



7

ELECTRICITY RETAIL



Bernd Vogel [Corbis]

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. Retailers deal directly with consumers, so 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 sell 'dual fuel' products that bundle electricity and gas services. While retailers provide a convenient aggregation service for electricity consumers, they do not directly provide network services.

7 ELECTRICITY RETAIL

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.

State and territory governments are currently responsible for the regulation of retail energy markets. Governments agreed in 2004, however, to transfer several non-price regulatory functions to a national framework that the Australian Energy Market Commission (AEMC) and the Australian Energy Regulator (AER) would administer. The Ministerial Council on Energy (MCE) has scheduled the regulatory package to be introduced to the South Australian parliament in 2010.¹

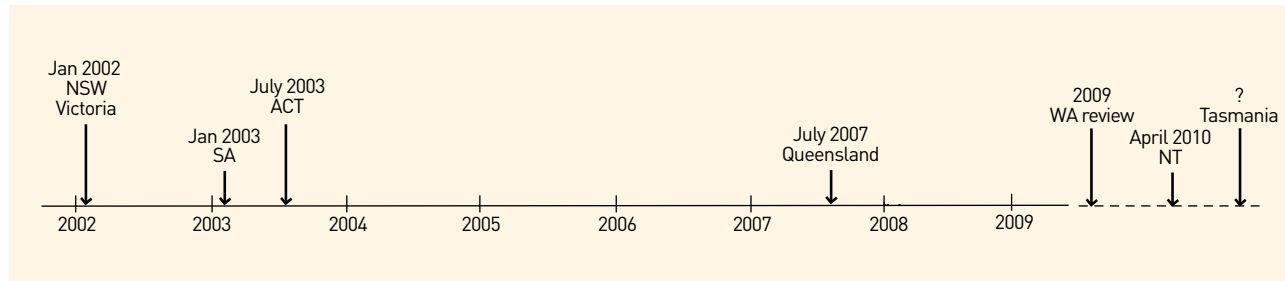
This chapter focuses on the retailing of electricity to small customers, including households and small business users.² Large customers such as major industrial users buy the greatest volume of electricity, but they are relatively few in number. While the chapter reports some data that may enable performance comparisons across retailers, such analysis should note that a variety of factors can affect relative performance.

1 Section 7.7 provides an update on the transition to a national regulatory framework.

2 In New South Wales, Victoria, South Australia and Western Australia, 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.

Figure 7.1

Introduction of full retail contestability



7.1 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. At 1 July 2009 New South Wales, Western Australia, Tasmania and the Northern Territory retained government ownership in the retail sector. The New South Wales Government in March 2009, however, affirmed its intention to privatise its energy retail businesses.³ Subject to market conditions, it expects to complete the sale process in the first half of 2010.⁴

Australian governments have also introduced retail contestability (customer choice) since the mid 1990s. Most governments have adopted a staged timetable to introduce customer choice, beginning with large industrial customers followed by small industrial customers and finally small business and domestic customers. Full retail contestability (FRC) is achieved when all customers are permitted to enter a supply contract with a retailer of their choice.

The introduction of contestability arrangements has varied across jurisdictions (figure 7.1):

- > New South Wales, Victoria, Queensland, South Australia and the ACT have introduced FRC.
- > From 1 July 2009 Tasmania extended contestability to customers using at least 150 megawatt hours (MWh) per year. Contestability will not be extended to smaller customers until at least July 2010.⁵
- > Western Australia allows contestability for customers using at least 50 MWh annually. The Office of Energy in 2008 and 2009 reviewed the electricity retail market and considered a possible introduction of FRC.⁶
- > The Northern Territory plans to introduce FRC in April 2010, subject to a public benefit test. In August 2009 the Utilities Commission released an issues paper that considers options for the implementation of FRC for small businesses and households in the Northern Territory.⁷

The retail players in each jurisdiction include:

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

3 Nathan Rees (Premier of New South Wales), ‘Strengthening the New South Wales economy: energy reforms begin new phase’, Media release, 5 March 2009.

4 Joe Tripodi (Minister for Infrastructure, New South Wales), ‘NSW Government releases energy reform transaction strategy’, Media release, 10 September 2009.

5 Office of the Tasmanian Economic Regulator, ‘The power to choose’, viewed 11 May 2009, www.power.tas.gov.au. The Tasmanian Government has yet to decide whether to extend FRC to all customers.

6 Office of Energy (Western Australia), *Electricity retail market review—issues paper*, Perth, December 2007.

7 Regulation 6(4), Electricity Reform (Administration) Regulations 2008 (NT); Utilities Commission, *Review of full retail contestability for Northern Territory electricity customers—issues paper*, Darwin, August 2009.

Table 7.1 Active electricity retailers—small customer market, April 2009

RETAILER ¹	OWNERSHIP	QLD	NSW	VIC	SA	WA	TAS	ACT	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								
Energy Australia	NSW Government								
Ergon Energy	Queensland Government								
Horizon Power	Western Australian Government								
Integral Energy	NSW Government								
Jackgreen	Jackgreen Ltd ²								
Momentum Energy	Momentum Energy ³								
Neighbourhood Energy	Neighbourhood Energy ⁴								
Origin Energy	Origin Energy								
Perth Energy	Infratil								
Power and Water Corporation	Northern Territory Government								
Powerdirect	AGL Energy								
Queensland Electricity	Infratil								
Red Energy	Snowy Hydro ⁵								
Sanctuary Energy	Sanctuary Energy Pty Ltd ⁶								
Simply Energy	International Power								
South Australian Energy	Infratil								
Synergy	Western Australian Government								
TRUenergy	CLP Group								
Victoria Energy	Infratil								
Active retailers		11	9	14	11	4	1	2	1
Approx. market size ('000 000 customers)		1.9	3.1	2.4	0.8	1.0	0.2	0.2	0.1

■ Host (incumbent) retailer ■ New entrant retailer

1. Not all licensed retailers are listed. Some generators are licensed 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 market to only small business users.

2. Babcock & Brown Infrastructure's stake in Jackgreen was bought by institutional investors in August 2009.

3. In September 2008 Hydro Tasmania acquired a controlling interest (51 per cent) in Momentum Energy, and it will purchase the remaining 49 per cent in 2010.

4. The major shareholder of Neighbourhood Energy at 30 June 2008 was Babcock & Brown Power (65 per cent).

5. 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).

6. Sanctuary Energy Pty Ltd is owned by Living Choice Australia Ltd (50 per cent) and Sanctuary Life Pty Ltd (50 per cent).

Sources: Jurisdictional regulator websites, retailer websites and other public sources.

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 largest 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 owned retailers. International Power, trading as Simply Energy, continues to emerge as a significant retail business in Victoria and South Australia.

Niche players are active in most jurisdictions. Table 7.1 lists licensed retailers that were active in the market for residential and small business customers in April 2009.⁸ Active retailers are those that currently offer supply contracts to new small customers.

The following survey (sections 7.1.1–7.1.8) provides background on developments in each jurisdiction.⁹

7.1.1 Queensland

At April 2009 Queensland had 24 licensed retailers,¹⁰ of which 11 were active in the small customer market. Origin Energy and AGL Energy are the biggest private retailers in Queensland, with Integral Energy emerging as the third major player. Sanctuary Energy was granted a retail licence in 2008 and commenced retailing to small customers. The Queensland Government has retained ownership of Ergon Energy's retail business, which supplies the majority of customers in rural and regional areas.

Table 7.2 sets out the estimated small customer market share of Queensland retailers (by customer numbers) at 30 June 2008.

Table 7.2 Electricity retail market share (small customers)—Queensland, 30 June 2008

RETAILER	SMALL CUSTOMERS (%)
Origin Energy	36
Ergon Energy	33
AGL Energy	19
Other	12
Total small customers (no.)	1 930 000

Source: QCA estimates.

7.1.2 New South Wales

At April 2009 New South Wales had 26 licensed retailers, of which nine supplied (or intended to supply) residential and/or small business customers. The active retailers were:

- > the government owned host retailers—EnergyAustralia, Country Energy and Integral Energy
- > six new entrants—the state's host retailer in gas (AGL Energy), three established interstate players (Origin Energy, TRUenergy and ActewAGL Retail) and two new players in the energy retail market (Powerdirect and Jackgreen).

Momentum Energy, New South Wales Electricity, Dodo Power & Gas and Red Energy held retail licences but were not actively marketing to small customers. At April 2009 Australian Power & Gas continued to provide retail services to existing customers in New South Wales but was not accepting new customers.

At June 2008 new entrant retailers had acquired about 17 per cent of the small customer market (based on customer numbers) from the government owned incumbents. This share was up from about 14 per cent in the previous year.¹¹

⁸ See footnote 2 for jurisdictional classifications of 'small customers'.

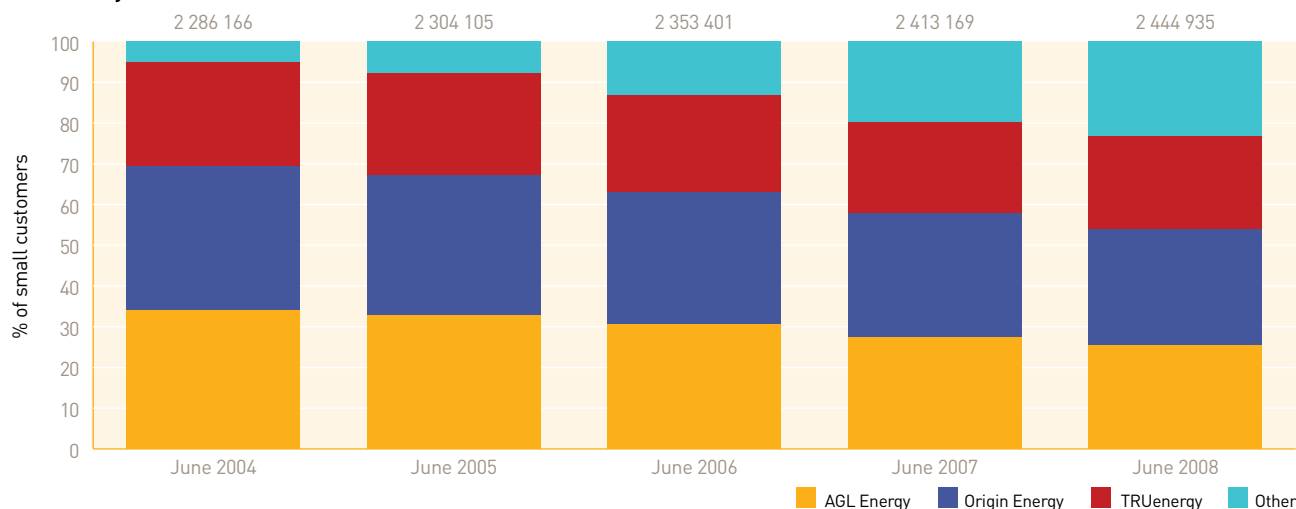
⁹ The number of licensed retailers may not correspond with the actual number of retail licences issued, because several licence holders may operate under a single trading name.

¹⁰ The number of licences issued may not correspond with the number of licensed retailers because a retailer may hold more than one licence.

¹¹ IPART (New South Wales), NSW Electricity Information Paper, *Electricity retail businesses' performance against customer service indicators in NSW: for the period 1 July 2003 to 30 June 2008*, Sydney, March 2009, p. 2.

Figure 7.2

Electricity retail market share (small customers)—Victoria



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

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

7.1.3 Victoria

At April 2009 Victoria had 29 licensed retailers, of which 14 were active in the residential and small business market. The active retailers were:

- > the host retailers in designated areas of Victoria—AGL Energy, Origin Energy and TRUenergy
- > eleven new entrants—two established interstate retailers (Country Energy and EnergyAustralia) and nine new players in the energy retail market (Simply Energy, Click Energy, Jackgreen, Neighbourhood Energy, Powerdirect, Red Energy, Victoria Electricity, Momentum Energy and Australian Power & Gas).

Dodo Power & Gas held a retail licence but was not actively marketing to small customers in April 2009.

Table 7.3 sets out the market share of Victorian retailers (by customer numbers) at 30 June 2008. The three host retailers account for about 77 per cent of the market, and each has acquired market share beyond its local area. New entrant penetration in the market increased from 13 per cent of small customers in June 2006 to about 23 per cent in June 2008 (figure 7.2).

Table 7.3 Electricity retail market share (small customers)—Victoria, 30 June 2008

RETAILER	CUSTOMERS		
	DOMESTIC (%)	BUSINESS (%)	TOTAL (%)
AGL Energy	25.8	21.6	25.3
Origin Energy	27.9	33.9	28.6
TRUenergy	22.9	23.1	22.9
Other	23.4	21.5	23.2
Total customers (no.)	2 155 995	288 940	2 444 935

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

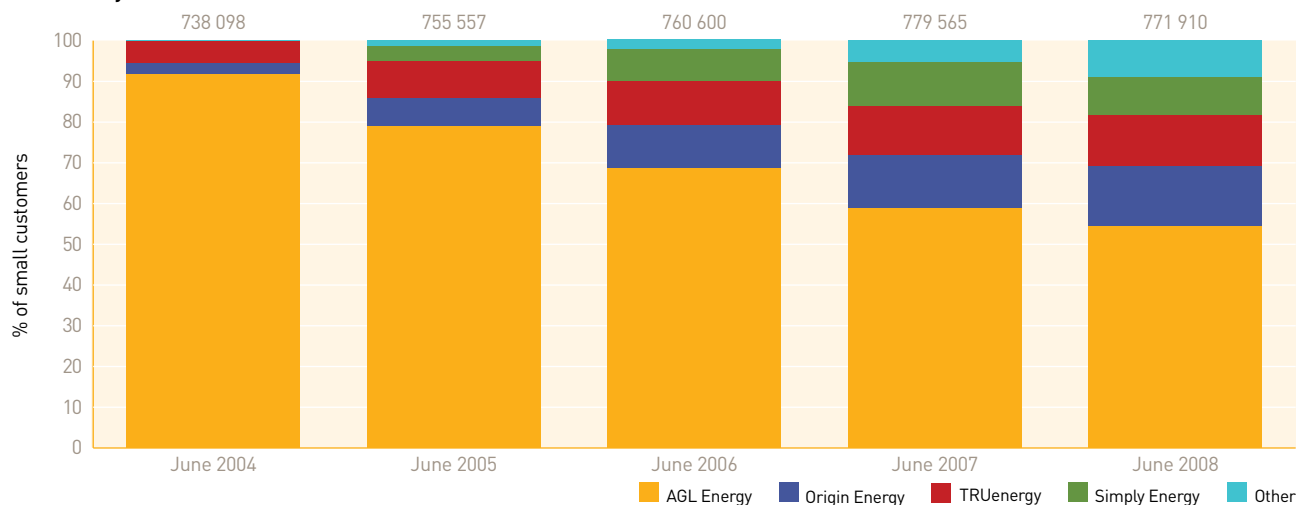
7.1.4 South Australia

At April 2009 South Australia had 16 licensed electricity retailers, of which 11 were active in the small customer market. The active retailers were:

- > the host retailer—AGL Energy
- > ten new entrants—South Australia's host retailer in gas (Origin Energy), three 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).

Figure 7.3

Electricity retail market share (small customers)—South Australia



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

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

EnergyAustralia, Dodo Power & Gas and Australian Power & Gas held retail licences but were not actively marketing to small customers in April 2009.

Table 7.4 sets out the small customer market share of South Australian retailers (by customer numbers) at 30 June 2008. The host retailer—AGL Energy—supplied 55 per cent of small customers, down from 59 per cent in June 2007. Other retailers have built market share, with Origin Energy and TRUenergy each supplying more than 10 per cent of the small customer base. Simply Energy’s market share slipped to just below 10 per cent at June 2008 (figure 7.3). There has been only marginal penetration by niche retailers, with the four largest retailers accounting for over 90 per cent of the market.

Market penetration by new entrants has been more effective for large customers, with AGL Energy’s market share eroding to about 36 per cent (based on sales volume).¹²

Table 7.4 Electricity retail market share (small customers)—South Australia, 30 June 2008

RETAILER	CUSTOMERS		
	DOMESTIC (%)	BUSINESS (%)	TOTAL (%)
AGL Energy	53.4	63.0	54.5
Origin Energy	14.3	16.0	14.5
TRUenergy	13.1	8.4	12.6
Simply Energy	10.1	4.2	9.5
Other	9.0	8.4	8.9
Total customers (no.)	687 072	84 838	771 910

Note: Rounding means market share data may not add to 100 per cent.

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

7.1.5 Western Australia

In Western Australia, only customers consuming at least 50 MWh annually are contestable. They represent around 60 per cent of the retail market (by volume) in the South West Interconnected System (SWIS).¹³ The government owned host retailer—Synergy—has a market share of 96 per cent of small

¹² ESCOSA (South Australia), *2007–08 Annual performance report: performance of South Australian energy retail market*, Adelaide, November 2008, p. 27.

¹³ The SWIS is the main electricity grid in Western Australia and connects Perth, Geraldton, Kalgoorlie and the south west. See chapter 4 for further information on the SWIS.

residential customers and 92 per cent of small non-residential customers in the SWIS. Horizon Power services the regional areas of Western Australia outside of the SWIS, and is the second largest retailer, with 3.6 per cent of small residential customers and 5 per cent of small non-residential customers.¹⁴ The remaining customers are divided among Alinta Sales (owned by Babcock & Brown Power), Perth Energy and the Rottnest Island Authority.

For further information on Western Australia, see chapter 4 of this report.

7.1.6 Tasmania

Aurora Energy, the government owned host retailer, controls the small customer market in Tasmania. Legislative restrictions prevent new entrants from supplying small customers.

7.1.7 Australian Capital Territory

At April 2009 the ACT had 15 licensed retailers, of which two were active in the residential market: ActewAGL Retail (the host retailer) and TRUenergy. At April 2009 Country Energy and Energy Australia continued to provide retail services to existing customers in the ACT, but were not accepting new customers. Aurora Energy, Dodo Power & Gas, ERM Power, Integral Energy, Jackgreen, Powerdirect, Red Energy, Australian Power & Gas, Sun Retail and Origin Energy held retail licences but were not actively marketing to small customers.

7.1.8 Northern Territory

The Northern Territory's electricity market is small, with around 82 500 customers connected to the network. The government owned host retailer, Power and Water Corporation, provides electricity services to these customers.

7.2 Trends in market integration

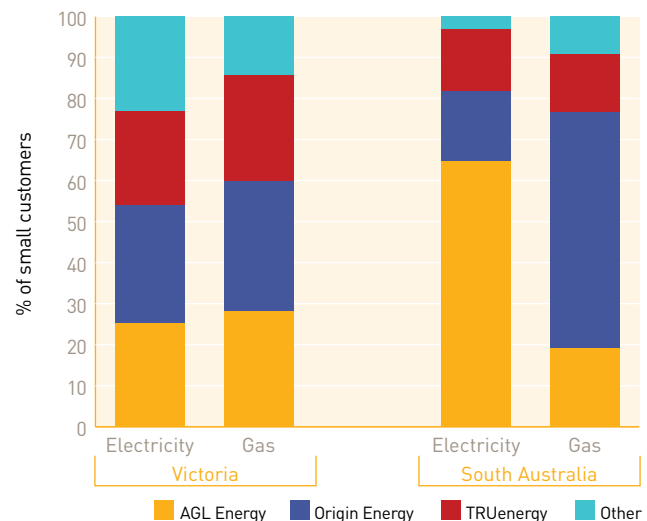
Various ownership consolidation activity has occurred in the energy retail sector in recent years, including:

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

7.2.1 Energy retail market convergence

Many energy retailers offer both electricity and gas services, including 'dual fuel' retail products.¹⁵ The largest retailers in Victoria and South Australia (AGL Energy, Origin Energy and TRUenergy), for example, jointly account for around 77 per cent of small electricity retail customers and 86 per cent of small gas retail customers (figure 7.4). The principal difference between the two sectors is that niche players have greater penetration in electricity markets compared with gas.

Figure 7.4
Electricity and gas retail market share (small customers)—Victoria and South Australia, 30 June 2008



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

¹⁴ ERA (Western Australia), *2007–08 Annual performance report—electricity retailers*, Perth, January 2008, p. 2.

¹⁵ 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.

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.

7.2.2 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 links among different sectors of the power supply industry remain. In particular, the New South Wales, Queensland, Tasmanian, Western Australian and Northern Territory governments own joint distribution–retail businesses (although Ergon Energy in Queensland is restricted from competing in the retail market). The Western Australian Government owns Horizon Power, which is an integrated service provider. The ACT Government has ownership interests in both the host retailer of electricity and gas, and the electricity and gas distributor. Where links exist between retail and network sectors, regulators apply ring-fencing arrangements to ensure operational separation of the businesses.

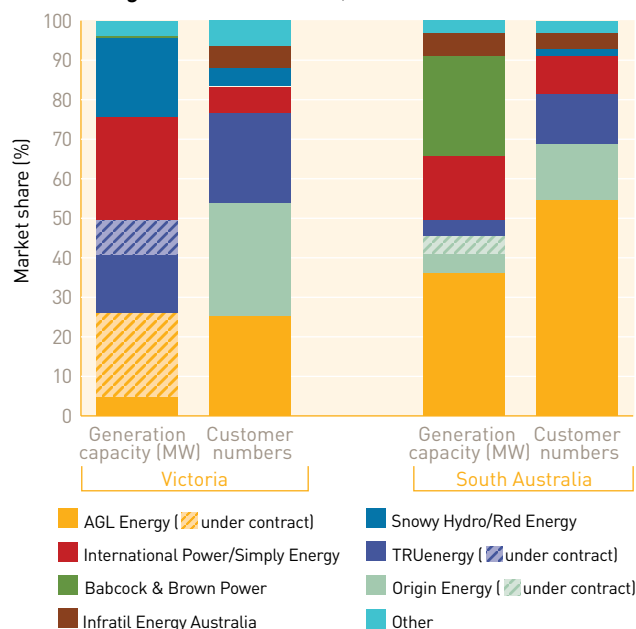
There is also a continuing trend towards vertical integration of privately owned electricity retailers and generators. Vertical integration provides a means for retailers and generators to manage the risk of price volatility in the electricity spot market. If wholesale prices rise, then the retailer can balance the increased cost against higher generator earnings.¹⁶

Figure 7.5 compares generation and retail market shares in Victoria and South Australia in 2008. 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

but is developing new capacity. In addition, major generator International Power operates a retail business (trading as Simply Energy) that has achieved significant penetration in the South Australian market.

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, with a move to full ownership intended in 2010.

Figure 7.5
Market share in the Victorian and South Australian retail and generation sectors, 2008



Notes:

The figures must be interpreted with caution because market shares in each sector are based on different variables: retail shares relate to small customer numbers, while generation shares relate to capacity.

In Victoria, TRUenergy holds a long term hedge contract with Ecogen Energy (owned by Industry Funds Management).

In South Australia, Origin Energy bids in the facility at Osborne power station (owned by ATCO Power and Origin Energy).

The chart represents the generation capacity of majority shareholders only.

Sources: ESC (Victoria), *Energy retailers: comparative performance report—customer service 2007–08*, Melbourne, December 2008; ESCOSA (South Australia), *Annual performance report: performance of South Australian energy retail market 2007–08*, Adelaide, November 2008 (customer numbers); AEMO (generation capacity and ownership).

16 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*, Report to COAG, Canberra, January 2007, pp. 125–6.

7.3 Retail competition

While most jurisdictions have introduced or are introducing FRC, a competitive market can take time 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 7.4.1). Standing offer contracts cover minimum service conditions and information requirements, and may include regulated price caps or prices oversight.

At July 2009 all jurisdictions except Victoria applied some form of price cap regulation.¹⁷ Australian governments have agreed to review the continued use of retail price caps and to remove them where effective competition can be demonstrated.¹⁸ The AEMC is assessing the effectiveness of retail competition in each jurisdiction to advise on the appropriate time to remove retail price caps.¹⁹ The relevant state or territory government makes the final decision on this matter. Box 7.1 summarises progress with the outcomes of reviews.

Box 7.1 Retail competition reviews

The Australian Energy Market Commission (AEMC) in February 2008 completed a review of the effectiveness of competition in Victoria's electricity and gas retail markets. It completed a similar review for South Australia in December 2008. Reviews are planned for the ACT in 2010, New South Wales in 2011, Queensland in 2012 and Tasmania in 2013 if full retail contestability has been introduced in that jurisdiction by that time.

The AEMC applies the following criteria to assess the effectiveness of retail competition:

- independent rivalry within the market
- the 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 competition is effective in both markets.²⁰ In response to the review, the Victorian Government removed retail price caps on 1 January 2009. The legislation included provisions for the Essential Services Commission of Victoria (ESC) to monitor and report on retail prices. Retailers are also required to publish a range of their offers, to help consumers compare energy prices.

The removal of retail price regulation does not affect other obligations on retailers, including the obligation to supply and the consumer protection framework.²¹ The Victorian Government retains a reserve power to re-instate retail price regulation if competition is found to no longer be effective.

South Australia

The AEMC found competition was effective for small electricity and gas customers in South Australia, but more intense in electricity than in gas.²² It outlined options to phase out retail price regulation in South Australia. These options include a price monitoring and reporting regime to support the competitive market, and the retention of statutory reserve powers to re-introduce price regulation if the level of competition declines.²³

In April 2009 the South Australia Government stated it did not accept the AEMC's recommendations to remove retail price regulation in electricity and gas at this time. It was concerned that more than 30 per cent of small customers remain on standing contracts and that stakeholders had differing views on the effectiveness of competition.

17 See section 7.4.1 for details.

18 Australian Energy Market Agreement 2004 (as amended).

19 In Western Australia, the Economic Regulation Authority (ERA) is responsible for this task.

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

21 ESC (Victoria), 'Energy customers shop around for retail offers', Media release, 18 December 2008.

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

23 AEMC, *Review of the effectiveness of competition in electricity and gas retail markets in South Australia—second final report*, Sydney, December 2008.

The remainder of this section provides a sample of public data that may be relevant for assessing the effectiveness of retail competition in Australia. In particular, it sets out data on the diversity of price and product offerings of retailers; the exercise of market choice by customers, including switching behaviour; and customer perceptions of competition. This section also considers regulated prices and retail profit margins. Elsewhere, this chapter touches on other barometers of competition—for example, section 7.1 considers new entry.

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

7.3.1 Price and non-price diversity of retail offers

There is evidence of retail price diversity in electricity markets that have introduced FRC (box 7.2). In particular, both host and new entrant retailers tend to offer market contracts at discounts against the ‘default’ regulated terms and conditions.

Some price diversity is 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, each with different price structures.²⁴

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, however, for early withdrawal.

The variety of discounts and non-price inducements makes direct price comparisons difficult. Further, the transparency of price offerings varies. Some retailers publish details of their products and prices, while others require a customer to fill out online forms or arrange a consultation. Victorian and South Australian retailers are required to publish product information statements on their websites. Additionally, the Queensland, South Australian and Victorian regulators and a number of other entities operate websites that allow customers to compare their current electricity and gas retail contracts with available market offers.

The Australian Consumer Association has launched a website—CHOICESwitch—that allows customers to compare energy retail offers. Box 7.2 draws on the website to comment on the diversity of price and product offerings to small customers in Brisbane, Sydney, Melbourne, Adelaide and Canberra. The price offers noted in box 7.2 are not directly comparable across jurisdictions, because the underlying product structures may not be identical.

For further information on retail prices, see section 7.4.

7.3.2 Customer switching

The rate at which customers switch their supply arrangements indicates customer participation in the market. While switching (or churn) rates can also indicate competitive activity, they must 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, they may be low in a very competitive market if retailers are delivering good quality service that gives customers no reason to switch.

24 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 7.2 Price and product diversity in the small customer market

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

Table 7.5 draws on data available on the CHOICESwitch website to set out the estimated price offerings in May 2009 for customers in selected suburban postcodes in Brisbane, Sydney, Melbourne, Adelaide and Canberra using 6500 kilowatt hours (kWh) a year, based on peak use. The offers were only for the postcodes selected and might not have been available to all customers. The data include all financial discounts and bonuses available under each offer but exclude non-financial gifts such as magazine subscriptions, gift cards and movie tickets.

The data indicate some price and product diversity in all of the retail markets, with a price spread of \$582 (Melbourne) to \$864 (Canberra).²⁵ Most plans included

additional financial discounts and bonuses, with prompt payment being the most common condition to attract a discount. Other financial incentives offered by some retailers included joining and loyalty bonuses.

Some of the offers with larger discounts were provided under a fixed term contract that attracts exit fees for early termination. Retail offers in the upper price range generally provided higher levels of accredited renewable energy (GreenPower). For offers with 100 per cent GreenPower, some retailers allowed customers to choose solar or wind power as the source of their energy.

In the capital cities where retail prices are regulated (Brisbane, Sydney, Adelaide and Canberra) most retailers offered products that provided a discount off the regulated price. Retailers in Adelaide offered the largest discount off the regulated price (up to \$220), compared with a discount of up to \$95 in Brisbane, \$87 in Sydney and \$19 in Canberra.

25 Very large price spreads may reflect product differentiation. Some premium priced products have high proportions of accredited green power. Some ActewAGL products, for example, allow customers to purchase more GreenPower than their household would use.



Jessica Shapiro (Fairfaxphotos)

Table 7.5 Electricity retail price offers for a customer using 6500 kWh per year in each capital city, May 2009

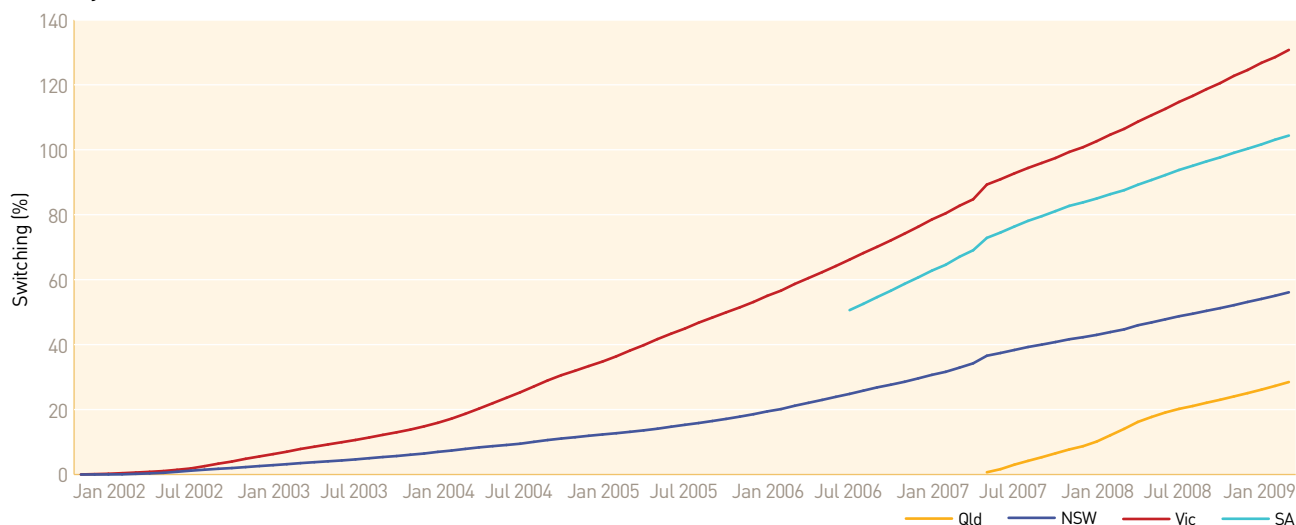
RETAILER	NO. OF PRODUCTS	ANNUAL COST (INCLUDING DISCOUNTS AND FINANCIAL BONUSES)											DISCOUNTS AND BONUSES INCLUDED IN ANNUAL COST			CONTRACT TERM		GREEN POWER?	
		1000	1100	1200	1300	1400	1500	1600	1700	1800	1900	2000	2100	Pay-on-time bonus	Loyalty bonus	Sign-up bonus	Fixed term		Exit fees
BRISBANE (POSTCODE 4032)																			
Regulated price (AGL Energy)																			
AGL Energy	7																		
EnergyAustralia	4																		
Ergon Energy	1																		
Integral Energy	6																		
Jackgreen	4																		
Origin Energy	12																		
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CANBERRA (POSTCODE 2616)																			
Regulated price (ActewAGL)																			
ActewAGL	20																		

Note: The offers were only for standalone electricity products in the postcodes selected and might not have been available to all customers. The data include all financial discounts and bonuses available under each offer. Green power refers to renewable energy accredited under the Australian Government's GreenPower scheme.

Source: CHOICEswitch energy comparison website, viewed 22 May 2009, www.choiceswitch.com.au.

Figure 7.6

Cumulative monthly customer switching of retailers as a percentage of small customers, January 2002 to June 2009



Note: There are no comparable public data for South Australia prior to June 2006.

Sources: see table 7.6.

Table 7.6 Small customers switching retailers, 2009

INDICATOR	QUEENSLAND	NEW SOUTH WALES	VICTORIA	SOUTH AUSTRALIA
Percentage of small customers that changed retailer during 2008-09 (%)	14.6	11.5	25.7	16.0
Customer switches as a percentage of the small customer base from start of FRC to June 2009 (cumulative) (%)	28.5	56.1	130.7	104.4

FRC, full retail contestability.

Notes:

If a customer switches to a number of retailers in succession, then each move counts as a separate switch. Cumulative switching rates may thus exceed 100 per cent. The customer base is estimated at 30 June 2009.

Sources: Customer switches: AEMO, MSATS transfer data to June 2009; customer numbers: IPART (New South Wales), *NSW electricity information paper—electricity retail businesses' performance against customer service indicators*, Sydney, March 2009; ESCOSA (South Australia), *2007-08 Annual performance report: performance of South Australian energy retail market*, Adelaide, November 2008; ESC (Victoria), *Energy retailers: comparative performance report—customer service 2007-08*, Melbourne, December 2008; ESCOSA (South Australia), *Annual performance report: performance of South Australian energy retail market 2007-08*, Adelaide, November 2008; QCA (Queensland), *Market and non-market customers, December quarter 2008*, Brisbane, April 2009.

The Australian Energy Market Operator (AEMO) publishes churn data measuring the number of customer switches from one retailer to another.²⁶ The data are available for New South Wales and Victoria from the introduction of FRC in 2002, for South Australia from October 2006 and for Queensland from July 2007.

Table 7.6 and figure 7.6 set out gross switching data—that is, 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. If a customer switches to a number of retailers in succession, each move counts as a separate switch. Cumulative switching rates may thus exceed 100 per cent.

26 The National Electricity Market Management Company (NEMMCO) published the data until 30 June 2009.

Table 7.7 Customer transfers to market contracts

JURISDICTION	DATE	CUSTOMERS ON MARKET CONTRACTS (% OF CUSTOMER BASE)
Queensland	31 March 2009	44.3% of small customers ¹
Victoria	30 June 2008	54% of electricity and gas customers
South Australia	30 June 2008	69% of residential customers (24% with the host retailer and 49% with new entrants) 52% of small business customers (21% with the host retailer and 31% with new entrants) 68% of residential and small business customers (averaged)
ACT	30 June 2008	21% of all customers

1. Small customers in Queensland include residential and small business customers.

Sources: ESC (Victoria), *Energy retailers: comparative performance report—customer service 2007–08*, Melbourne, December 2008; QCA (Queensland), *Market and non-market customers as at 30 September 2008*, Brisbane, September 2008; ESCOSA (South Australia), *2007–08 Annual performance report: performance of South Australian energy retail market 2007–08*, Adelaide, November 2008, pp. 22–3; ICRC (ACT) *Draft decision: retail prices for non-contestable electricity customers, 2009–2010*, Canberra, April 2009.

The data do not include customers that switch from a default arrangement to a market contract with their existing retailer. The data may thus understate the true extent of competitive activity by not accounting for the efforts of host retailers to retain market share.

Table 7.6 illustrates that switching activity continued strongly in Victoria (and to a lesser extent South Australia and Queensland) throughout 2008–09. A recent survey by *Choice* magazine found Victorian customers are more likely than interstate customers to be approached by door-to-door sales people and telemarketers offering a range of energy services.²⁷ New South Wales continues to have a switching rate below the other states.

Switches to market contracts

While AEMO reports on customer switching between retailers, an alternative churn indicator is customer switching from regulated ‘default’ contracts to market contracts. South Australia and Queensland publish these data periodically, while New South Wales, the ACT and Victoria do so irregularly.

Table 7.7 summarises the available data on switches to market contracts. The data are not directly comparable across jurisdictions because the data collection methods and periods covered differ.

Table 7.7 indicates that a significant number of customers are moving from standing offer contracts to market contracts with their host retailer. South Australia has reported relatively high rates of customer switching to market contracts, compared with rates in the other states. Victoria has also reported relatively high rates of customer transfers to market contracts, but the data include transfers in both the electricity and gas retail markets.

7.3.3 Customer perceptions of competition

A number of jurisdictions undertake occasional surveys on customer perceptions of retail competition. Issues covered 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 7.8 summarises survey data on customer perceptions of retail competition. The data are not directly comparable across jurisdictions because the data collection methods, periods covered and regions surveyed differ. The surveys suggest customer awareness of retail choice is high and rising over time. While it remains unusual for customers to approach retailers, retailer approaches to customers have steadily risen.

27 *Choice* magazine, ‘Power play’, March 2009, p. 14. [Reprinted from ‘Power play’, March 2009 *Choice* magazine, with the permission of the Australian Consumer Association.]

Table 7.8 Residential customer perceptions of competition

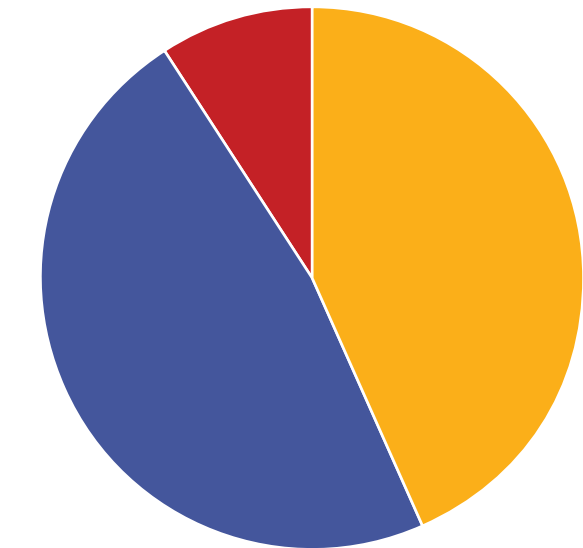
INDICATOR	NEW SOUTH WALES ¹		VICTORIA		SOUTH AUSTRALIA	
	Sydney	Hunter region				
	2003	2008	2002	2007	2003	2008
Customers aware of choice (%)	74	90	n/a	94	62	82
Customers receiving at least one retail offer ² (%)	27	53	17	73	5	68
Customers approaching retailers about taking out market contracts (%)	n/a	n/a	3	10	3	10

n/a, not available.

1. New South Wales data in 2003 are based on a household survey conducted in Sydney, while the 2008 data are based on a similar household survey conducted in the Hunter region.
2. In New South Wales, the figures exclude customers approached by their current retailer to switch to a market contract.

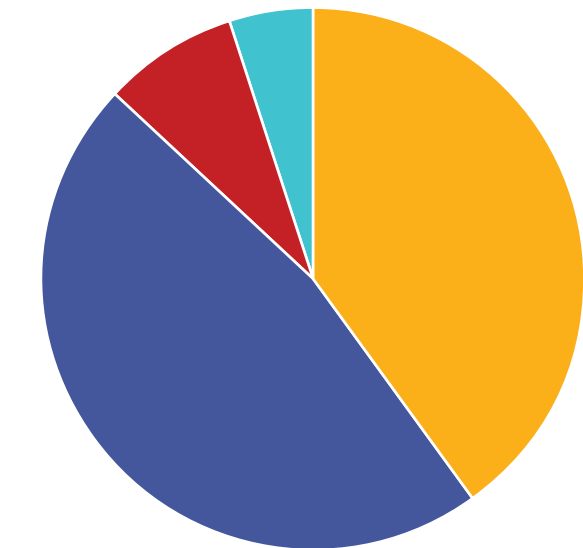
Sources: South Australia: McGregor Tan Research, *Monitoring the development of energy retail competition—residents*, Report prepared for ESCOSA, Adelaide, February 2006, November 2003; McGregor Tan Research, *Review of effectiveness of competition in electricity and gas retail markets*, Report prepared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

Figure 7.7
Composition of a residential and small business electricity bill
Queensland—June 2009



Wholesale electricity costs 43% Network costs 48%
Retail operating costs (incl. 5% retail margin) 9%

New South Wales—June 2007



Wholesale electricity costs 40% Network costs 47%
Retail operating costs 8% Retail margin 5%

Note: Figures represent the composition of estimated costs for an electricity retailer.

Sources: IPART (New South Wales), *Regulated electricity tariffs and charges for customers 2007 to 2010—electricity final report and final determination*, Sydney, June 2007, p. 2; QCA (Queensland), *2009–10 Benchmark retail cost index, final decision*, Brisbane, June 2009, p. 54.

7.4 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 7.7 provides indicative data for residential customers in New South Wales and residential and small business customers in Queensland based on historical information. The charts indicate that wholesale and network costs account for the bulk of retail prices. Retail operating costs (including retail margins) account for around 13 per cent of retail prices in New South Wales and 9 per cent in Queensland.

7.4.1 Regulation of retail prices

At July 2009 all jurisdictions except Victoria applied retail price regulation to 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 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 responsible for reviewing the effectiveness of competition in electricity and gas retail markets to determine an appropriate time to remove retail price caps in each jurisdiction (box 7.1).

In setting default tariffs, jurisdictions consider energy purchase costs, network charges, retailer operating costs and a retail margin.

The approach varies across jurisdictions:

- > The Queensland regulator, the Queensland Competition Authority (QCA), uses a benchmark retail cost index method to calculate annual adjustments in regulated prices for small customers that do not enter a market contract on changes in benchmark costs. In June 2009 the Queensland Government directed the QCA to review the method and prices to determine whether current price levels promote competition, allow real electricity costs to be fully recovered from south east Queensland consumers, and account for government environmental obligations.²⁸ The QCA will review alternative methods for setting prices and price structures that may assist in managing peak electricity demand and encourage more efficient electricity use.
- > The New South Wales regulator, the Independent Pricing and Regulatory Tribunal (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 regulated tariffs are cost-reflective by June 2010.²⁹
- > The Victorian Government removed retail price caps for small businesses users on 1 January 2008³⁰ and for residential customers on 1 January 2009.³¹
- > The South Australian regulator, the Essential Services Commission of South Australia (ESCOSA), regulates default prices for small customers. In 2007 ESCOSA made a determination on default prices for three years commencing on 1 January 2008.
- > In Western Australia, electricity retail prices for non-contestable customers are regulated under statutory requirements and set out in bylaws. All non-contestable customers are entitled to a uniform price regardless of their geographic location. Customers in major population centres in the state's south west subsidise regional customers through the Tariff Equalisation Fund.³²

28 QCA, Letter from Minister for Natural Resources, Mines and Energy and Minister for Trade, and the Ministers' Direction Notice for the review, Brisbane, 24 June 2009.

29 IPART (New South Wales), *Regulated electricity tariffs and charges for customers 2007 to 2010—electricity final report and final determination*, Sydney, June 2007, p. 2.

30 Peter Batchelor (Minister for Energy and Resources, Victoria), 'Better energy prices available to small businesses', Media release, 8 November 2007.

31 Department of Primary Industries (Victoria), 'Energy efficiency', viewed 1 May 2009, www.dpi.vic.gov.au/energy.

32 Office of Energy, *Electricity retail market review—issues paper*, Perth, December 2007, p. 7.

Table 7.9 Recent regulatory decisions—electricity retail prices

JURISDICTION	PERIOD	RETAILERS	INCREASE IN REGULATED RETAIL PRICE	MECHANISM FOR CHANGES IN REGULATED PRICE	RETAIL MARGIN
Queensland	1 July 2009 to 30 June 2010	All licensed retailers	Net additional increase of 3.68% for 2008–09 (applying from 1 July 2009) and 11.82% for 2009–10	Prices are adjusted annually in accordance with a benchmark retail cost index.	5% of total revenue
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)	Electricity purchase costs are annually reviewed. The retail price path will be adjusted if the review finds forecast electricity purchase costs differ by more than 10% from the costs used to set the price path. Retailers are also required to pass on network price increases. In 2009 IPART made a determination to increase a typical bill of EnergyAustralia (by 21.7%), Integral Energy (by 21.1%) and Country Energy (by 17.9%), due to rising wholesale and network costs.	5% of EBITDA
South Australia	1 January 2008 to 31 December 2010	AGL Energy	6.8% in 1 Jan 08 to 30 June 2008; CPI-only increase to July 2011	There is no provision to adjust the price path due to changes in electricity purchase costs. However, the price determination can be re-opened if a fundamental basis of the determination has been undermined.	10% of controllable costs (equivalent to about 5% of sales revenue)
Western Australia	1 April 2009 1 July 2009	Synergy and Horizon Power	10.0% 15.0%	Government decision is to be implemented through bylaws. Further price rises will be phased in over six to eight years (after 30 June 2010).	n/a
Tasmania	1 January 2008 to 30 June 2010	Aurora Energy	Average 16.0% in 1 Jan 2008 to 30 June 2008, and estimated average increases of 4.0% in 2008–09 and 3.8% in 2009–10 respectively	There is no provision to adjust the price path due to changes in electricity purchase costs. Regulations set out the average price the regulator is to assume for each period. The regulator has limited discretion to re-open a determination in the event of an unforeseen material change. Provision was made to adjust for certain pass-through costs, including transmission and distribution costs.	3% of sales revenue
ACT	1 July 2009 to 30 June 2010	ActewAGL Retail	6.42%	Annual price determination. There are no automatic cost adjustments, but the ICRC Act allows for variations to the price direction to occur, if the circumstances change from those that existed when the decision was finalised.	5% of sales revenue

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

Sources: QCA (Queensland), *2009–10 Benchmark retail cost index, final decision*, June 2009, Brisbane, p. i; IPART (New South Wales), *Regulated electricity retail tariffs and charges for customers 2007 to 2010: electricity final report and final determination*, Sydney, June 2007; ESCOSA (South Australia), *2007 Review of retail electricity price path: final inquiry report and price determination*, Adelaide, November 2007; OTTER (Tasmania), *Investigation of prices for electricity distribution services and retail tariffs on mainland Tasmania: final report and proposed maximum prices*, Hobart, September 2007; ICRC (ACT), *Final decision—retail prices for non-contestable electricity customers 2009–2010*, Canberra, June 2009; Peter Collier (Minister for Energy, Western Australia), 'State Government announces increases in tariff arrangements', Media release, 23 February 2009.

- > When requested by the ACT Government, the ACT regulator, the Independent Competition and Regulatory Commission (ICRC), determines the maximum prices for small customers on a standing offer contract. The regulator annually adjusts the regulated tariff to reflect changes in benchmark costs.

Table 7.9 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. The chart omits Victoria, which no longer regulates retail prices.

Different price outcomes across the jurisdictions reflect a range of factors, so must be interpreted with care. In particular, the operating environments of retail businesses differ. 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 protect 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.

Regulated default prices tended to be relatively stable in 2008–09. This followed significant price rises in 2007–08, largely due to the impact of the drought on wholesale electricity prices (see chapter 2). However, prices are set to rise again in some jurisdictions:

- > In May 2009 IPART announced that a typical retail bill in New South Wales would rise by 17.9–21.9 per cent in 2009–10 due to network price increases and higher wholesale costs.³³
- > In June 2009 the QCA announced that regulated retail prices for 2009–10 would increase by 11.82 per cent. Following an appeal by Origin Energy and AGL Energy, the QCA announced an additional increase in regulated prices for 2008–09

of 3.68 per cent. This additional increase applied from 1 July 2009, resulting in a total increase in regulated retail prices for 2009–10 of 15.5 per cent.³⁴

- > The ICRC announced that retail prices in the ACT will increase by up to 6.42 per cent in 2009–10 due to higher distribution costs.³⁵
- > In Western Australia, the Office of Energy recommended in 2008 that retail prices increase by 52 per cent. The Western Australian Government rejected this recommendation and announced that residential prices will increase by 10 per cent on 1 April 2009 and a further 15 per cent on 1 July 2009.³⁶

7.4.2 Retail price outcomes

While retail price outcomes are critical 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, and/or retail operating costs and margins.

Care must be taken when interpreting retail price trends in deregulated markets. While competition tends to deliver efficient outcomes, it may give a counter-intuitive outcome of higher prices—especially in the early stages of competition. In particular:

- > governments and other customers (usually business customers) historically subsidised energy retail prices for some residential 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 be necessary for retail prices to rise to create sufficient 'head room' for new entry.

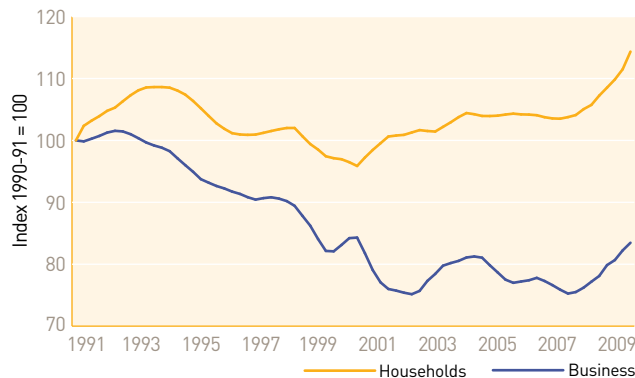
33 IPART (New South Wales), *Market-based electricity purchase cost allowance—2009 review, regulated electricity retail tariffs and changes for small customers 2007–2010*, Sydney, May 2009, p. 2.

34 QCA (Queensland), *2009–10 Benchmark retail cost index, final decision*, Brisbane, June 2009, p. i.

35 ICRC (ACT), *Final decision—retail prices for non-contestable electricity customers 2009–2010*, Canberra, June 2009, p. 5.

36 Peter Collier (Minister for Energy), 'State Government announces increases in tariff arrangements', Media release, 23 February 2009.

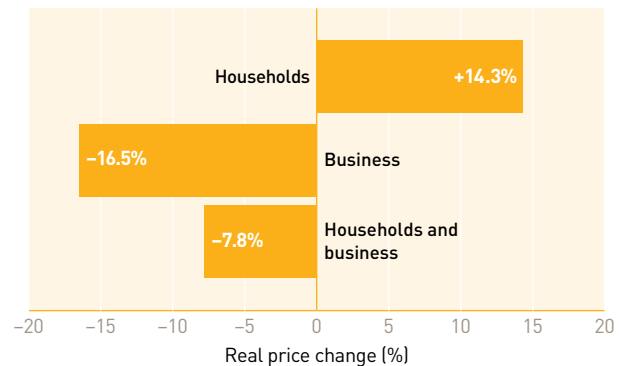
Figure 7.8
Retail electricity price index (inflation adjusted)—
Australian capital cities, June 1991 to March 2009



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: ABS, *Consumer price index* and *Producer price index*, March quarter 2009, cat. nos 6401.0 and 6427.0, Canberra, 2009.

Figure 7.9
Change in the real price of electricity—Australia,
June 1991 to March 2009



Sources of price data

There is little systematic publication of the actual prices paid by electricity retail customers. At the state level:

- > jurisdictions that retain price caps publish schedules of regulated prices. The schedules are a useful guide to retail prices, but their relevance as a price barometer is reduced as more customers transfer to market contracts.
- > retailers are not required to publish the prices struck through market contracts with customers, although some states require the publication of market offers
- > the Victorian and South Australian regulators (the ESC and ESCOSA) publish annual data on retail prices
- > the ESC, ESCOSA and the Queensland regulator (QCA) provide estimator services on their websites, allowing consumers to compare the price offerings of retailers
- > the CHOICEswitch website provides a comparison and switching service, to help consumers compare electricity and gas offers (box 7.2). Other price comparison websites also exist.

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.³⁷ The indexes are based on surveys of the prices paid by households and businesses, so reflect a mix of regulated and market prices.

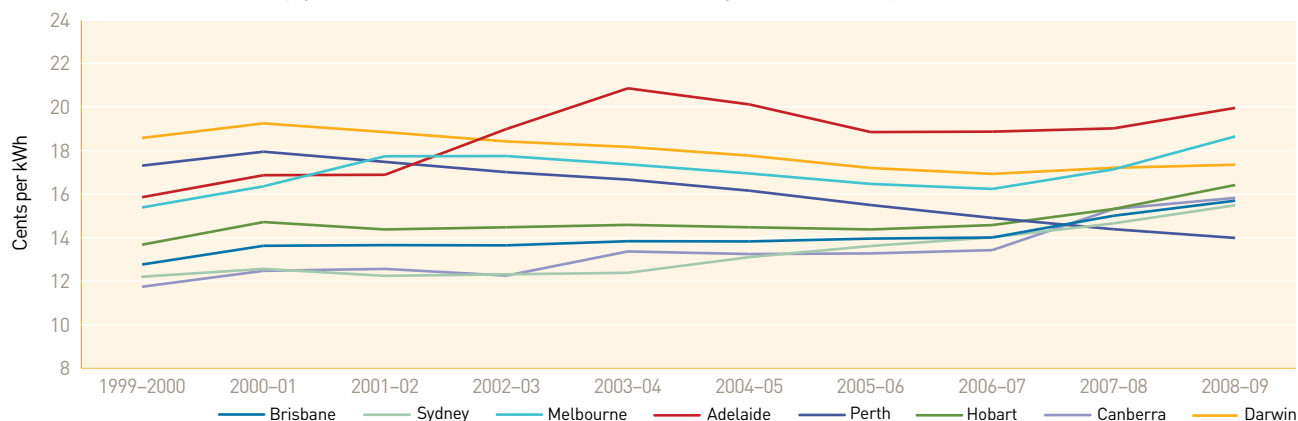
Figure 7.8 tracks real electricity price movements for households and business customers. There is some volatility in the data for business customers, given that large energy users are exposed to price volatility in the wholesale and contract markets for electricity (see chapters 2 and 3). In most jurisdictions, 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 14.3 per cent, while business prices have fallen by 16.5 per cent (figure 7.9). In part, these changes reflect the unwinding of cross-subsidies from business to household customers that began in the 1990s. While business prices have fallen substantially since 1991, they have risen since 2007, mainly as a result of rising wholesale electricity costs.

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

Figure 7.10

Estimated real electricity prices for households—Australian capital cities, July 1999 to March 2009



KWh, kilowatt hour.

Notes:

The prices are estimates based on extrapolating ESAA data published in 2004 using the CPI series for electricity and other household fuels for each capital city.

The 2008-09 data cover the three quarters to March 2009.

Sources: ABS, *Consumer price index, March quarter 2009*, cat no. 6401, Canberra, 2009; ESAA, *Electricity prices in Australia 2003-04*, Melbourne, 2003.

It is possible to estimate average retail prices for households by using the CPI to extrapolate from historical data published by the Energy Supply Association of Australia (ESAA).³⁸ Figure 7.10 estimates real electricity prices for households in Brisbane, Sydney, Melbourne, Adelaide, Perth, Hobart, Canberra and Darwin since 1 July 1999. Price variations across the cities reflect multiple 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 2009, real electricity prices in Perth trended downwards while Melbourne, Sydney and Canberra prices trended upwards. 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, but have trended higher since 2007. Price rebalancing to phase out cross-subsidies caused significant price rises in Melbourne and Adelaide early in the decade.

7.5 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’.³⁹ In November 2000 the Utility Regulators Forum (URF) established the Steering Committee on National Regulatory Reporting Requirements. The committee developed a national framework in 2002 for electricity retailers to report against common criteria on service performance.⁴⁰ The steering committee amended the national framework and reporting template in 2007.⁴¹ The criteria in the national framework address:

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

The measures apply to the small customer retail market.⁴² All National Electricity Market (NEM) jurisdictions have adopted the national template but each jurisdiction applies its own implementation framework. In addition, jurisdictions have their own

38 The ESAA published annual data on retail electricity prices by customer category and region until 2004.

39 See, for example, ESC (Victoria), *Energy retailers: comparative performance report—customer service 2007-08*, Melbourne, December 2008.

40 URF, *National regulatory reporting for electricity distribution and retailing businesses, discussion paper*, Canberra, March 2002.

41 URF, *National energy retail performance indicators, final paper*, May 2007.

42 See footnote 2 for jurisdictional classifications of ‘small customers’.

monitoring and reporting requirements. There are thus some differences in approach.

The service quality data published by jurisdictional regulators are derived from the reporting of individual retailers. The regulators annually consolidate and publish the data. The validity of any performance comparisons may be limited, however, given the differences in jurisdictions' approach. In particular, measurement systems, audit procedures and classifications may differ across jurisdictions and within the same jurisdiction over time. Similarly, regulatory procedures and practices differ—for example, the procedures that a retailer must follow before a customer can be disconnected.

7.5.1 Affordability and access indicators

With the introduction of retail contestability, governments have strengthened consumer protection arrangements, focusing 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's 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 7.11) and the rate of disconnected residential customers who are reconnected within seven days (figure 7.12) are key affordability and access indicators.

In 2007–08 the rate of disconnections fell in New South Wales, Victoria, the ACT and Western Australia, but increased slightly in South Australia and Tasmania. The rates in that year were below 2003–04 rates in all jurisdictions with available data except Tasmania. A range of factors might have contributed to these outcomes. Difficulties with the implementation of a new billing system, for example, led to AGL Energy suspending customer disconnections in Victoria.

As a result, AGL Energy's disconnection rate in 2007–08 was below its historical average, which might have affected Victoria's average disconnection rate.⁴³

The rate at which disconnected residential customers are reconnected within seven days (figure 7.12) increased in Victoria in 2007–08, but fell in New South Wales, Western Australia, Tasmania and the ACT. South Australia recorded a slight decrease in its seven day reconnection rate. Rates in 2007–08 were below 2003–04 rates in all jurisdictions with available data.

7.5.2 Customer service indicators

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

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 2007–08 the rate of customer complaints fell in New South Wales, but increased slightly in Victoria, South Australia, Western Australia and Tasmania. A significant increase occurred in the ACT (figure 7.13). The rate of customer complaints in Victoria has increased every year since 2003–04. The number of complaints that required a full investigation by the Electricity and Water Ombudsman of Victoria also increased (by 6 per cent) in 2007–08. AGL Energy experienced significant difficulties with a new billing system in December 2007, which might have resulted in a one-off increase in the complaints referred to the Ombudsman.⁴⁴

43 ESC (Victoria), *Energy retailers: comparative performance report—customer service 2007–08*, Melbourne, December 2008, p. 26.

44 ESC (Victoria), *Energy retailers: comparative performance report—customer service 2007–08*, Melbourne, December 2008, p. 42.

The response times of retailer call centres improved in every jurisdiction for which data were available in 2007–08 (figure 7.14). Retailers in Western Australia recorded a significant improvement in prompt call answering times, up from 63 per cent in 2006–07 to 80 per cent in 2007–08.⁴⁵

7.5.3 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 impose this obligation on retailers on a geographic basis. Queensland, however, requires the financially responsible market participant—generally the current retailer—to offer default contracts for each property; obligations for new connections are imposed on a geographic basis.⁴⁶

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 may also include some form of regulated price cap or prices oversight (see section 7.4.1).

Some jurisdictions have also established industry codes that govern the provision of electricity retail services to small customers, including those 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 ‘retailer of last resort’ arrangements to ensure customers can transfer from a failed retailer to another retailer.

Community service obligations to particular customer groups (often, low income earners) are another form of consumer protection. Traditionally, the payments were often ‘hidden’ in subsidies and cross-subsidies between different customer groups, which distorted pricing and investment signals. As part of the energy reform process, the Ministerial Council on Energy developed the Energy Community Service Obligations National Framework to make community service obligations more transparent and fund them directly out of budgets rather than via cross-subsidies.

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 confirming processes already in place to develop a National Energy Customer Framework.⁴⁷ 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.⁴⁸

45 ERA (Western Australia), *2007–08 Annual performance report—electricity retailers*, Perth, March 2009, p. 18.

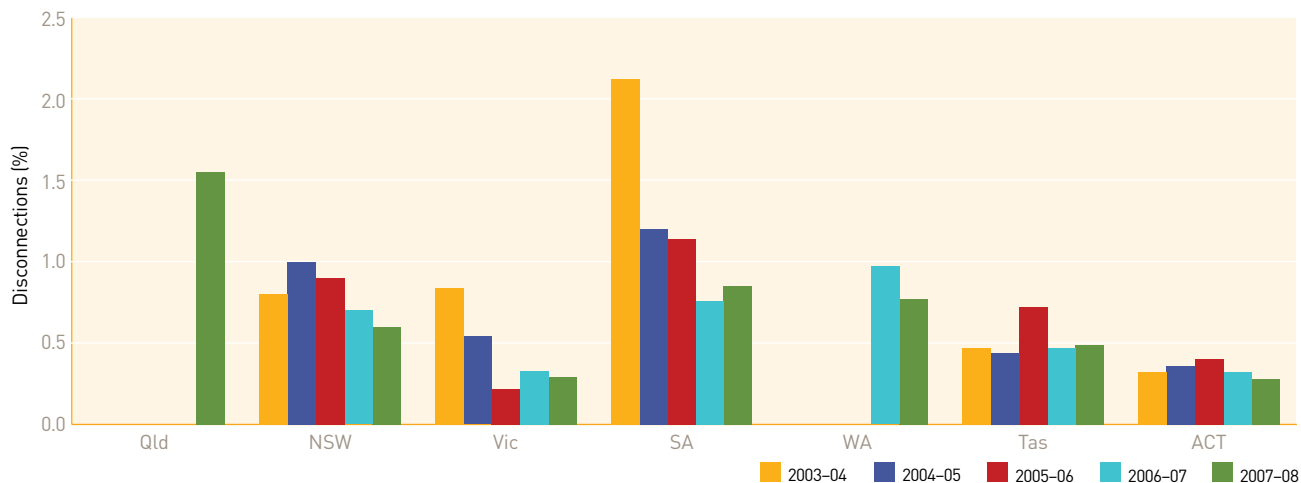
46 The AEMC, in its review of the effectiveness of the Victorian energy retail market, recommended Victoria move to a financially responsible market participant model. In response to this recommendation, Victoria made its local area model more consistent with the financially responsible market participant model.

47 Productivity Commission, *Inquiry report: review of Australia's consumer policy framework*, Canberra, April 2008, pp. 66–7.

48 Productivity Commission, *Inquiry report: review of Australia's consumer policy framework*, Canberra, April 2008, p. 71.

Figure 7.11

Electricity residential disconnections for failure to pay amount due, as a percentage of the small customer base



Notes:

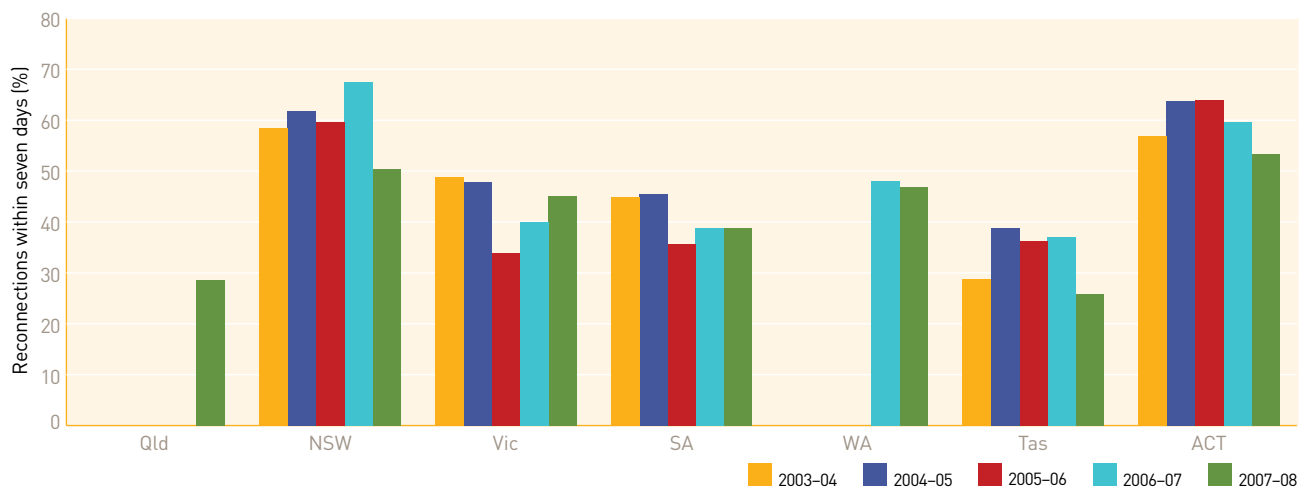
Data relate to outcomes for residential customers on a statewide basis. State regulators also publish outcomes for particular retailers and for business customers in their jurisdiction.

Queensland data are not available for all years. Western Australia commenced publication of these data in 2006-07.

Source: see figure 7.14.

Figure 7.12

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



Notes:

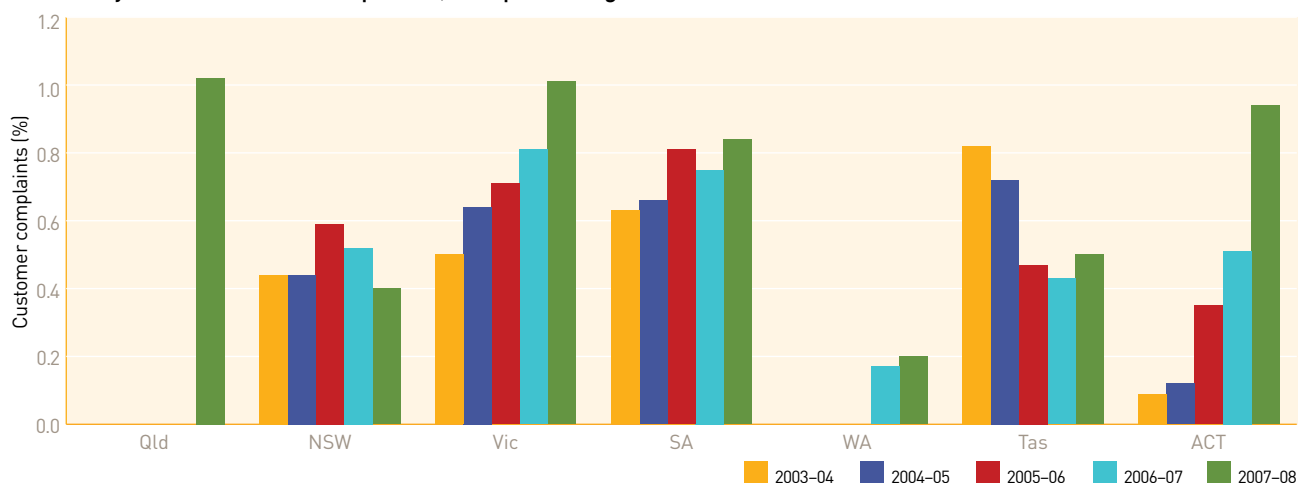
New South Wales data include all reconnections (not just within seven days of disconnection).

Queensland data are not available for all years. Western Australia commenced publication of these data in 2006-07.

Source: see figure 7.14.

Figure 7.13

Electricity retail customer complaints, as a percentage of total customers

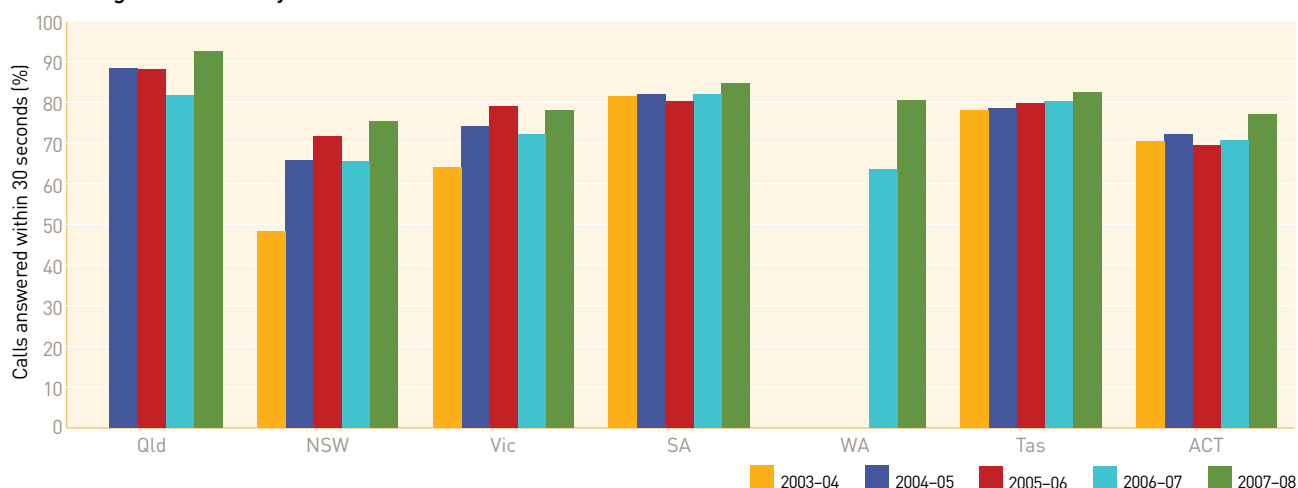


Note: Queensland data are not available for all years. Western Australia commenced publication of these data in 2006-07.

Source: see figure 7.14.

Figure 7.14

Percentage of electricity retail customer calls answered within 30 seconds



Notes:

South Australian and Victorian data from 2005-06 include both electricity and gas customers. From 2007-08, call response rates in Tasmania are for calls answered within 30 seconds. For previous years, the data were based on a 20 second target.

Queensland data are not available for all years. Western Australia commenced publication of these data in 2006-07.

Sources for figures 7.11-7.14: Reporting against URF templates and performance reports on the retail sector by IPART (New South Wales), the ESC (Victoria), ESCOSA (South Australia), OTTER (Tasmania), the QCA and the Department of Mines and Energy (Queensland), the ICRC (ACT) and the ERA (Western Australia). The 2006-07 and 2007-08 data for the ACT are preliminary data provided by the ICRC.

7.6 Energy efficiency

Energy efficiency measures are products or strategies that use less energy for the same or higher performance, compared with an existing system or product. While such measures can improve the efficiency of energy use, there are wider benefits. They can, for example, 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. Such measures to improve energy efficiency are being implemented throughout the retail sector (see section 7.6.1).

Demand management measures that address growth in demand (especially peak demand) for electricity are another way to improve efficiency in energy use. These measures often operate via the distribution network sector (see section 6.8).

7.6.1 Jurisdictional energy efficiency initiatives

Many state governments are implementing programs to promote energy efficiency:

- > In June 2007 the Queensland Government released its climate change strategy, *ClimateSmart 2050*. The strategy encourages investment in energy saving technologies to reduce greenhouse gas emissions in Queensland businesses and homes, and increase energy conservation.⁴⁹ Queensland's Smart Energy Savings Program commenced on 1 July 2009. The program requires medium to large energy customers to complete energy conservation audits and develop action plans to reduce their energy use.⁵⁰

- > The New South Wales Energy Savings Scheme provides \$150 million over four and a half years on projects to save energy, reduce peak electricity demand, and delay the need for additional energy generation and distribution infrastructure.⁵¹ It also aims to stimulate investment and increase public awareness of the benefits of energy savings.
- > The Victorian Energy Efficiency Target Scheme, which commenced on 1 January 2009, sets an overall target for energy savings. The scheme operates in phases, with new scheme targets and prescribed activities set for each three year phase. The first phase (2009–11) sets a target annual reduction of 2.7 million tonnes of greenhouse gas emissions.⁵² The scheme requires energy retailers to meet individual targets through energy efficiency activities, such as providing householders with energy saving products and services.
- > South Australian retailers have been subject to the Residential Energy Efficiency Scheme from 1 January 2009. Initial targets are set for a three year period ending 2011.⁵³ The scheme requires retailers to meet targets for improving household energy efficiency (for example, through the use of ceiling insulation, draught proofing and more efficient appliances) and to provide energy audits to low income households.
- > The ACT Government released its climate change strategy: *Weathering the change, ACT climate change strategy 2007–2025* in July 2007. This strategy includes the set up of the Home Energy Advice Team funded by the ACT Government to provide free, independent, expert advice on how to improve the energy efficiency of ACT residences.⁵⁴ The ACT Government has also committed \$40 million to improve the energy efficiency of schools and public housing.

49 Department of Mines and Energy (Queensland), 'Smart Energy Policy', 23 April 2009, viewed May 2009, www.dme.qld.gov.au.

50 Office of Clean Energy (Queensland), 'Smart Energy Savings Fund', 14 May 2009, viewed May 2009, www.cleanenergy.qld.gov.au.

51 Department of Environment and Climate Change (New South Wales), 'NSW Energy Efficiency Strategy', 27 March 2009, viewed May 2009, www.environment.nsw.gov.au.

52 ESC (Victoria), 'Victorian Energy Efficiency Target Scheme', 2 February 2009, viewed May 2009, www.esc.vic.gov.au.

53 ESCOSA (South Australia), 'Residential Energy Efficiency Scheme', 21 April 2009, viewed May 2009, <http://dtei.sa.gov.au>.

54 Department of the Environment, Climate Change, Energy and Water (ACT), *Weathering the change—climate change strategy action plan one 2007–2011*, Canberra, 2007.

7.7 Future regulatory arrangements

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

- > the obligation on retailers to supply small customers
- > small customer market contracts and marketing
- > retailer business authorisations, ring-fencing and retailer failure
- > balancing, settlement, customer transfer and metering arrangements
- > enforcement mechanisms and statutory objectives.⁵⁵

Non-price regulatory functions for gas retail in the Northern Territory will also be transferred to the national framework.

As part of the reform plan, work is proceeding on the development of a National Energy Customer Framework to regulate the retail supply of electricity and gas to customers. In April 2009 the MCE Standing Committee of Officials released the first exposure draft of the framework.⁵⁶ The proposed framework is comprised of a National Energy Retail Law, National Energy Retail Rules and National Energy Retail Regulations.

The AER's functions under the exposure draft include:

- > monitoring the compliance of regulated entities and other persons with the requirements of the national framework, and conducting compliance audits
- > overseeing contractual arrangements among retailers, distributors and customers
- > preparing and publishing annual compliance reports for the national framework, and making guidelines and procedures to support this role
- > preparing and publishing retail performance reports covering matters such as customer service and affordability, as well as retail market activity
- > taking enforcement action for breaches of retail laws
- > publishing retailer standing offer prices

- > granting retailer authorisations and exemptions from the requirement to obtain an authorisation, and establishing a public register with this information
- > establishing and maintaining a customer consultative group
- > conducting performance audits on hardship, and developing hardship indicators for performance reporting.

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.

A second exposure draft of the legislative package is scheduled for release in late 2009. The MCE anticipates the legislation changes required to implement the national framework will be introduced in the South Australian parliament in 2010.

⁵⁵ Australian Energy Market Agreement 2004, as amended.

⁵⁶ MCE Standing Committee of Officials, *Explanatory material—first exposure draft, National Energy Retail Law, National Energy Retail Regulations, National Energy Retail Rules*, Canberra, April 2009, pp. 1–2, 4–19, 20–1.