Benefit Analysis of Smart Metering and Direct Load Control Overview Report for Consultation*, 29 February 2008, for Smart Meter Working Group, Phase 2.

57 MCE, *Communiqué*, 13 June 2008.

6.7 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) that NEM jurisdictions would transfer non-price regulatory functions to a national framework to be administered by the AEMC and the AER. These functions include:

- the obligation on retailers to supply small customers
- small customer market contracts and marketing
- retailer business authorisations, ring-fencing and retailer failure
- balancing, settlement, customer transfer and metering arrangements
- enforcement mechanisms and statutory objectives.[58]

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.

The legislative changes required to implement the national framework are scheduled for introduction to the South Australian parliament in September 2009.[59]

The Retail Policy Working Group is developing the framework for consideration by a standing committee of the MCE.

The reform process to June 2008 involved the release of a series of working papers (prepared by Allens Arthur Robinson on behalf of the MCE), discussions with a stakeholder reference group and consultation with interested parties.

The standing committee published a policy paper in June 2008. This will form the basis for the legislative package on the national framework.

The standing committee expects to release an initial exposure draft of the legislative package in late 2008, followed by a final exposure draft in May 2009.[60]

58 Australian Energy Market Agreement 2004 (amended 2006).

59 MCE, *Energy Market Reform Bulletin No. 114*, 13 February 2008.

60 MCE Standing Committee of Officials, *A national framework for regulating electricity and gas (energy) distribution and retail services to customers—Policy response paper*, June 2008, pp. 1–5.