



Energy Retailers Association  
of Australia Limited

16 August 2010

Mr Tom Leuner  
General Manager  
Markets Branch  
Australian Energy Regulator  
GPO Box 520  
Melbourne VIC 3001

By email: [AERInquiry@aer.gov.au](mailto:AERInquiry@aer.gov.au)

Dear Mr Leuner

**Re: Retail Market Performance Reporting Issues Paper**

The Energy Retailers Association of Australia (ERAA) welcomes the opportunity to provide comments on the Australian Energy Regulator's (AER) Issues Paper (the Issues Paper) on Retail Market Performance Reporting Issues.

The Energy Retailers Association of Australia (ERAA) is the peak body representing the core of Australia's energy retail organisations. Membership is comprised of businesses operating predominantly in the electricity and gas markets in every state and territory throughout Australia. These businesses collectively provide electricity to over 98% of customers in the NEM and are the first point of contact for end use customers of both electricity and gas.

In general, the current reporting requirements – and those being proposed – for the energy retail industry are significant and unparalleled by any other comparable industry in Australia. The energy retail industry is a highly transparent and regulated industry; there is a wealth of information available, including that produced by the Australian Bureau of Statistics, research bodies and financial institutions, to enable a considered analysis of the performance of the industry.

In the ERAA's view, this already available information should be used to the fullest extent possible, before considering additional regulatory performance indicator requirements. Ideally, the AER would devise a set of 'core' reporting indicators based on minimum National Energy Customer Framework (NECF) requirements, assess the extent to which current information meets these requirements, and then consider the costs and benefits of adding incremental reporting requirements to the significant compliance burden already faced by retailers.

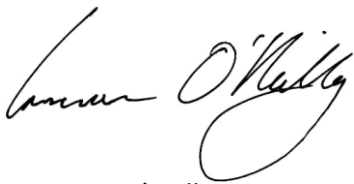
The ERAA is concerned that some of the suggested reporting in the Issues Paper is overstepping the requirement of a *retail market performance report* and may instead be at the risk of becoming a *retailer's performance report*. The ERAA believes these reports should focus on the high-level performance of the market and not delve into the individual business operations of retailers. Further, a clear distinction should be drawn between what are indicators of performance, and the assessment of compliance against regulatory obligations; whether a figure is 'low' or 'high' is an entirely subjective and separate question from whether a retailer is complying with its regulatory obligations.

With regulated retail prices, the capacity for retailers to recover the costs of regulatory requirements is limited. These additional reporting requirements placed on retailers result in increased costs to retailers and ultimately need to be passed on to consumers through higher energy prices. For this reason, it is essential that any reporting requirements are backed by a strong rationale and with an intended purpose for the data. Certain data requirements mentioned in this Issues Paper are also commercially sensitive and the ERAA has serious objections to the AER reporting this data.

The case for deregulating retail prices around the country is made stronger every time additional regulatory requirements are placed on retailers because it becomes increasingly difficult for price regulators to set cost-reflective prices. The ERAA's view is that strong competition delivers the best protection for consumers; not transparency of the market.

The remainder of the submission refers directly to the draft decisions. Should you wish to discuss the details of this submission further, please contact me on (02) 9241 6556 and I can facilitate such discussions with ERAA member companies.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Cameron O'Reilly', with a large, stylized flourish at the end.

Cameron O'Reilly  
Executive Director  
**Energy Retailers Association of Australia**

### *Retailer Market Performance Reports*

The ERAA sees these reports as a useful tool for governments, regulators and industry. The purpose of these reports, and where they could add the most value, is in a similar style to the AER's *State of the Energy Market* annual report, which gives an overview of the energy market for a particular year. These reports should be used as a high-level snapshot of the retail market, and not as a market analysis.

At least for the interim, the ERAA sees that these reports would be most useful on no more frequent than an annual basis. Quarterly reporting is too frequent to offer any real meaning and places too large of a burden on retailers and the AER. The items that the report is expected to cover (listed on page 5 of the Issues Paper), are indicators that are unlikely to change substantially over short periods. Over the course of a year, or two years, there may be changes in the trends of some of the indicators which give some insight into the performance of the market. However, over shorter periods such as quarterly, any variations are likely to be minimal and insignificant.

Submitting and collecting data each quarter is a particularly onerous task for both energy retailers and the AER. The justification and need to be reporting quarterly has not been made in the issues paper. It needs to be considered whether the benefit of quarterly reporting outweighs the administrative cost and regulatory burden to affected parties.

Finally, data should not be collected for 'nice-to-know' reasons or because it is envisaged that the data would be useful in the future. Placing a requirement on retailers to collect data comes at a cost which needs to be factored into these decisions.

### *Number of retailers and active retailers*

The ERAA acknowledges that it can be difficult to define what constitutes an 'active retailer'. The AER's definition of an active retailer as being one that is either marketing or selling energy services to a customer in an area is reasonable in theory. However, marketing is unlikely to be restricted to specially defined areas (e.g. advertisements in newspapers, televisions, billboards, websites, etc) and therefore defining a retailer as being active in a particular area is more difficult than it would otherwise seem. The requirement to report when a retailer changes its status should be sufficient.

### *Number of customers*

The ERAA has concerns with the AER publishing detailed customer numbers and market shares. We acknowledge that information about market shares is useful in understanding concentrations in the market; however customer number data should be aggregated to reflect the possibly commercially sensitive nature of the information. If retailers are to report on customer numbers, then a point in time approach would be most feasible. However, please note that not all retailers store their data in terms of contracts or accounts, so definitions need to be clear; the ERAA refers the AER to the individual submissions of retailers for more information on this.

### *Customer transfers between retailers*

The ERAA believes that customer switching, or churn, is a good proxy for the level of competition in a market. The data available from AEMO is suitable for reporting the level of switching, but the limitations of the data should be noted when reporting the data.

The ERAA collaborates with VaasaETT to produce the World Energy Retail Rankings each year. The results from the rankings may be useful to the AER in producing these reports and the ERAA would welcome the opportunity to work with the AER on this.

### *Energy affordability*

Energy affordability is a difficult concept to define and whether or not a customer's energy bill is affordable depends on the price of energy, a consumer's disposable income, their consumption of all other goods, the availability of government concessions, and especially their energy usage. If the AER is going to publish a report on energy affordability then it needs to look at all the factors that make up affordability.

Determining energy affordability by using customer debt levels, direct debit defaults, payment plans, disconnections, or energy concessions, is for the most part meaningless, if not considered in the greater context of the cost of living, consumption patterns, macroeconomic factors, seasonal factors, wage levels, etc. The complexity of acquiring and incorporating all of this data into something meaningful about affordability is enormous. In any case, the ERAA does not see the role of these reports as drawing inference about energy affordability, or to propose policies to address affordability.

There is a real risk to retailers that these reports could undeservedly be used against them. Any reporting of such things as disconnections or customer debt should be non-specific for retailers and only looked at or reported in a macroeconomic context.

The ERAA agrees with the AER that reports on affordability should not be published any more frequently than annually.

Finally, the ERAA does not support using energy affordability benchmarks, such as the 8% benchmark suggested in the forum.

### *Reporting requirements*

Quarterly reporting is not appropriate. Placing further obligations on retailers increases the compliance burden and administrative costs that retailers face. Energy retailers are not set up to primarily respond to obligations placed on them by regulators. Each business reports and stores data differently and it is not always as consistent and uniform as would be desirable from the AER's perspective.

The ERAA's members range from large incumbent vertically structured gentailers to new entrant second-tier retailers. Placing a quarterly reporting requirement on retailers will often significantly increase the work load of just a number of individuals within an organisation. This further obligation should therefore be no more frequent than annually.



### *Retail market activities review*

The ERAA has serious concerns about how the suggested data will be used. As outlined in the ERAA's submission to the AER's issues paper on Hardship Indicators, the risk to retailers is great; this information touches on sensitive social issues and energy retailers could be undeservedly placed in a bad light as a result of these indicators. Comparing the hardship indicators of retailers does not give a good indication of the performance of a retailer; exogenous factors outside the retailer's control are the reasons why hardship is observed, not because of the performance of retailer's hardship programs.

The ERAA envisages that the number of customers on payment plans and disconnections could provide some insight into payment difficulties, but the ERAA once again cautions the AER on how this information is used and interpreted. Some acknowledgement needs to be made however when non-hardship customers are on payment plans or are disconnected. Direct debit terminations are not a good indicator of payment difficulties.

### *Concessions*

Concessions are not just given to vulnerable customers and therefore should not be used alone to give an indication of the level of hardship.

### *Customer service*

Many of the ERAA's members already report on the suggested customer service indicators listed on page 40 of the Issues Paper and they can therefore be reported for the most part without additional burden. There is difficulty in reporting on jurisdictional indicators for retailers operating nationally however, because when calls are made it is not known where the caller is dialling from. The ERAA cautions the AER on how these are to be interpreted.