

NEWS

National Energy Retail Competition Review released

The Australian Energy Market Commission (AEMC) today released its yearly report card on the state of competition in retail energy markets. The report finds that consumers are seeing greater choice and opportunities to save on their energy costs as competition evolves over time.

The 2015 Retail Competition Review assessed retail energy competition in each state and territory in the National Electricity Market with reference to the structural, regulatory and market characteristics which impact on consumers' experience.

Overall, retail competition remains effective for electricity markets in South East Queensland, New South Wales, Victoria, and South Australia, although less effective in the Australian Capital Territory and is yet to emerge in Tasmania and regional Queensland.

Key indicators of effective competition are steady or have improved since last year's report:

- **Switching rates:** Around 90 per cent of consumers surveyed are aware they can choose a different energy company, 31 per cent are actively investigating their options and around 20 per cent actually switched in the last 12 months.
- **Market concentration:** New electricity retailers have entered and second tier retailers have gained market share, leading to declines in market concentration. There are now 11 to 21 electricity retail brands offering plans in the different competitive markets.
- **Consumer satisfaction:** Sixty nine per cent of electricity consumers surveyed were satisfied with their retailer.

The report showed that consumer satisfaction tended to be higher in states where competition has been effective for longer and AEMC Chairman John Pierce said this suggested that competition was evolving over time.

"As competition evolves, consumers are increasingly seeing more choice and opportunities to save on their electricity and gas bills and this is reflected in their levels of satisfaction.

"We also must recognise that while the majority report being satisfied, some customers have negative experiences," he said.

One area of focus in the report is the link between consumers' experiences and access to trustworthy information, particularly independent comparison websites and phone services.

“Consumers are seeing greater choice and opportunities to save on their energy costs as competition evolves over time”

Consumers who used price comparator websites to investigate their options were significantly more aware of the choices available to them and also more confident they could find the right information to help choose an energy plan.

Mr Pierce said independent information for consumers was particularly important in a rapidly evolving energy market.

“The nature of the market is changing with new technologies giving consumers more options to actively participate in the energy market. This is also changing the customer experience and presents opportunities and challenges.

“We know that well informed, active consumers can drive better outcomes for themselves and market competition overall,” he said.

To promote competition in retail markets and improve consumer outcomes, the report recommends:

- raising awareness of tools available to simplify comparing energy offers;
- ensuring concession schemes are delivering on their intended purpose in a targeted way;
- continuing to harmonise regulatory arrangements to reduce the long terms costs of competing across jurisdictions;
- implementing the recommendations of the AEMC’s review of electricity customer switching to improve the accuracy and timeliness of the customer transfer process; and
- removing energy retail price regulation where competition is effective.

Our analysis assessed retail competition in electricity and gas markets for all National Electricity Market jurisdictions, drawing on research and data collected up to the first quarter of 2015.

The report and further information is available at www.aemc.gov.au.

Other results

Solar consumers reported being more active and confident in shopping around for an energy deal and switching retailer or plan. They also reported higher levels of satisfaction with their retailer and the level of choice in the market.

Customers continue to move away from the ‘big three’ retailers to second tier retailers, which collectively gained market share in all jurisdictions. Switching data and customer research also suggests there is rivalry between the ‘big three’.

In retail gas markets, competition is effective in most parts of Victoria, South Australia and New South Wales. However, in some regional areas there is no choice between gas retailers. Competition is less effective in South East Queensland with only two retailers operating.

“Consumers who used price comparator websites to investigate their options were significantly more aware of the choices available to them and also more confident they could find the right information to help choose an energy plan”

About the AEMC

We are the independent body responsible since 2005 for providing advice to Australian governments on development of the electricity and gas sector. We make statutory energy market rules which are applied and enforced by the AER.

The AEMC is required under the Australian Energy Market Agreement to assess the effectiveness of competition in retail energy markets in National Electricity Market jurisdictions. This is an annual review under the approach agreed by the former Standing Council on Energy and Resources, now known as the COAG Energy Council.

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AUSTRALIAN ENERGY MARKET COMMISSION – ANNUAL ENERGY RETAIL COMPETITION REVIEW 30 JUNE 2015

COMPETITION IS PROVIDING CUSTOMERS WITH CHOICE AND OPPORTUNITIES TO SAVE

Consumers want deals that suit them best

More retailers are in the market meeting customer needs

The market is less concentrated. Second-tier retailers are growing their share of customers

Up to 21*
electricity
retailers competing

Up to 10*
gas
retailers competing

* Number varies across jurisdictions

They're active energy shoppers

People who use comparator websites are more confident shoppers

Aware they can switch: 10 icons

Investigating switching: 10 icons

Switched this year: 10 icons

In jurisdictions with effective competition around 10-30% of households are still on standing offers that generally cost more

They're mainly satisfied

Most customers were satisfied with their level of customer service and value for money

Satisfied with their retailer: 10 icons (8 satisfied, 2 dissatisfied, 0 neutral)

Satisfied with switching decision: 10 icons (8 satisfied, 2 dissatisfied, 0 neutral)

Consumer choices are driving the transformation of the energy market

Consumer choices are changing the energy landscape and driving competition in new directions. Technological innovation is delivering a growing range of energy services which can manage usage and help reduce energy costs

Recommendations to promote more competition . . .

WWW Raise awareness of government-run price comparison websites

ENERGY SHOP Make switching even faster and easier as proposed by the AEMC review of electricity customer switching

\$ Keep harmonising regulation to minimise costs

Remove energy retail price regulation where competition is effective

i Give people better information so they can benefit from increasing competition

Some retailers could improve their customer relationships and service

The state of competition

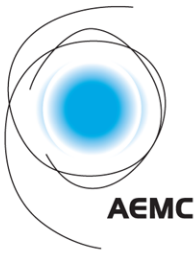
Electricity retail competition is effective in Victoria, New South Wales, South Australia and South East Queensland; less effective in the Australian Capital Territory and yet to emerge in Tasmania and regional Queensland.

Gas retail competition is more tempered, but effective in most of Victoria, South Australia and New South Wales; limited in South East Queensland and yet to emerge in the ACT, Tasmania and regional Queensland.

Energy markets are evolving over time

Jurisdiction	Market not fully contestable, regulated prices					Full retail contestability, regulated prices					Full retail contestability, deregulated prices				
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
QLD	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
VIC	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
NSW	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
ACT	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
SA	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
TAS	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15

No gas market until 2007



Retail energy markets – 2015 competition review

Final report published

The Australian Energy Market Commission's (AEMC's) review of the state of competition in retail energy markets found that consumers are seeing greater choice and opportunities to save on their energy costs as competition evolves over time.

The AEMC is required under the Australian Energy Market Agreement to assess the effectiveness of competition in retail energy markets. This is an annual review under the approach agreed by the COAG Energy Council.

Key findings

Competition continues to evolve and mature. Changes since the last retail competition review, such as new retailer entry and declines in market concentration, suggest markets are continuing to evolve and mature. Competition is providing consumers more opportunities to choose an energy retailer and plan that best meets their needs. Further developments are expected over time as this evolution continues and new technologies are taken up.

Competition continues to be effective in the Victorian, NSW, South Australia and South East Queensland retail electricity markets, delivering customers a range of energy plans from 11 to 21 different retail brands. New retail brands have entered Victoria, NSW and South Australia and the Australian Capital Territory (ACT) since the 2014 retail competition review. Effective competition is yet to emerge for small customers in electricity markets in Tasmania, regional Queensland and the ACT.

Competition continues to be more tempered in gas retail markets where there are fewer retailers operating in a smaller market than for electricity. Competition is effective in most of Victoria, NSW and South Australia. There is limited competition in South East Queensland and effective competition is yet to emerge in the ACT, Tasmania and regional Queensland.

Market concentrations have declined, where competition is effective, as second tier retailers have entered and gained market share from the big three retailers.

Customers continue to actively shop around for energy deals, with 31 per cent of surveyed residential customers stating they had actively investigated energy options in the past 12 months. Surveyed customers reported switching their energy retailer more often than providers of other services such as internet, mobile phone, banking and insurance.

Customers who regularly shop around could save on their energy bills. Customers comparing electricity market offers through Government run price comparator websites could find offers that were significantly cheaper than the most expensive. The level of potential savings differs with distribution network, energy consumption, discount eligibility and type of contract

Retail customers have diverse energy demands. An energy offer that is good value for one customer may be expensive for another customer with a different consumption level or different needs and circumstances. It is important that customers have access to clear information about what they are signing up to and that customers consider their personal circumstances when choosing a plan.

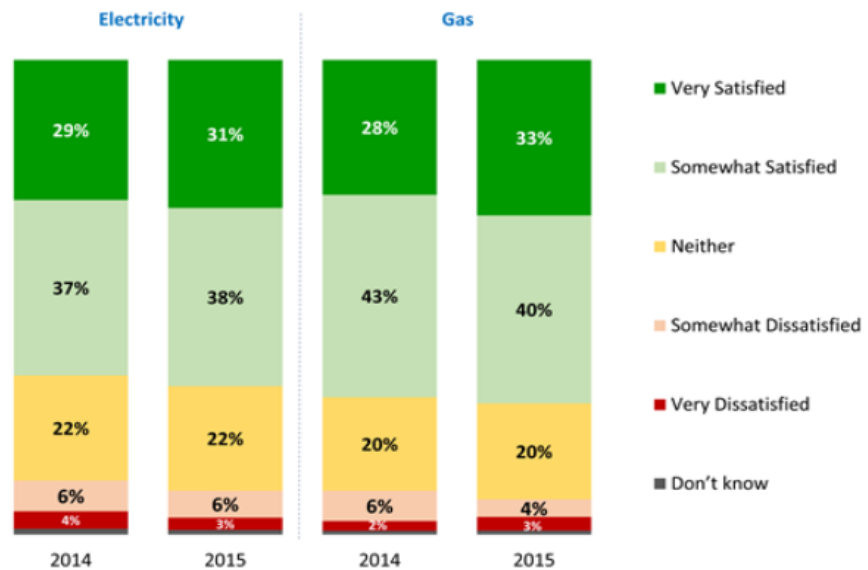
69 per cent of residential electricity customers were satisfied with their retailer, while 9 per cent were dissatisfied.

Government run price comparison tools are helpful, but awareness of these is low.

Customers who used price comparator websites to investigate their options were significantly more aware of the choices available to them and also more confident they could find the right information to help choose an energy plan. Customer surveys suggest awareness of these tools is low, with an average of one per cent of customers citing the name of the website available in their jurisdiction.

Most customers surveyed were satisfied with their electricity and gas retailer, as well as the customer service and value for money provided. Sixty nine per cent of residential electricity customers and 73 per cent of residential gas customers were satisfied with their retailer, up from 66 per cent and 71 per cent respectively in 2014 (Figure 1).

Figure 1 - Satisfaction with current electricity and gas retailer – residential customers



Some customers have negative experiences. Nine per cent of surveyed residential electricity customers and seven per cent of residential gas customers were dissatisfied with their retailer. Between 0.1 and three per cent of small customers made a complaint to their Ombudsmen in 2013-14 across the jurisdictions. Common issues behind complaints include high bills, errors in billing, disconnection and debt collection.

Most customers who switch are satisfied with their decision. Seventy eight per cent of residential electricity customers who switched electricity retailer or plan were subsequently happy with the decision to switch.

Recommendations

There are some common themes across jurisdictions and the Commission recommends that governments:

- Consider options for raising awareness of the tools available for comparing energy offers to improve customer’s confidence in the market, for instance, through tailored communications to different audiences as set out in the AEMC’s consumer engagement blueprint;
- ensure concession schemes are delivering on their intended purpose in an efficient and targeted way;
- continue to harmonise regulatory arrangements to reduce the long term costs of competing across jurisdictions;
- implement the recommendations of the AEMC’s review of electricity customer switching to improve the accuracy and timeliness of the customer transfer process; and
- remove energy retail price regulation where competition is effective.

The AEMC drew from a range of information sources to assess the state of competition against five competitive market indicators. Information on a range of indicators needs to be considered collectively before judgement can be formed on the overall state of competition.

Future outlook

Changes have occurred in the twelve months since the last competition review, but more significant developments are likely to be evident over a longer period of time in response to policy changes, wholesale market conditions and technology changes.

A number of retailers surveyed were considering entry and expansion into the Victorian, NSW, South Australia, South East Queensland and ACT electricity markets. Retailers expected less entry and expansion in gas markets compared to electricity markets.

Further improvements in retail competition are expected in NSW following the removal of price regulation in 2014, with rivalry between firms increasing. The impact of this policy change is likely to be evident over the longer term as it will take time for retailers and customers to respond to new opportunities.

A competitive wholesale electricity market will continue to be an important enabler of effective competition in retail markets. For customers to have choice between retailers, retailers need to have choice of wholesale contracts.

Over the medium to longer-term the Commission expects to observe greater innovation supported by the roll out of new metering, solar and energy storage technology and new business models for the provision of energy services.

About the review

The AEMC drew from a range of information sources, gathered up to the first quarter of 2015, to form an evidence base to assess the state of competition against the following five competitive market indicators:

- the level of customer activity in the market;
- customer satisfaction with market outcomes;
- barriers to retailers entering, expanding or exiting the market;
- the degree of independent rivalry; and
- whether retail energy prices are consistent with a competitive market.

An assessment of competition cannot be based on observing one indicator at one point in time and determine whether there is effective competition in a market. Multiple indicators are required to form a more complete picture of the state of competition. There are also no 'critical thresholds' for these indicators that tell us when competition is operating effectively. Information on a range of indicators needs to be considered collectively before judgement can be formed on the overall state of competition.

A range of information sources are used to assess the competitive indicators in each market. These include submissions to our consultation and approach papers, quantitative customer research, retailer surveys and data provided by Ombudsmen, retailers, jurisdictional regulators, the Australian Energy Regulator and Australian Energy Market Operator. Additional detail on our customer and retailer research is available in consultant reports on our website.

About the AEMC

The Australian Energy Market Commission is the independent body responsible since 2005 for providing advice to Australian governments on the electricity and gas sector. It makes energy market rules which are applied and enforced by the Australian Energy Regulator.

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