



11 April 2008

Commissioner Dr John Tamblyn  
Chairman,  
Australian Energy Market Commission (AEMC)  
PO Box A2449  
SYDNEY SOUTH NSW 1235

By email: [submissions@aemc.gov.au](mailto:submissions@aemc.gov.au)

Dear Commissioner

**Re: Australian Energy Market Commission (AEMC) Review of the Effectiveness of Competition in Electricity and Gas retail Markets in South Australia – Issues Paper**

Please find attached COTA's submission on the Issues Paper. Following consideration of the issues of interest to you and the information available to us via our membership and other sources, COTA believes that the energy market in South Australia remains in transition to effective competition, having not yet reached this level of maturity. COTA believes that competition remains ineffective particularly in the gas industry, and is non-existent in particular geographic areas – rural and remote South Australia, and some outer metropolitan areas. Evidence supporting our conclusion can be found in our submission.

If you have any questions about this submission, do not hesitate to contact COTA's Senior Policy Officer, Melinda Brindle, on 08 8232 0422 or at [mbrindle@cotasa.org.au](mailto:mbrindle@cotasa.org.au).

A hard copy version of this submission is travelling via Australia Post to your address as requested in your issues paper.

Yours sincerely

A handwritten signature in black ink, appearing to be "Ian Yates", written over a faint circular stamp or watermark.

**Ian Yates AM**  
**CHIEF EXECUTIVE**  
**Council on the Ageing (SA)**

## ***Background***

COTA SA is recognised as a strong and effective consumer organisation which provides significant leadership on ageing issues at state and national levels. COTA also delivers a range of programs and services for older Australians.

COTA is South Australia's peak seniors' organisation with an individual membership of around 20,000 and over 250 seniors' organisation members with a combined membership of more than 60,000. In addition, COTA has 80 associate members who are aged care providers, local government bodies, health units and other service and educational institutions. COTA's membership networks and programs are state-wide.

COTA SA was incorporated in 1957. Since then COTA has established a wide range of aged sector organisations. Currently its key roles are:

- Policy and advocacy - centrally engaged in every major aged related State Government policy over the last 20 years
- Programs and services - COTA manages a range of services and programs delivered within South Australia and in other states
- Representation - seniors' interests are represented by COTA in a wide range of State and Commonwealth government forums, non-government bodies, consumer advisory groups, research bodies.

COTA has contributed significantly to the support and development of the non-government ageing sector across South Australia and nationally.

## ***COTA Involvement in Energy Issues***

COTA has for many years been represented on the Essential Services Commission of South Australia (ESCOSA) Consumer Advisory Committee in which it plays an active role. In more recent years it has also been represented on the SA Minister for Energy's Energy Consumer's Council (ECC) and its two sub-committees, and actively participates in all these forums.

COTA has been working closely with its constituents to increase awareness and understanding of the retail energy markets. COTA has developed a kit of information which is delivered to clubs and other organisations to aid an increased understanding of energy issues. COTA believes however that understanding of the energy industry and marketplace remains very limited within its membership base and within the general public.

## ***South Australia and its Older Population***

South Australia has an ageing population, greater than any other state or territory in Australia. At present, 1 in 7 South Australians are aged 65 years and over. By 2021 it will be 1 in 5 and by 2051 it will be 1 in 3. At the same time, people aged 85 years and over will quadruple from 1 in 57 South Australians aged 85 plus to 1 in 15 by 2051.<sup>1</sup>

South Australia also has a greater proportion of people receiving income support via the age pension than any other state/territory – 68.2%, compared with a national average of 65.4%.<sup>2</sup> The picture for all states/territories is as follows :

NSW	63%	TAS	64.7%
VIC	65%	NT	66.3%
QLD	63.3%	ACT	49.7%
<b>SA</b>	<b>68.2%</b>	WA	62.7%

More South Australians therefore are on fixed or diminishing (in real terms) incomes. Their ability to afford energy, along with other essential goods and services, is diminished in comparison to their interstate counterparts. Older South Australians receiving the age pension have very limited ability to afford increases in energy. COTA remains very concerned about the cumulative impact on older household's budgets of a number of initiatives in this area. The South Australian Government's introduction of a Residential Energy Efficiency Scheme (REES), solar feed-in program, and the requirements under the proposed Greenhouse Gas and Flow Rate Performance Standards for Domestic Water Heater Installations initiative; not to mention emissions trading, will result in increased energy costs to households including those comprised of older South Australians.

In addition, South Australia has the lowest useage of a home computer by persons aged 55 years and over of any mainland Australian state/territory – at 9.2%, with the national average at 10.6%.<sup>3</sup>

In today's world where all of us are increasingly reliant on IT, greater numbers of older South Australians than anywhere other than Tasmania are "information poor". They lack the means to easily locate and research issues such as alternative energy retailers and products.

The characteristics of the South Australian population has implications for public policy in many areas, not the least of which is energy.

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<sup>1</sup> Australian Bureau of Statistics (2005) *Populations Projections*

<sup>2</sup> Australian Bureau of Statistics (1999) *Older People, Australia : A Social Report*.

<sup>3</sup> As above.

## **AEMC Review of Competition**

COTA believes there are a number of issues that should be considered in this AEMC review. The issues have been grouped as per the Issues Paper for ease of reference.

### **1. Market Structure and Conditions for Entry, Expansion and Exit**

In South Australia the privatisation of the electricity and gas industries resulted in the creation of a single host electricity retailer (now AGL Energy) and a single gas host retailer (now Origin Energy). This effectively created a duopoly. Smaller retailers can only operate if they manage to persuade customers to transfer their business from these large retailers.

The market share held by smaller retailers, compared with the two large host retailers remains relatively small. According to the *2006/07 Annual Performance Report : Performance of South Australian Energy Retail Market* report released in November 2007 by ESCOSA, as at 30 June 2007,

- AGL (SA) had 57% of the overall electricity market in SA. Origin Energy had 13%, TRUenergy had 13%, Simply Energy has 12%, SA Electricity had 2%, and others combined had the remaining 3%.
- Origin Energy had 60% of the overall gas market in SA. AGL SA had 17%, TRUenergy had 13% and Simply Energy had 10%.<sup>4</sup>

Despite the above mentioned report concluding that “competition **appears to be generally effective** in the electricity retail market for small customers in SA and is **well on the way to being effective** in the gas retail market”<sup>5</sup> COTA maintains that this is hardly a ringing endorsement of the effectiveness of competition in the SA market.

The above mentioned report also recognises that “In a survey on barriers to entry and expansion undertaken as part of the review process, the lack of access to adequate gas transmission and distribution services was raised as an area of primary concern by retailers.”<sup>6</sup> COTA would therefore especially question the effectiveness of competition within the gas market in SA.

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<sup>4</sup> Essential Services Commission of South Australia (ESCOSA) (2007) *2006/07 Annual Performance Report : Performance of South Australian Energy Retail Market* (November 2007 - pages 22 and 23)

<sup>5</sup> As above. Page ii. Emphasis added by COTA.

<sup>6</sup> As above. Page ii.

## 2. Retailer Rivalry

COTA is aware that doorknocking and tele-sales are common forms of marketing activity within the SA market. In addition, some retailers have utilised television advertising to get across their messages – eg. TRUenergy and more recently Aurora (pre-pay option).

COTA notes that the use of telesales is a source of concern in SA. It appears that many people are not aware that consent to accept a new contract may be provided orally over the telephone. As a result, transfers have occurred against the actual wishes of customers. The following case study is one, albeit extreme, example.

### Case Study

*In June/July 2007 a COTA member, lets call him Mark, took a call from 'SA Electricity', a Victorian based company, offering the householders a 'better deal' on their energy bills. The couple live in a small retirement village complex. Greg is hard of hearing and indicated this to the caller. During the call he remembers feeling uncomfortable. Some weeks later the Retirement Village Manager Greg received an energy account from SA Electricity with numerous meter numbers referenced. Apparently SA Electricity had assumed that consent had been given to transfer the energy accounts for the entire village to them. Greg had neither the authority to do this nor the desire. No written authority was sought by SA Electricity to transfer accounts, and no cooling off period was provided. On investigation, the account provided by SA Electricity was also found to be incorrect as it referenced meter numbers not present at the village. This situation took months to resolve with SA Electricity and only after considerable frustration and paperwork.<sup>7</sup>*

COTA also notes that some of its constituents suffer from dementia and therefore their ability to make informed choices is further affected by their mental health. COTA has been made aware that some consumers have "switched" multiple times to the same retailer as they do not understand the market processes involved.

COTA believes that a good customer base for a new retailer would be customers, such as pensioners, that have a regular demand and who as a general rule consistently pay their bills on time. For this reason, shortly after the start of full retail competition COTA approached retailers offering to bundle customers, who would transfer to that retailer, in effect acting as an aggregator. However, retailers were not interested as they believed the total consumption level of these customers would not be high and their profit margins would be too low.

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<sup>7</sup> COTA member - response to questionnaire on energy issues (April 2008) – name changed to maintain confidentiality.

COTA also questions the extent of effective competition for customers in rural and remote South Australia. In 2001, 1 in 7 (14.6%) of the State's population aged 65 or older living outside Adelaide.<sup>8</sup> COTA understands from anecdotal evidence that there is "nothing here in the country" in relation to competitive approaches from energy retailers.<sup>9</sup> The SA Government have also admitted "South Australians who live in rural and remote areas may experience difficulty in accessing services, programs and technology."<sup>10</sup>

Additionally, there are energy customers in outer metropolitan Adelaide who cannot access piped gas, having instead to rely on bottled gas.<sup>11</sup> Older people living in these areas and reliant on bottled gas are disadvantaged greatly if they run out of gas just prior to a weekend and cannot themselves arrange to collect a new bottle as the delivery service only operates on weekdays. Access to cooking and heating in these circumstances can be greatly affected. There appears to be little or no moves to extend the more efficient and effective piped gas network to these areas.

### **3. Customer Participation and Experience**

The Issues paper talks about 'informed customer choice' and a 'willingness to switch' retailers.

COTA submits that access to information is of particular concern for its constituency, and perhaps more generally. Although internet use is on the increase amongst its constituents, there is still a significant portion of people that do not have access to the internet. As mentioned earlier, at only 9.2% South Australia has the lowest usage of a home computer by persons aged 55 years and over of any mainland Australian state or territory.<sup>12</sup> This places a restriction on older people's ability to obtain adequate information about alternate energy providers and their packages. In addition, for those with internet access, the ability of these consumers to effectively use the internet as an information gathering, analysis and comparison tool is often limited.

Additionally, retailers are most reticent to provide potential customers with written details of their offer in order that they can consider it at their leisure and make a fully informed choice about switching. Retailers prefer customers to sign-up over the phone on the basis of scant details, and then receive the written details some weeks later in the mail. COTA does not consider this to be good business practice. The following case study illustrates one example of this reluctance to provide written material prior to acceptance of offer.

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<sup>8</sup> Australian Bureau of Statistics, *Population Projections 1999 – 2101*, 3222.0.

<sup>9</sup> COTA member living at Mannum, SA - response to questionnaire on energy issues (April 2008).

<sup>10</sup> Government of South Australia (2006) "*Improving with Age – Our Ageing Plan for SA*", page 3.

<sup>11</sup> COTA staff member feedback – resident at Willunga, SA.

<sup>12</sup> Australian Bureau of Statistics (1999) *Older People, Australia : A Social Report*.

### Case Study

*A COTA member, let's call her Jane, was door knocked by "Energy Australia" (now called "Simply Energy"). The company subsequently telephoned her a number of times to encourage her to switch retailers. Jane is a very sensible consumer so asked to see written details of the offer and contract. The company declined to provide these, despite Jane writing to them and phoning them on numerous occasions over the course of several months. Finally, in great frustration Jane called the SA Energy Ombudsman's office for assistance and soon after was provided with the written information requested of the retailer.<sup>13</sup>*

COTA believes that a large proportion of its membership is unaware of key features in the energy market, for example, that electricity generation and retailing is done by different companies. A majority of people assume that the company that sells them their electricity also manufactures it. The majority of respondents to a small recent survey conducted by COTA on energy issues demonstrates that the majority do not understand the difference between a 'standing offer contract' and a 'market contract'.

This is not a comment on the intellectual acuity of older South Australians. Rather it is a statement about the complexity and opaqueness of the structures resulting from privatisation within the State and the education and information provided to citizens by relevant authorities. Essentially, the energy industry is very confusing and the majority of older people have better things to do with their lives than try and understand the complexities. COTA would therefore question whether 'informed customer choice' is in effect a reality in SA for a large proportion of the population.

The Issues Paper quotes a report that ranks SA as the 'third hottest switching market in the world'<sup>14</sup>, referring to this is evidence of a healthy, competitive and effective market. There are a range of factors however that COTA believes the AEMC should consider before arriving at this conclusion, including that :

- Churn rates have been artificially stimulated in SA – for example, by the \$50 rebate to concession card holders making a 'switch' offered by the SA government in 2004;

<sup>13</sup> COTA member - response to questionnaire on energy issues (April 2008) – name changed to maintain confidentiality.

<sup>14</sup> AEMC (2008) *Review of the Effectiveness of Competition in Electricity and Gas Retail Markets in South Australia* - Issues Paper ; page 19.

- Some churn has resulted from aggressive marketing strategies adopted by retailers where vulnerable consumers have either finally succumbed to 'get rid' of the retailer or where oral consent was assumed to be given but not actually given - not from a genuine desire by the consumer to switch to a product more beneficial to them; and
- Some churn is as a result of disconnections in the case of consumers with energy affordability issues. South Australia has a large proportion of both older and younger people on fixed or diminishing incomes, and this is expected to increase with the increase over time in the older population generally. Along with increasing costs in a range of essential goods and services (food, petrol, water), disconnections as a result of energy affordability issues may well increase over time.

Inclusion of these factors in the statistical data on churn rates would overstate the robustness of the SA market and serve to mask issues that the AEMC should investigate further before making a review recommendation.

Some older energy customers have chosen not to switch retailers because of the actual or perceived complexity involved in doing so. Comments received by COTA in a recent questionnaire which asked why members had remained with their existing electricity retailer (where this was the case) include:

"Terms and conditions offered by other companies were too complicated." <sup>15</sup>

"It's too damned complicated to make changes." <sup>16</sup>

"Just easier to go with the status quo." <sup>17</sup>

Despite some major issues with his current retailer, another member has chosen to remain with them because of the time and energy involved in researching other retailers and undertaking the switching process. Details are included in the following case study.

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<sup>15</sup> COTA member - response from questionnaire on energy issues (April 2008).

<sup>16</sup> COTA member - response from questionnaires on energy issues (April 2008).

<sup>17</sup> COTA member - response from questionnaire on energy issues (April 2008).

### **Case Study**

*A COTA member, lets call him Adrian, has both his electricity and gas service with AGL. He regularly pays \$20 toward his electricity account via the Post Office, and keeps a record of these payments. Some time ago AGL advised him that he owed them money on his account, and looking up his records Adrian found that this was not so. He had written proof of his payments, but despite this AGL would not believe that their records were incorrect. Being a determined individual and not easily cowered, Adrian maintained his position but could not reach agreement with AGL over a 12 month period. In desperation he finally sought assistance from the SA Energy Ombudsman, and within 24 hours of his contact with them, the issue with AGL had been resolved to his satisfaction.*

*As a gas consumer Adrian also receives a gas account from AGL. His last account, received in early 2008, was he believes "all gobbledygook". AGL had changed their IT system and the new accounts were not easily understandable and contained faulty information on the payments he had made. Had Adrian not been 'on the ball' he may have just paid the account and therefore been financially disadvantaged as a result. Instead he contacted AGL and they were forced to admit that his understanding of his financial position in respect of his account was accurate.*

*Despite these experiences and his obvious unhappiness with the service offered by AGL, Adrian has not changed retailer. He says he is certainly 'thinking about it', but he sees it as a major undertaking and 'hasn't the energy' to tackle it at present.<sup>18</sup>*

#### **4. Equitable Access to the Benefits of Competition**

COTA believes that there are some customers who cannot reasonably access the benefits of a competitive energy market in SA. These customers include :

- People living in rural and/or remote South Australia;
- People living in outer metropolitan Adelaide, particularly in respect of piped gas;
- Older people with a limited capacity to research and understand market offers and contract terms. This limited capacity may result from a hearing disability, ill health, poor literacy or numeracy, coming from a non-English speaking background, or lack of access to information and/or information technology; and
- Older people on fixed or diminishing incomes who may face difficulties with energy affordability.

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<sup>18</sup> COTA member - response to questionnaire on energy issues (April 2008) – name changed to maintain confidentiality.

In relation to the latter point, COTA notes that around 30% of the South Australian population is on fixed incomes, including a large proportion of its constituents. To protect these consumers, COTA believes that a standing contract price should be maintained. COTA believes a “concession” instrument would not provide adequate protection against energy price increases. As the value of concessions erode over time and experience to-date shows that concessions do not adequately keep pace with actual changes in requirements. Therefore, COTA submits that maintaining a regulated price would be preferred.

COTA submits that small nominal increases in price can have significant proportional and actual impacts on the lifestyle of its constituents. There is a proportion of the population that is now only just able to manage their existing financial commitments. Given the recent increases in the prices of other essential goods and services such as food, fuel and water, any further increase in energy prices is likely to place these households under financial duress. Accordingly, it is important to ensure that any increases in the regulated price are fully justified.

### ***Summary & Conclusion***

COTA submits that the energy markets in South Australia are NOT effectively competitive at this stage, particularly in relation to gas, but also electricity. In particular, COTA questions whether competition is operating in some outer metropolitan areas of Adelaide and in rural/remote SA. Government intervention was required in 2004 to stimulate churn and it appears that some consumers have been switched against their wishes. A range of older people, for various reasons, are not able to access the benefits of a competitive South Australian energy market, and COTA concludes that price regulation should be maintained as it most effectively protects consumers on fixed or diminishing incomes.