



4 December 2015

Mr Dominic Adams
Australian Energy Markets Commission
PO Box A2449
Sydney South NSW 1235

Lodged online

Dear Mr Adams,

2016 Retail Competition Review – Approach Paper (RPR0004)

Origin Energy (Origin) welcomes the opportunity to provide a response to the Australian Energy Market Commission's (the Commission's) Approach Paper for the 2016 Retail Competition Review.

In Origin's view, open and competitive markets invariably serve the best interests of consumers by encouraging retailers to develop products that meet their consumers' needs. We support policies, such as deregulation of energy prices and feed-in-tariffs, which create an environment for retailers to compete for customers by delivering proper service and developing products that meet their needs. To that end, we support the decisions of the Queensland Government towards price deregulation of its South Eastern electricity market and welcome the passing of legislation to remove gas retail price regulation in New South Wales by the New South Wales Government.

The advantages of increasing competition has been evident in recent years as energy markets have matured and retailers have broadened their focus from offering the lowest prices to improving the customer experience. Service levels continue to improve as a result of rivalry and competitive tension between retailers, with improvements to retailer billing systems and other practices driving improvements in customer satisfaction and decreases in complaints to energy ombudsmen.

Despite the advances in recent years towards deregulation of prices and privatisation of assets, there are some areas where regulation creates barriers to entry and unnecessarily increases industry costs to the detriment of competitive markets and consumers. Both Victoria and South Australia continue to regulate minimum feed-in-tariff offers, whilst different energy efficiency schemes exist across the National Energy Market (NEM). In Victoria, recently enacted legislation has created further constraints for retailers, whilst the Essential Services Commission has proposed a hardship scheme that departs from the National Energy Customer Framework's approach to hardship. Origin hopes that the AEMC's review will highlight how these policies have the potential to impact on competition in retail energy markets.

We address the questions set by the Commission in more detail below.

Should you have any questions or wish to discuss this information further, please contact Timothy Wilson, Regulatory Analyst, on (03) 8665 7155.

Yours sincerely

A handwritten signature in blue ink, appearing to read "K. Robertson".

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2016 Retail Competition Review Questions

1. Is the approach described above appropriate for this year's review of competition and why?
2. Is there any new evidence about how customers are behaving in retail energy markets and what does that evidence tell us about the level of competition in those markets?
3. What are the barriers to some customers (such as, customers that remain on standing offers) seeking out a new market offer that better suits their needs?
4. Is there any new evidence about what the outcomes are for customers in retail energy markets (such as their level of satisfaction with their experiences) and what does that evidence tell us about the level of competition in those markets?
5. What is the nature of any current or expected barriers to entering, exiting or expanding in any NEM jurisdictions for electricity or natural gas retailers?
6. Is there any new evidence that retailers are competing in retail energy markets on price, product and service differentiation to acquire new, and retain existing, small customers, and what does this evidence tell us about the level of competition in those markets?

Origin supports the Commission's approach to assessing competition in the retail electricity market, noting that it found effective competition in the South East Queensland, New South Wales, Victorian and South Australian markets. The five competitive market indicators constitute a well established and accepted method for assessing the level of competition in each jurisdiction and have been used by regulators in other states.¹

Origin notes that the Transitional Pricing arrangements established as part of the removal of price regulation will come to an end in New South Wales Government on 30 June 2016. This will complete the transition to a fully deregulated retail electricity market. Origin also welcomes the recent passing of legislation that will remove gas price regulation in New South Wales Government, which was the last remaining regulated retail gas market in the east coast. Origin is participating, with other stakeholders, in a Government working group to address any remaining impediments to competition in regional areas of New South Wales Government.

Origin believes that the decision to end electricity retail price regulation has removed a significant regulatory barrier to entry by removing uncertainty and risk associated with the imposition of regulated prices. We have also observed that the number of active retailers in the market has increased during 2014-15 which has led to a decrease in market concentration levels, an increase in small retailer market share and an increase in the number and variety of products and services being offered to customers.

Following the election of a new Queensland Government in February this year, the decision to deregulate retail prices was placed on hold pending a review of the market by the Queensland Productivity Commission (QPC). However, recent statements by the Queensland Government indicate that it will implement price deregulation in South East Queensland (SEQ). Origin welcomes this decision. The retail electricity market in SEQ has evolved considerably since the introduction of full retail competition (FRC) on 1 July 2007. There is now clear evidence that the entry of third party

¹ See for instance IPART, *Draft Report: Review of the performance and competitiveness of the retail electricity market in NSW*, July 2015. Accessed here: http://www.ipart.nsw.gov.au/files/sharedassets/website/trimholdingbay/draft_report_-_review_of_the_performance_and_competitiveness_of_the_retail_electricity_market_in_nsw_-_july_2015.pdf

retailers has resulted in active competition between retailers with the emergence of a growing choice of products and services. Moreover, there is evidence that customers are responding to this competition with over 70 per cent of customers in SEQ having now entered into market contracts to access more efficient prices and service offerings. The introduction of electricity retail price deregulation will further enhance the SEQ electricity market by providing customers with more efficient prices and greater product offerings.

With respect to the regional Queensland market, aspects of the Uniform Tariff Policy have continued to restrict the development of meaningful competition in the market. As the Commission noted in its *2015 Retail Competition Review*, “There is no effective rivalry in the electricity retail market, with less than one per cent of small regional customers in Queensland being supplied with electricity on a market contract by a retailer other than Ergon Energy Retail”.² Origin agrees with the Commission’s assessment that it is the manner in which the Uniform Tariff Policy is presently implemented that makes it difficult for new retailers to enter the market, and thereby inhibits the development of further competition.² An initial step towards creating effective retail competition would be to end the Community Service Obligation under the Uniform Tariff Policy to non-residential customers. This is likely to lead to an expansion in retail competition which would result in a greater choice of products and services at the least cost. In particular, the Community Service Obligation aspect of the Uniform Tariff Policy ought to be reformed, with the subsidy paid directly to the network arm of Ergon as opposed to its retail business.³ This would deliver a more efficient and transparent subsidy to consumers, and unlock some of the benefits of competition.

Competitive prices and services

In Origin’s experience, customers are overwhelmingly experiencing the benefits of competitive retail markets, particularly with respect to price competition between the tier one retailers. This year, Origin’s offers to attract new gas and electricity customers have included offering gas or electricity for free for three months, in addition to discounts off the standing offer. These competitive offers are in response to a heightened level of customer churn in electricity markets across all retailers. For instance, in Victoria more than half of customers that churn from Origin have chosen a second tier retailer. This indicates that the barriers for expansion in the retail market are low and highlights the degree of competition for customers between first and second tier retailers. We believe that improved customer engagement and awareness of their options has increased pressure on retailers to offer better prices and services to retain existing customers. As a result, customers are receiving better price and product outcomes without necessarily switching retailers.

From the perspective of customer satisfaction, improvements to billing systems are demonstrating significant benefits. Billing complaints are generally the highest single factor behind complaints to energy ombudsmen in each jurisdiction. However, following the upgrades to billing systems, and concerted effort to improve customer experience, Origin has seen noticeable reductions in ombudsman complaints. For instance, in Victoria, Origin’s ombudsman complaints have almost halved from 10,934 in 2012-13 to 5,515 in 2014-15.⁴ This mirrors the almost halving of electricity customer complaints for all retailers in Victoria, from 60,517 in 2013-14 to 34,524 in 2014-15.⁵ A similar pattern can be seen in South Australia⁶ and Queensland,⁷ with the latter state having a 27 per cent decline in billing complaints across all retailers. Origin believes that intense competition across a number of

² AEMC, 2015 Retail Competition Review, 30 June 2015, pp. 78-9.

³ Interdepartmental Committee on Electricity Sector Reform, *Report to Government*, May 2013, p. 106

⁴ Energy and Water Ombudsman of Victoria, *2015 Annual Report*, p. 42.

⁵ *Ibid*, p. 40.

⁶ Energy and Water Ombudsman of SA, 2014-15 Annual Report, pp. 15, 17 and 28. Accessed here:

<http://www.ombudsman.sa.gov.au/wp-content/uploads/2014-2015-Annual-Report.pdf>

⁷ Energy and Water Ombudsman of Queensland, 2014-15 Annual Report, p. 22. Accessed here:

<http://www.ewoq.com.au/Portals/0/PDFs/AnnualReports/EWOQ%202014-15%20Annual%20Report.pdf>

markets has provided tier one retailers with an incentive to improve customer experience and to ensure that customer service meets their expectations.

Barriers to entry and expansion

With New South Wales and Queensland taking steps to remove retail price regulation, barriers to entry continue to fall in retail energy markets. This is evidenced by the increased number of second tier competitors entering Victoria and South Australia in addition to those two markets. Nevertheless, there are still some residual barriers in some NEM markets, namely energy efficiency schemes and the continuation of mandated minimum feed-in-tariffs in some markets.

Origin considers that the existence of multiple and inconsistent energy efficiency schemes across state jurisdictions acts as an additional cost for new entrants to the market. The obligations associated with complying with a number of different schemes results in higher operational costs for retailers, which customers must ultimately pay for. Where state-based schemes duplicate components or objectives of the Australian Government's Emissions Reduction Fund, these should be wound up and any residual functions that are complementary could be transitioned to a national scheme.

Similarly, despite having well established and highly competitive retail markets, Victoria and South Australia persist with regulating mandatory minimum prices for their feed-in-tariffs to residential and small customers. In contrast, New South Wales and (South East) Queensland do not regulate feed-in-tariffs. Like price regulation, mandated minimum feed-in-tariffs act as a barrier to entry for new retailers, as they are forced to offer a certain price for solar exports when they may wish to compete for customers on a different basis. This is particularly the case where the regulated feed-in-tariff is set higher than the market value of that power, meaning that costs are higher for retailers entering the market. The result is a disincentive for retailers to enter the market or where they do, they may choose not to market to solar customers. Further, retailers need to manage the uncertainty of future feed-in-tariff determinations. The burden falls on new entrants to forecast likely future feed-in-tariff prices and to factor this in to their business model. In contrast, deregulation of the feed-in-tariff is likely to introduce more competition and greater incentives to promote greater offer diversity. Accordingly, it would be valuable for the Commission to consider the impact of mandated feed-in-tariffs when assessing barriers to entry and competition in the market.

Regulatory changes in Victoria

In Victoria, the market continues to demonstrate a high level of customer churn, with retailers responding to higher discounts in order to maintain their market share. Customers undoubtedly benefit from engaging in the market and taking advantage of these offers. Despite this, the Victorian Government has introduced new regulations that restrict the products retailers may offer customers, such as a prohibition on exit fees in variable contracts and requiring retailers to offer solar feed-in-tariff customers the same terms and conditions as other customers.⁸ We appreciate that the Government acted with the intention of protecting customers, but Origin did not require regulatory intervention to remove exit fees from all of its contracts, nor to refrain from discriminating between solar and non-solar customers. Both of these are reflected in Origin's current retail market offers, presenting what we believe to be an attractive alternative offer for customers in a competitive retail market. Customers were free to choose these products if they valued either of these features. For those consumers who did not have solar PV, or were willing to pay an exit fee in return for receiving a lower tariff with another retailer, the new regulatory regime has diminished their choices in the market.

⁸ See clauses 5 (23C) and 10 of the *Energy Legislation Amendment (Consumer Protection) Bill 2015*. The Bill may be accessed here: http://www.legislation.vic.gov.au/domino/Web_Notes/LDMS/PubPDocs.nsf/ee665e366dcb6cb0ca256da400837f6b/651a35dbe957c25eca257eb3007d62a0!OpenDocument

Similarly, Origin is concerned by the Essential Service Commission's (ESCV) proposed hardship framework in Victoria, as detailed in its Draft Report for the Energy Hardship Review, and the extent to which it will deviate from other states under the National Energy Customer Framework (NECF). As Origin argued in our submission to the ESCV's Draft Report,⁹ the proposed framework would have restricted retailers from being able to provide tailored assistance to a customer's individual circumstances from the earliest opportunity. In Origin's view, this framework may have had the unintended impact of constraining innovation in the assistance retailers provide to hardship customers. The proposed framework also departed significantly from the NECF-based schemes of other jurisdictions, and may have led to significant compliance costs for retailers. Such costs are ultimately met by consumers. Origin and other retailers are presently in discussions with the ESCV to refine its Energy Hardship Review so that we can effectively meet its objective of assisting customers to avoid the debt spiral.

It is important that the Commission consider these, and other recent regulatory changes in Victoria, when reviewing the nature of competition in this market. Whilst prices remain deregulated, Origin's concern is that other forms of regulation will lead to increased cost of doing business in Victoria, and over time may harm competition by creating unnecessary barriers to entry and higher costs for consumers.

7. What are the differences between the experiences of vulnerable customers in retail energy markets and other customers; and what do these tell us about how effectively vulnerable customers are able to participate in retail energy markets?

As an energy service provider, Origin takes seriously its obligation to actively engage with vulnerable customers across the customer lifecycle with early intervention, individual case management through our hardship program ("Power On"), and post-hardship assistance. In recent years we have taken steps to improve and re-launch our Hardship Policy by re-writing key Power On documents to make them easier to understand. We provide vulnerable customers with over-the-phone energy efficiency advice and in-home visits to directly assist them with managing their energy use. Origin also works to develop strong relationships with financial counselors to assist customers with the development of budgeting skills.

Origin recognises that vulnerable customers require properly trained staff to meet their particular needs and to help them with engaging in energy markets. Not all vulnerable customers may be classified as such for economic reasons; some customers have mental health problems that make it difficult for them to engage with energy retailers whilst others may be facing social problems (such as domestic violence) that make them vulnerable. To handle these challenges, Origin provides 'accidental counselor' training to our staff (through LifeLine) to help them understand better hardship triggers and techniques to assist customers. We have also implemented our 'Connect' customer interaction methodology into our Service and Sales teams. This enables frontline staff to better understand and acknowledge vulnerable customers by teaching our agents to take the time to fully understand the customer's needs. Once a clear understanding is gained, the agents are trained to tailor the solution for the customer, ensuring they have covered any apparent future needs before gaining clear agreement that the solution is fit for purpose. Overall, Origin continues to work hard to engage with hardship customers and to ensure that they understand a range of choices available to them.

Where a customer is identified as experiencing payment difficulties due to hardship, they are referred to our Hardship Team and offered entry onto our Power On program. Our Hardship Team is trained to understand the causes and impacts of hardship. They undergo tailored training sessions to help them

⁹ Accessed here: <http://www.esc.vic.gov.au/getattachment/b48d795b-7282-4a16-bf7a-10bc9fa65a2b/Origin-Energy.pdf>

understand the customer's situation. The team will undertake a capacity to pay assessment, which considers the customer's usage habits, consumption patterns, payment history, concession status and payment plan history. This information is used to determine the best payment plan option. Each of these steps assists Origin to identify and engage with vulnerable customers so that we can help them to participate effectively in retail energy markets. Importantly, the Power On program is premised on the concept of joint responsibility between both Origin and our customers. We require customers to commit to engage with us throughout the process to allow us to tailor payment plans should there be a change in their circumstances and to ensure the customer is working towards sustainable energy consumption.

Where a customer advises Origin that they have been, or will be, unable to pay their bill by the due date, we may offer a payment extension, which we call a 'Promise to Pay'. The Promise to Pay allows the customer to pay the total amount owing on their account over a period, typically up to five weeks. These payments may be made weekly, fortnightly, monthly, or in one lump sum. For customers experiencing difficulty paying their bill, and who cannot manage to pay their bill under a Promise to Pay arrangement, we offer an EasiPay payment arrangement. Origin works with the customer to determine an agreed amount to be paid in instalments over 12 months. This amount includes both arrears and ongoing consumption so that the customer does not fall into further debt. Both Promise to Pay and EasiPay assist Origin ensuring that financially vulnerable customers are provided with a reasonable experience within the retail energy market.

Additionally, Origin undertakes analytics of customer behaviour to help with delivering tailored measures to customers. Customer analytics involves examining trends in behavior to understand what motivates consumers to choose Origin and the reasons why they churn to different retailers. By understanding customer behavior and preferences, we can better target different customers with specific offers and services. This has assisted Origin to develop programs that have better engaged vulnerable customers, such as Power On, Promise to Pay and EasiPay.

8. Is there any evidence that new products and services are currently impacting competition in retail energy markets and if so, what is that impact?
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Origin acknowledges that solar PV products are not the same as a contract for the supply retail energy. For most residential customers, solar energy supplements, rather than replaces, grid supplied energy. It effectively acts as a form of energy efficiency by reducing load at certain times of the day, much as the installation of improved household insulation or LED lighting reduces demand. Following the closure of premium feed-in-tariff schemes, the economic benefit that solar PV customers receive is from the avoided cost of energy they no longer need to purchase from their retailer. The supplementary nature of solar PV means that it should not be regulated in the same manner as retail energy contracts. However, by providing customers with a partial substitute for their retail energy supply, solar PV competes directly with energy retailers.

The impact of solar PV is felt across the breadth of the National Energy Market (NEM). The NEM is predicated on a formal regulatory delineation between wholesale, network and retail functions. The installation of solar PV (regardless of the financing model) directly impacts on the operation of each of these markets. Rooftop solar displaces the need for households to purchase energy from the wholesale market. As distributed generation, it uses the local network to export power and reduces demand for transmission; this impacts the retailer market either by reducing the amount of energy a retailer sells to its customers or (in the case of Solar Power Purchase Agreement models) acts a substitute source of supply.

By impacting these three functional areas of the NEM, solar PV competes directly with existing market participants. Retailers will ultimately need to respond to these technologies by developing products that allow them to remain competitive. This may be in the form of 'bundling' these solar and other emerging technologies with tariffs and other retailer products; or it may be by developing products that

appeal to customers who already possess solar PV systems from a non-retailer entity. Origin anticipates that this will be an important aspect of market competition in future years. Accordingly, for the purpose of its Competition Reviews, the Commission should broaden its definition of competition to capture the impact of solar PV and other new or emerging technologies that substitute or displace retail energy supply. Such reviews could also consider the continued appropriateness of the existing regulatory framework (e.g. the National Energy Consumer Framework) in light of market evolution and product innovation and increased substitution and customer choice.