



8 February 2013

Mr John Pierce  
Australian Energy Market Commission  
PO Box A2449  
Sydney South NSW 1235

Submitted online: [www.aemc.gov.au](http://www.aemc.gov.au)

Dear Mr Pierce

**REVIEW OF COMPETITION IN THE RETAIL ELECTRICITY AND NATURAL GAS MARKETS IN  
NEW SOUTH WALES - ISSUES PAPER**

Origin Energy (Origin) appreciates the opportunity to provide a response to the Australian Energy Market Commission's (AEMC) Issues Paper in relation to its Review of Competition in Electricity and Natural Gas Markets in New South Wales.

As a major participant in various energy markets in Australia, Origin is well placed to contribute to this process and has addressed the questions raised in the AEMC's Issues Paper in the attached submission. Origin has also provided the AEMC with data that supports this submission in a confidential attachment.

Origin looks forward to continued participation in the current review. If you have any queries, please contact Keith Robertson on (02) 9503 5674.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Phil Moody".

Phil Moody  
Group Manager - Energy Markets Regulatory Development  
Energy Risk Management

## **Executive Summary**

Origin Energy (Origin) appreciates the opportunity to provide a response to the Australian Energy Market Commission's (AEMC) Issues Paper in relation to its Review of Competition in Electricity and Natural Gas Markets in New South Wales.

With both Victoria and South Australia fully deregulating retail energy prices, and New South Wales now joining Queensland in deregulating electricity prices for large customers using more than 100 MWh per annum, there is a strong momentum for all state governments to move to full price deregulation.

Origin believes that competition in the NSW gas and electricity retail markets is effective and meets the Ministerial Council of Energy criteria for a competitive energy market. The conditions therefore exist for the removal of price regulation.

### ***Independent rivalry within the market***

There is evidence of strong independent rivalry within the market; active competitors include Origin, AGL, EnergyAustralia, APG, Red Energy, Lumo and Dodo. These retailers offer differing products, employ a range of sales channels and proactively seek to acquire and retain customers, with competitive outcomes demonstrated by high customer switching rates and shifting market shares among competing retailers.

### ***Ability of suppliers to enter the market***

The ongoing threat of new entrants is evident with four applications for retail licences pending IPART's approval and recent new entrants successfully growing market share. There are no significant barriers to entry. New entrants have access to a range of risk management instruments to manage electricity wholesale risks, including structured products that mitigate against both volume and price risks. While the availability of wholesale gas supply has at times attracted criticism Origin notes there are currently five active gas retailers in NSW and that prior to privatisation EnergyAustralia developed a substantial mass market gas business as a new entrant. New entrant retailers have consistently demonstrated an ability to either develop their own competitive sales and service capabilities or secured outsourced arrangements.

### ***The exercise of market choice by customers & customer switching behaviour.***

Customers have a high level of awareness of their ability to switch retailers <sup>1</sup>and receive a high level of information regarding competitive market offers. Retailers' advertising campaigns are widespread in both metropolitan and country areas and web based tariff comparison services are provided by IPART, the AER and commercial operators.

Customer switching levels in the NSW retail market are currently around 20% for electricity and 14% for gas annualised reflecting a significant increase in customer churn post privatisation of the NSW retail businesses. This level is approaching that of Victoria; a retail market recognised as one most competitive in the world. This level of switching is also high relative to churn rates in other industries (switching rates are around 12% for insurance, 8% for banking, 16% for mobile phones services) and international energy markets (NSW ranked the 10<sup>th</sup> most competitive energy market in 2012).

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<sup>1</sup> Origin survey, 2011 86% of customers aware that they can choose to switch their electricity retailer

***Differentiated products and services***

Retailers offer a range of pricing structures and levels. Much of the current competition is price focused with many offers based on a discount against a headline tariff. Over recent history there have however been a range of differentiated retail products, including: price discounts, loyalty rewards, value added offerings, green products, differing contract terms, fixed rates and incentives for payment options. Retailers have also developed and promoted specific payment solution products, for example Origin's product Easipay (which provides for fortnightly or monthly billing). The wider deployment of metering technology coupled with the removal of retail price regulation is likely to promote investment in more innovative products as has been the case in Victoria.

Strong customer protection measures are currently in place and will be maintained as NSW proposes adopting the (National Energy Customer Framework) NECF from 1 July 2013 while retaining a number of NSW specific customer protections.

***Price and profit margins***

Tariffs under the current determinations for gas and electricity are broadly set at a level that allows for a smooth transition to price deregulation.

Origin firmly believes that NSW exhibits the characteristics of an effective, competitive energy retail market. As such there is no further role for price regulation. Origin has not identified any material barriers to entry that need to be addressed. As South Australia has recently demonstrated the removal of price regulation can be implemented with appropriate customer communication in a short timeframe and does not require any further "phasing in".

## Introduction

While the economic justification for price regulation is apparent in monopolistic markets, where it acts as a proxy for competition, as markets become competitive, competing entities drive economically efficient market outcomes and the rationale for price regulation disappears. The ultimate objective of regulated retail markets is to transition to deregulation once they have become competitive.

The Productivity Commission has recognised that, in the presence of retail contestability retail price regulation has little work to do as competition between suppliers functions to protect consumer interest by keeping prices in check over the longer term.<sup>2</sup> With Victoria and South Australia fully deregulating energy prices, and NSW and Queensland deregulating prices for large customers using more than 100MWh of energy per annum, there is clear momentum for all state governments to move to full price deregulation.

Competitive deregulated markets are more efficient and function to provide appropriate price signals to ensure security of supply while also restraining prices charged by suppliers through competitive market forces. The transition of retail markets to deregulation is therefore consistent with the National Electricity Objective and National Gas Objective, and promotes the long term interests of consumers. In Origin's view, competitive NSW retail markets ought to transition to deregulation in order to meet the objectives of these markets and to provide the best outcome for consumers.

Origin's response to the issues raised in the AEMC's Issues Paper are set out below. Origin has also provided the AEMC with data that supports this submission in a confidential attachment.

## Market definition

1(a) To what extent can other fuels or products be substituted for the supply of electricity or natural gas to small customers in NSW's electricity and natural gas retail markets (including the extent to which they are substitutes for each other)?

The AEMC has identified that, while it proposes to adopt the same framework as applied in previous reviews to its analysis of NSW, it is appropriate to consider the question of market definition afresh at the commencement of each jurisdictional retail competition review. In relation to the product dimension of a market, the AEMC will consider broadly where the competitive constraints and interactions lie by considering the extent of substitution between different products.

As the AEMC has found in its previous reviews (Vic in 2007, SA in 2008 and ACT in 2010) gas provides limited substitutability for electricity where gas is available. Due to its more moderate climate gas penetration in NSW is less than both in Victoria and the ACT.

In contrast electricity can be considered a more effective substitute for gas; electrical appliances can displace gas for household cooking and heating needs. Over the longer term this is an important consideration, it is not just the competition between gas suppliers that is important but the rivalry with electricity as an alternative fuel source

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<sup>2</sup> Productivity Commission, *Electricity Network Regulatory Frameworks*, Draft Report, Volume 2, 18 October 2012, Chapter 12, p 428, available at <http://www.pc.gov.au/projects/inquiry/electricity/draft>

that constrain gas prices. The continued growth in gas connections suggests that consumers continue to value gas relative to electricity.

While electricity consumption has traditionally been regarded as an inelastic product at the household and small business level, recent shifts in demand driven by a combination of PV installation, energy efficiency measures and changes in consumer behaviour indicate that this is no longer the case. As AEMO has observed “It is becoming apparent that electricity consumers are changing their energy use in response to rising electricity prices and are adopting energy efficiency programs and the installation of rooftop solar photovoltaic systems”.<sup>3</sup>

A number of subsidies have stimulated the rapid growth in the installation of household solar photovoltaic (PV) systems. While there is uncertainty around future growth rates as subsidies are wound down PV’s are likely to provide a substitute for mains delivered electricity. AEMO has estimated that at the end of February 2012, the estimated total rooftop PV installed capacity in New South Wales (including the Australian Capital Territory) was 461 MW and that during 2011 rooftop PV energy in NSW has displaced around 0.7% of recent demand.<sup>4</sup>

In a similar manner the installation of more energy efficient appliances has effectively substituted for electricity consumption.

While the future price path for PV systems is uncertain there is little doubt that for a proportion of customer’s load they will provide effective competition for the retail supply of electricity.

2(a) Are there barriers to single-fuel energy retailer (i.e. suppliers of either electricity or natural gas only) supplying both electricity and natural gas to small customers in NSW’s electricity and natural gas retail markets?

Origin does not consider there to be barriers to single-fuel energy retailers supplying electricity and natural gas to small customers in NSW, and this is illustrated by the presence of single fuel retailers currently operating in the NSW electricity retail market.

In its review of retail competition in South Australia in 2008, the AEMC noted that low gas consumption, associated with the moderate South Australian climate, meant that gas margins were small relative to electricity. As a consequence, there was less competitive activity associated with gas retailing in isolation, but that a duel fuel strategy was a means by which retailers could overcome some of the constraints imposed by slim gas margins.

A similar position exists in NSW where there are, at present, no NSW retailers that exclusively supply gas. This is likely to reflect the lower annual bill size and hence lower margin available in supplying gas within the NSW gas retail market and customers preference to consolidate energy suppliers. Duel fuel supply remains more attractive from an energy retailer’s perspective.

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<sup>3</sup> 2011 Electricity Statement Of Opportunities For the National Electricity Market  
Update as at 2 March 2012

<sup>4</sup> Rooftop PV Information Paper, National Electricity Forecasting, 2012, Australian Energy Market Operator

2(b) Do energy retailer of both fuels (i.e. suppliers of both electricity and natural gas) enjoy cost or other advantages over single-fuel energy retailers?

Origin considers that retailers supplying both electricity and gas will enjoy cost advantages insofar as they achieve economies of scope in relation to both customer acquisition costs and costs to maintain. However, it is important to note that these economies of scope do not create a barrier to entry for single-fuel retailers; they merely enhance the efficiency and competitiveness of dual fuel retailers. In doing so, they increase market competitiveness overall.

3(a) Are there different costs to serve electricity small customers, and/or natural gas small customers, at different energy consumption levels in NSW's electricity and natural gas retail markets?

There is not a significant difference in the costs to serve NSW electricity and gas customers at different energy consumption levels for small customers.

Slight costs differences will flow from cost components that depend on the size of the bill (bad debt, merchant fees, etc), meaning that higher consumption levels will have a slightly increased cost to serve relative to lower consumption levels. For this reason, electricity with its higher bill value tends to have a higher cost to serve than gas.

3(b) Are there barriers to energy retailers supplying electricity, and/or natural gas, to small customers at different energy consumption levels in NSW's electricity and natural gas retail markets?

Origin does not consider that there are barriers to energy retailers supplying electricity to small customers at different energy consumption levels in NSW's electricity and natural gas retail markets. Switching data across different customer sizes indicates that retailers are actively competing for small and large customers alike.

In this regard, Origin notes that, while large customers are more profitable for retailers, this does not amount to a barrier to entry to the retail market for small customers.

4(a) Are there different costs of supplying electricity, and/or natural gas, to small customers located in different geographical areas or distribution networks of NSW? For example, the cost(s) of supplying energy to small customers residing in rural or remote areas of NSW compared to the cost(s) of supplying energy to small customers residing in urban areas.

The cost of supplying energy varies by geographic area. Network charges differ by area as does the cost of supplying the commodity. By way of example the load profile for electricity is “peakier” and hence more expensive in Endeavour Energy’s distribution area compared with Ausgrid. The cost of supplying gas to Albury (sourced from Victoria) differs from that to metropolitan Sydney. These cost differences are reflected in the tariffs and explained in IPART’s price determinations.

There is not a significant difference in the retail operating costs of supplying electricity or gas to small customers in different geographical areas or distribution networks. While there may be a slightly higher cost of selling through some channels in more geographically dispersed areas (for example, door to door), this would translate to a minimal increase in the total supply cost.

5(a) What other characteristics of NSW’s small customer electricity and natural gas retail markets should the AEMC take into consideration when defining the market for the NSW Review?

The AEMC has proposed that it will have regard to the following four dimensions of market definition:

- Product - a market will include buyers and sellers of the same or similar products, and includes all actual and potential products that serve as close substitutes in the event that the price of the original product increases;
- Functional - as a market typically involves multiple stages of production (e.g. production, wholesale and retail), it is necessary to determine which functional level(s) is to be included in the analysis when defining the market;
- Geographic - this is the area(s) over which the relevant product is supplied; and
- Temporal - it is necessary to determine the time over which the substitution possibilities should be considered.

Origin considers that the market parameters proposed by the AEMC are reasonable.

### **Market structure**

6(a) Have the structural conditions for small customer electricity and natural gas retailing in different geographical areas or distribution networks in NSW supported or hindered the development of effective competition?

6(b) Are the structural conditions referred to in (a) likely to support or impede improvements in competition in the future?

In the past, the structural conditions for electricity retailing in NSW have hindered competition. This is no longer the case.

Regulated electricity tariffs were not set at cost reflective levels prior to 2010, and the discrepancy between costs and tariff recovery was particularly significant during the drought period around 2007. However, since the 2010 determination, electricity tariffs have been set at more cost reflective levels.

The Electricity Tariff Equalisation Fund (ETEF) scheme was designed to shield Standard Retailers from wholesale market volatility, and in doing so, enable them to supply electricity to NSW small customers at a reduced risk. ETEF enabled then government-owned Standard Retailers to access a fixed wholesale electricity price for their standing customers whereas the second tier retailers had to source their supply at prevailing wholesale market prices. ETEF has had an impact on the number of customers on market contracts than would otherwise have been expected. During periods of high wholesale prices Standard retailers are understood to have moved their customers (on contract renewal) from market contracts to regulated tariffs. This allowed the retailer to access the lower supply cost available under ETEF during this period.

The ETEF scheme was removed in 2011, eliminating this advantage for Standard retailers.

Origin considers that cumulative customer transfers would otherwise be much higher had regulated prices consistently provided a reasonable retail margin (as has been the case under the current determination) and had the Standard Retailers not been shielded from wholesale market volatility by the ETEF scheme.

There have been, and remain, a small number of customers on gas tariffs that are not fully cost reflective. For example, in FY13, the tariffs in the former Country Energy area are expected to deliver negative net retail margins and tariffs in the Murray Valley/Albury area are expected to deliver margins well below a sustainable level. Subject to regulatory outcomes these tariffs are expected to progressively returned to sustainable levels for the long term viability of retailers and the promotion of effective competition.

7(a) Are there barriers to entry that impact on the development of effective competition in small customer electricity and natural gas retailing in different geographical areas or distribution networks of NSW?

7(b) Have the barriers to entry referred to in (a) dissuaded prospective energy retailers from entering NSW's small customer electricity and natural gas retail markets, or can they be overcome?

7(c) Are the barriers to entry referred to in (a) likely to persist or abate in the future?

Origin does not consider that there are barriers to entry in retail electricity and gas markets, and this is illustrated by the number of retailers that are entering and actively participating in these markets. In 2012 there were nine active electricity retailers in NSW and five active gas retailers.<sup>5,6</sup> There are also currently five electricity licence applications under consideration by IPART.<sup>7</sup>

<sup>5</sup> Information Paper - Customer service performance of electricity retail suppliers - 1 July 2007 - 30 July 2012 available at

[http://www.ipart.nsw.gov.au/Home/Industries/Electricity/Performance\\_Statistics/Information\\_Paper\\_-\\_Customer\\_service\\_performance\\_of\\_electricity\\_retail\\_suppliers\\_-\\_1\\_July\\_2007\\_-\\_30\\_July\\_2012](http://www.ipart.nsw.gov.au/Home/Industries/Electricity/Performance_Statistics/Information_Paper_-_Customer_service_performance_of_electricity_retail_suppliers_-_1_July_2007_-_30_July_2012)

<sup>6</sup> Information Paper - Customer service performance of gas retail suppliers - 1 July 2007 - 30 June 2012 available at



In Origin's view, the number of suppliers participating in NSW retail energy markets demonstrates an absence of barriers to entry.

Origin does not consider that there are any barriers in specific geographic areas of NSW. While there has historically been a lower level of churn in the Essential Energy Distribution area, post privatisation there has been much less of a difference.

Origin does not consider that legacy tariffs in Essential Energy's area pose a barrier to competition with similar switching rates experienced across current and obsolete residential tariffs. Origin is progressively rationalising and rebalancing the remaining tariffs which have historically been at a lower price.

New entrant retailers have been able to develop the capability to compete effectively with larger rivals. They have done so by adopting different operating models ranging from largely outsourced operations to fully insourced. Small electricity retailers are able to hedge wholesale market price risk using standard exchange (or OTC) traded products and structured products traded bilaterally. Economies of scale can be accessed by outsourcing customer service and sales operations to service providers, with a competitive field of suppliers available. The ready availability of these products and services provide retailers with business flexibility, making it easier for them to enter NSW energy markets and expand within those markets.

Although the retail regulatory environment is complex, the NSW Government is moving in some areas to reduce barriers to entry. The gradual adoption by states and territories of the National Energy Customer Framework (NECF) will allow new entrants to develop systems and processes with greater commonality across states.

Origin notes that some smaller retailers have considered acquiring wholesale gas in NSW to be challenging. However Origin observes that there are currently two small gas players active in NSW and that prior to privatisation EnergyAustralia built a sizeable mass market gas business in NSW. Origin also notes that the wholesale gas market is continuing to evolve with the introduction of the Short Term Trading Market (STTM), greater physical interconnection and further assessment of market development options being canvassed:

1. The SCER is considering, in consultation with stakeholders, whether further policy options could facilitate increased trade in gas transmission pipeline capacity in the eastern gas market.
2. The Victorian Government has established a gas taskforce to focus on: (1) providing policy options to improve the operation and efficiency of the east coast Australian gas market, with a particular focus on market transparency and transmission capability; and (2) suggesting ways of increasing gas supplies in the short to medium-term. The taskforce is to report back to the Government by the middle of 2013.

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[http://www.ipart.nsw.gov.au/Home/Industries/Gas/Performance\\_Statistics/Information\\_Paper\\_-\\_Customer\\_service\\_performance\\_of\\_gas\\_retail\\_suppliers\\_-\\_1\\_July\\_2007\\_-\\_30\\_June\\_2012](http://www.ipart.nsw.gov.au/Home/Industries/Gas/Performance_Statistics/Information_Paper_-_Customer_service_performance_of_gas_retail_suppliers_-_1_July_2007_-_30_June_2012)  
7 Applications by Ozgen Retail Pty Ltd, Click Energy Pty Ltd, Powershop Australia Pty Ltd, Blue NRG Pty Limited and Infigen Energy Holdings Pty Ltd. See  
[http://www.ipart.nsw.gov.au/Home/Industries/Electricity/Licensing/Applications\\_Variations\\_Transfers\\_and\\_Cancellations](http://www.ipart.nsw.gov.au/Home/Industries/Electricity/Licensing/Applications_Variations_Transfers_and_Cancellations)

8(a) Are there barriers to expansion, or exit, that impact on the development of effective competition in small customer electricity and natural gas retailing in different geographical areas or distribution networks of NSW?

8(b) Have the barriers to expansion, or exit, referred to in (a) dissuaded prospective energy retailers from entering NSW's small customer electricity and natural gas retail market, or can they be overcome?

8(c) Are the barriers to expansion, or exit, referred to in (a) likely to persist or abate in the future?

Barriers to expansion exist where fringe or niche market entry may be possible, but there are obstacles to expanding to a size that would allow more effective competition against larger, more established competitors. Barriers to exit can affect market entry decisions if the costs of exiting the market are so prohibitive that the incentive to enter is reduced or removed altogether.

Origin does not consider that NSW energy markets have significant barriers to expansion or exit.

Retailers are able to contract for supply and operational services in a manner that supports expansion and mitigates the cost of variance from an anticipated growth path or indeed exit. Origin is not aware of any constraints on service delivery that would constrain the growth of a retailer or unreasonably penalise its exit.

9(a) Are there unique or specific features of the small customer electricity and natural gas retailing environment in different geographical areas or distribution networks of NSW that support, or impede, the development of competition? For example, energy retailers offering small customers "multi utility" products and services (e.g. across energy, water and telecommunications industries) or "dual fuel" products and services (i.e. in electricity and natural gas).

Origin does not consider that there are unique or specific features of NSW energy retailing in different geographical areas or distribution networks that affect the development of competition. Origin is not aware of any multi utility products offered other than dual fuel, and there are five NSW retailers currently retailing both electricity and gas.<sup>8</sup>

## Market conduct

10(a) To what extent do energy retailers compete with each other to acquire new, and retain existing, small customers in NSW's electricity and natural gas retail markets?

10(b) What sort of product and/or service improvements have retailers delivered to small customers in NSW's electricity and natural gas retail markets?

<sup>8</sup> AER, 2012 State of the Energy Market, p 120, available at <http://www.aer.gov.au/sites/default/files/State%20of%20the%20energy%20market%202012%20-%20Chapter%205%20Energy%20retail%20markets%20%28A4%29.pdf>

Energy retailers compete to a significant extent to acquire new customers and retain existing customers in NSW. This competition is illustrated by promotional activity within NSW energy markets.

In a traditionally low engagement market, with increasing bill size and cost of living pressure, price discounting has become the single biggest focus for the consumer and competitive offers. This is typical of a formative market. More developed markets in Australia, such as Victoria, see the introduction of metering technology while internationally more developed markets have moved to fixed and variable pricing concepts.

At present, competition in NSW energy markets is primarily based on discounts and rebates off a tariff. Most market contracts in NSW are set at the price regulated by IPART, with a discount or rebate being applied to this rate. Retailers also offer customers incentives such as pay on time, direct debit and dual fuel incentives.

Most active acquisition and growth channels, such as D2D and comparators are heavily based on discount products, rather than green, value-add or other service propositions. However, these other product and service improvements have historically featured in retailer product offerings and they can be expected to do so in the future, as customer preferences evolve. Retailers in NSW have trialled a range of products and incentives to attract customers including greenpower, carbon offset products, frequent flyer and Amex points, free magazine subscriptions, donations to charities and retrospective one month free usage.

Examples of Origin’s current residential products are set out in Table 1 below.

**Table 1. Examples of Origin’s Current Residential products**

Product	Description	Features & Green Options	Fuel
DailySaver	The Daily Saver product gives customers a discount on their energy usage costs. Additional discounts are available for customers that pay on time or that have two fuels (dual fuel) at the same site.	<ul style="list-style-type: none"> <li>Variable base discount %, 2% Pay on time , 1% dual fuel, 1% Direct debit</li> <li>GreenPower &amp; Green Gas options</li> </ul>	Electricity Gas
Rate Freeze	The Rate Freeze product allows customers to avoid price rises by locking in a usage, STP & Green rate for 24 months.	<ul style="list-style-type: none"> <li>Freeze rates for 24 months</li> <li>GreenPower &amp; Green Gas options</li> </ul>	Electricity Gas
EasiPay Payment Plan	EasiPay allows customers to pay predetermined amounts when it suits them. They can arrange weekly, fortnightly or monthly billing and can even line this up with their pay cycle.	Available as an add-on across all energy plan products.	Electricity Gas

Comparative market offers from various NSW retailers are available on comparator service providers' websites, such as the following list of NSW offers provided by iselect.<sup>9</sup>

**Table 2. Market Offers in NSW**

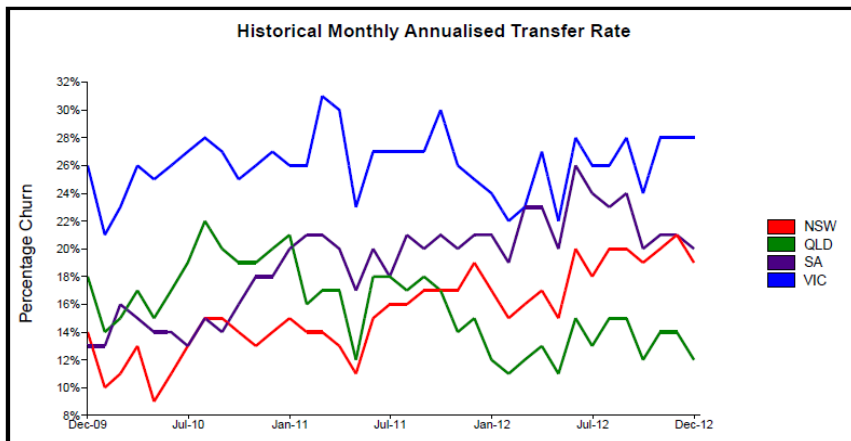
Retailer	Market offer (February 2013)
Origin	11% off usage +\$175
AGL	10%+4%(POT) off usage, 2yr
Dodo	7.5% off usage w/o contract or 15% off usage, 1yr
Energy Australia	3%+9%(POT) off bill, 3 yrs
Momentum	Smile Power (12, 24, 36 months)
Red Energy	No discount

At present, there is little activity based on differentiated tariff features. Time of use tariffs exist in all distribution areas but do not feature heavily from a competitive standpoint with discounts tending to mirror the existing regulated ToU tariff.

In NSW, energy retailer advertising campaigns with competitive market offers are widespread in both metropolitan and country areas.

Churn levels in the NSW retail market are currently around 20% annualised for electricity and 14% for gas (see charts 1 and 2 below), reflecting a significant increase in customer churn post privatisation of the NSW retailers. This level is approaching that of Victoria; a retail market recognised as one of the most competitive in the world. Victoria was ranked as the energy market with most intense switching in the world by the VaasaETT World Retail Market Rankings in both 2008 and 2012. In 2012, the NSW retail energy market was ranked tenth, and in 2008 it was ranked fifth.<sup>10</sup>

**Chart 1. Historical Monthly Annualised Churn, Electricity**

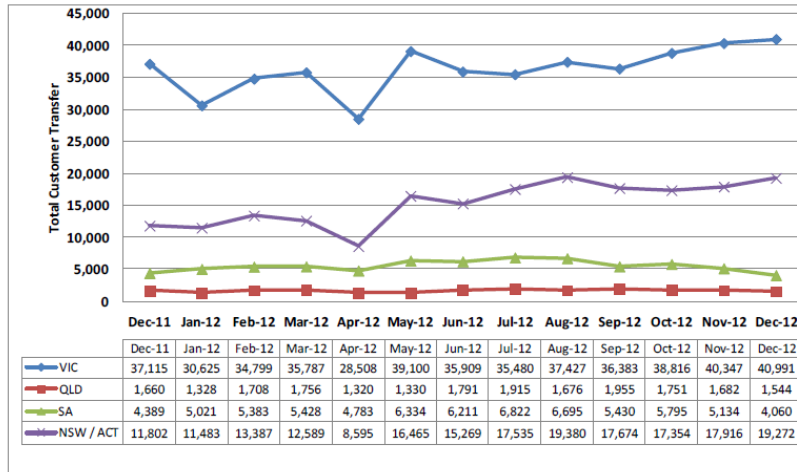


Source: Retail Monthly Transfer Statistics, January 2013, AEMO, <http://www.aemo.com.au/Electricity/Data/Metering/Retail-Transfer-Statistical-Data>

<sup>9</sup> [www.iselect.com.au](http://www.iselect.com.au)

<sup>10</sup> Available at [www.vaasaett.com](http://www.vaasaett.com)

**Chart 2. Historical Monthly Customer Transfers, Gas**



Source Source: Retail Monthly Transfer Statistics, December 2013, AEMO,  
<http://www.aemo.com.au/Gas/Market-Data/Gas--Retail-Transfer-Statistical-Data>

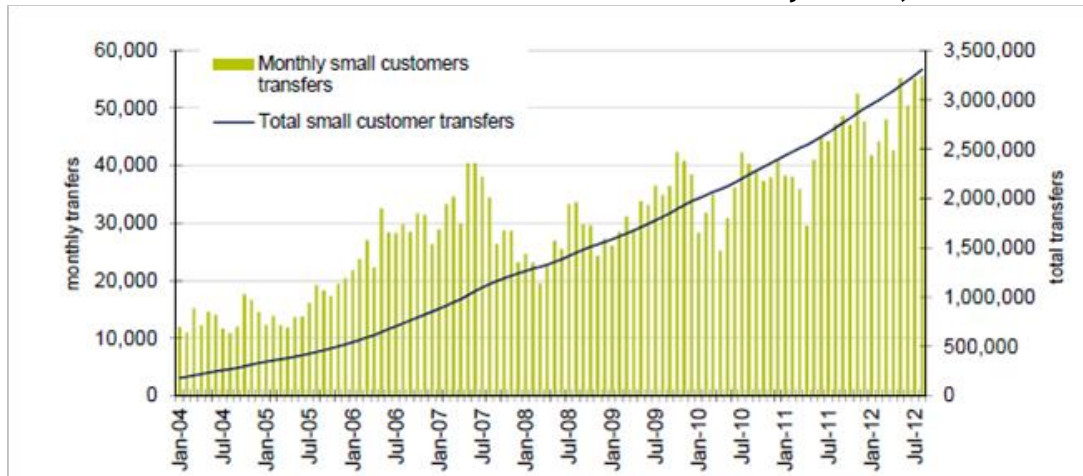
The level of churn in the NSW retail market is also high relative to churn rates in other industries. AGL recently collated churn rates across industries citing switching rates around 12% for insurance and 8% for banking. The mobile phone market is often cited as highly competitive with customer switching driven by the rapid development of new technologies and services. Macquarie University’s recent “State of the Mobile Nation” report estimated annual churn for mobile phones at around 16% pa<sup>11</sup>. By comparison a switching rate of circa 20% pa for electricity in NSW is evidence of effective competition.

Chart 3 overleaf shows the number of customer transfers in NSW retail electricity market from 2004 to 2012 and illustrates the increase in customer churn over time.<sup>12</sup> In particular, churn was low when retail tariffs were below cost reflective levels, and this was exacerbated during drought years. However, churn has increased since electricity retail tariffs have been set closer to cost reflective levels during the last price determination 2010-2013.

<sup>11</sup> David Gray, Steven D’Alessandro and Leanne Carter, *State of the Mobile Nation: Switching Attitudes and Behaviours of Mobile Phone Service Providers in Australia*, Final Report, Macquarie University Department of Marketing and Management, March 2012, page 7

<sup>12</sup> IPART, Review of regulated retail prices and charges for electricity 2013 to 2016, Issues Paper, November 2012, Figure 3.2, page 27

**Chart 3. Number of customer transfers in NSW retail electricity market, 2004 - 2012**



Source: IPART, Review of regulated retail prices and charges for electricity 2013 to 2016, Issues Paper, November 2012, Figure 3.2, page 27

While Origin considers that churn is an effective indicator of the extent of competition within the energy retail markets, it should be noted that there is also a high level of activity in retailers to defend or “save” customers. Customers that advise their current retailer that they are considering switching are often made counter offers that result in retention of the customer by the current supplier. While less visible this activity is a material contribution to the competitiveness of the market.

11(a) Has retail price regulation of electricity and natural gas encouraged, or impeded, tariff innovation in NSW's small customer electricity and natural gas retail markets?

11(b) Has retail price regulation of electricity and natural gas encouraged, or impeded, product differentiation in NSW's small customer electricity and natural gas retail markets?

11(c) Has retail price regulation of electricity and natural gas encouraged, or impeded, service competition in NSW's small customer electricity and natural gas retail markets?

In Origin’s view, tariff innovation is most likely to require wider deployment of technology, such as time of use metering. The removal of price regulation will encourage retailers to invest in more innovative tariffs and services. Origin’s recent investment in the SMART portal service in Victoria is a good example of the availability of metering technology and market forces combining to encourage innovation.

Competition for energy services, including product differentiation among energy retailers, has developed in the NSW retail markets since retail tariffs have been set at cost reflective levels. Competition and product differentiation can be expected to increase so long as retail tariffs remain cost reflective or where NSW retail markets are deregulated.

12(a) On what basis, and to what extent, might energy retailers be expected to compete in NSW's small customer electricity and natural gas retail markets in the future?

12(b) Describe the availability and take up of time of use tariffs in NSW's small customer electricity and natural gas retail markets?

12(c) What impact may time of use tariffs have on competition in NSW's small customer electricity and natural gas retail markets in the future?

It follows from Origin's responses to questions 7 and 8 above that, in the absence of barriers to entry, expansion or exit, energy retailers will compete either where tariffs are set at cost reflective levels or within deregulated retail markets. Technology developments in metering infrastructure will allow for further competition and product innovation.

Time of use (ToU) tariffs are predominantly in the Ausgrid distribution network. Origin understands that more than 250,000 customers are on Time of Use tariffs in Ausgrid's network area. Origin's acquisition of customers on a Time of Use tariff exceeds the penetration of time of use tariffs generally in Ausgrid's area. This suggests that Time of Use tariffs support customer switching.

The demand profiles of NSW small customers vary significantly across different customer groups. The wholesale energy cost incurred by a retailer is lower for customers that have a flatter consumption profile (where this customer's interval metered consumption data is used for wholesale market settlement by AEMO). There is therefore scope for time of use tariffs to promote competition, as these customers would have most to gain from switching to retailers promoting a time of use tariff.

13(a) What does the nature, and extent, of marketing activity indicate about the level of competition in NSW's small customer electricity and natural gas retail markets?

13(b) What do the types of marketing activities undertaken by energy retailers indicate about the level of competition in NSW's small customer electricity and natural gas retail markets?

The nature and extent of marketing activity indicates that competition is strong within NSW energy retail markets. Origin estimates that advertising spend<sup>13</sup> by energy retailers across NSW would exceed \$18m for 2012, this estimate excludes national campaigns that would add a further 20-30%.

Retailers in NSW employ a range of sales channels that include door to door, telephone marketing (inbound and outbound) and online sales. Retailers promotional activity covers both brand building and direct call to action and employs most forms of media including television, radio, website, print, billboard, direct mail and bill inserts.

14(a) What types of marketing practices, or business behaviours, have small customers experienced in NSW's small customer electricity and natural gas retail markets?

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<sup>13</sup> Origin Analysis: Includes TV, press, magazines, radio, out of home, cinema, online and direct mail.

Generally customers have experienced positive marketing or business practices. This is evident in the level of switching conducted and subsequent retention of customers. The use of door knocking channels has at times led to poor customer experiences. As a consequence most retailers are members of a voluntary code of practice launched in January 2012 and operated by Energy Assured Limited. These retailers only engage door to door sales agents who comply with the code's stringent requirements.

15(a) What effect, if any, does energy retailer exposure to fluctuations in wholesale electricity and natural gas prices have on energy retailer' abilities to offer competitive product and service offerings to small customers in NSW's electricity and natural gas retail markets?

Exposure to wholesale markets imposes significant risks on retailers, and management of these risks constitute a major component of a retailer's business. However, there are products available to manage these risks, including exchange traded and structured hedge contracts, Power Purchase Agreements (PPAs) and direct ownership of generation. The impact of wholesale price volatility on retail competition is much more pronounced where regulated pricing is in place. As noted in Question 10 retail competition in NSW declined significantly during periods of high wholesale cost where regulated prices were below cost reflective levels. The removal of price regulation will allow the market to establish cost reflective prices and encourage the maintenance of competition through all phases of wholesale market cycles.

The ability of energy retailers to successfully manage wholesale price risk is illustrated by the fact that there have only been two retailer failures (ROLR events) in the NEM's history.

16(a) What motivates small customers to switch from a standing (or regulated) offer contract to a market offer contract in NSW's electricity and natural gas retail markets?

16(b) What motivates small customers to switch energy retailers in NSW's electricity and natural gas retail markets?

16(c) With respect to electricity feed-in tariffs, have small customers experienced any difficulties in terms of switching retailer due to a leasing agreement for their solar panels?

Energy retailing has traditionally been a business of low customer engagement and customers still tend to switch, both from the standing contract and between market contracts, in response to advertising and promotion by retailers. This is effected through a variety of communication channels, including door to door marketing, telephone marketing, television and radio advertising and website promotions. Retailers would be unlikely to continue to invest in such communication channels, particularly costly door to door marketing, if they were not effective.

Origin is not aware of any difficulties for customers in terms of switching retailers due to a leasing arrangement for their solar panels.



17(a) Are small customers in NSW's electricity and natural gas retail markets able to access energy related information that is easy to understand, relevant and up to date?

17(b) Are small customers in NSW's electricity and natural gas retail markets able to access energy related information that enables competing energy offers from energy retailers to be compared?

17(c) To what extent do small customers in NSW's electricity and natural gas retail markets rely on the energy related information referred to in (a) and (b) when deciding whether to switch energy retailers?

17(d) What information are small customers presented with by their energy supplier at, or near, expiry of their existing supply contract? What action(s) must small customers undertake to ensure continuation of energy supply?

Small customers in NSW energy market are able to access current and informative energy related information including offer comparisons. Such information is provided by IPART, retailers' websites, and independent energy comparators' websites as set out in the table overleaf.

**Table 3. Websites providing retail energy price information**

Website	Information provided
<a href="http://www.ipart.nsw.gov.au">www.ipart.nsw.gov.au</a>	Link to 'My energy offers' website where customers can compare offers from electricity and gas retailers
<a href="http://www.actewagl.com.au">www.actewagl.com.au</a>	'Offers and prices' tab provides residential and business plans for electricity and natural gas
<a href="http://www.agl.com.au">www.agl.com.au</a>	'Energy plans' tab provides information regarding electricity and gas offers
<a href="http://www.australianpowerandgas.com.au">www.australianpowerandgas.com.au</a>	'Plans and prices' tab provides information regarding electricity and gas offers
<a href="http://www.dodo.com.au">www.dodo.com.au</a>	'Get a quote' option under 'Power & Gas' tab provides information regarding electricity offers, and will soon provide information regarding gas offers
<a href="http://www.energyaustralia.com.au">www.energyaustralia.com.au</a>	'Electricity plans' and 'Gas plans' tabs provide information regarding electricity and gas offers
<a href="http://www.lumoenergy.com.au">www.lumoenergy.com.au</a>	'Compare packages' table provides information regarding electricity and gas offers
<a href="http://www.momentumenergy.com.au">www.momentumenergy.com.au</a>	'Energy offers' tab provides information regarding electricity offers
<a href="http://www.originenergy.com.au">www.originenergy.com.au</a>	'Offers' tab provides information regarding electricity and gas offers
<a href="http://www.powerdirect.com.au">www.powerdirect.com.au</a>	'request a quote' options under 'your home' and 'your business' tabs provide information regarding electricity offers
<a href="http://www.redenergy.com.au">www.redenergy.com.au</a>	Link to 'get an energy quote' provides information regarding electricity offers
<a href="http://www.sanctuaryenergy.com.au">www.sanctuaryenergy.com.au</a>	'Our Offers' tab provides information regarding electricity offers
<a href="http://www.myenergyoffers.nsw.gov.au">www.myenergyoffers.nsw.gov.au</a>	Government administered website that enables customers to compare offers from electricity and gas retailers
<a href="http://www.electricitywizard.com.au">www.electricitywizard.com.au</a>	Commercial website that enables customers to compare offers from electricity and gas retailers
<a href="http://www.iselect.com.au">www.iselect.com.au</a>	Commercial website that enables customers to compare offers from electricity and gas retailers
<a href="http://www.energywatch.com.au">www.energywatch.com.au</a>	Commercial website that enables customers to compare offers from electricity and gas retailers
<a href="http://www.switchwise.com.au">www.switchwise.com.au</a>	Commercial website that enables customers to compare offers from electricity and gas retailers

In Origin's view, marketing activities are the primary driver for switching, rather than comparators per se. However comparators may be used by customers to assess the different offers presented to them during the sales process.

For Origin's businesses, continuation of energy supply beyond the expiry of a NSW customer's contract varies by area.

For electricity and gas customers in the former Integral and Country Energy areas, market contracts tend to be for a fixed term and are renewed with notice. These customers receive a letter prior to the expiration of their market contract explaining that their current contract term is ending and the basis on which their contract will be

renewed. The customer is informed that if they are happy with the renewal option they don't need to do anything, but that they have the option of not renewing or terminating the contract at the end of the current term, in which case they will be moved to default rates or to an alternative rate that they might negotiate with Origin.

The rest of the NSW area is supplied by Origin under market contracts that are evergreen, in that they do not expire or require renewal.

### Market performance

18(a) Are energy retailers to small customers in NSW's electricity and natural gas retail markets able to recover their efficient costs at current standing (or regulated) offer contract tariffs?

18(b) Are energy retailers to small customers in NSW's electricity and natural gas retail markets able to recover their efficient costs at current market offer contract tariffs?

18(c) Are future expected profit margins for energy retailers in NSW's small customer electricity and natural gas retail markets will likely be sufficient to encourage new market entry and increase competition, or will new market entry be deterred?

IPART's current price determination is broadly cost reflective. While there are still a small group of tariffs that are not cost reflective, NSW energy retailers will be able to recover efficient costs and will be incentivised to compete provided that IPART continues to set cost reflective retail tariffs.

19(a) To what extent do energy retailers actively compete to offer products, services, prices and other conditions of energy supply which are most attractive to small customers in NSW's electricity and natural gas retail markets? For example, retailers offering small customers tailored advice on ways to lower their household energy usage.

19(b) To what extent do energy retailers respond to changes in small customer preferences in NSW's electricity and natural gas retail markets?

19(c) Do energy retailers currently issue NSW small customers a single bill for their electricity and natural gas usage?

Product offerings are constantly changing in response to customer preferences, as outlined in response to question 10 above.

In general, energy retailers issue separate bills for electricity and gas, due to differences in the timing of meter reads, however single bills may occasionally be issued when metering periods closely overlap. Improvements in metering technology will allow for remote meter reads, which could facilitate joint electricity and gas bills in the future.

Origin issues separate bills for electricity and gas.

20(a) To what extent do energy retailers in different geographical areas or distribution networks of NSW compete with each other in terms of price to acquire new, and retain existing, small customers in NSW's electricity and natural gas retail markets?

Retailers offer services by reference to customer area and energy retailers compete across different geographical areas and distribution networks. Origin's analysis of its own customer losses confirms that competition is effective across different geographical areas.

### **Other considerations**

21(a) Are there classes of small customers who are unable to access the benefits of competition in NSW's electricity and natural gas retail markets?  
21(b) What factors contribute to the difficulties experienced by the classes of small customers referred to in (a)?

All NSW small customers are able to access competitive market offers through a range of communication and sales channels including websites, television, door to door sales and telephone sales.

22(a) What initiatives do energy retailers undertake to assist small customers experiencing difficulties in participating in NSW's electricity and natural gas retail markets?

22(b) How effective are the energy retailer initiatives referred to in (a) in assisting small customers?

Retailers in NSW employ a range of sales channels that include door to door, telephone marketing (inbound and outbound), online sales, while retailers' promotional activity employs most forms of media including television, radio, website, print, billboard, direct mail and bill inserts. Origin considers that these wide ranging communication channels are sufficient to ensure that all small customers have access to information regarding competitive market energy offers and are therefore able to participate in retail markets.

In addition, Origin has special provisions for customers that may have communication difficulties as follows.

#### **Customers requiring assistance of a third party to understand or pay their bill**

- Origin has a process to allow a third party, such as a customer's advocate or accountant, to enquire and act on behalf of a customer's energy account. However privacy legislation requires the customer's express consent to establish this arrangement.

### Customers with difficulty understanding English

- Origin provides a telephone Interpreter Service to customers who have difficulty understanding English. This service is promoted on every Origin electricity and gas invoice, in six high-use community languages

### Identifying a path to removing retail price regulation

23(a) Are the approaches in past reviews useful as a basis for NSW? Should the path to deregulation be gradual or should price regulation be removed for all customers at the same time?

23(b) What are the benefits of a gradual approach? If a gradual approach is preferred, what increments i.e. how many stages should there be and what should be the applicable level of eligible consumption? Over what time frame? Should businesses be deregulated first?

23(c) What types of small customers fall within the current 160MWh electricity threshold and the 1TJ natural gas threshold? What are the annual consumption ranges for residential customers and small business customers?

23(d) What information should be provided to customers to establish awareness of price deregulation? What customer protections are required?

### Improving the effectiveness of competition

24(a) Where effective competition does not exist, in the context of improving competition, should similar options to addressing full deregulation of retail prices apply? If yes, which one? If no, what options should apply?

24(b) Are there any other areas that should be considered for improvement if competition is found to be ineffective? If so, what options should apply to address these particular areas?

Origin considers that NSW exhibits the characteristics of an effective, competitive energy retail market. As such there is no further role for price regulation. Origin has not identified any material barriers to entry that need to be addressed. As South Australia has recently demonstrated the removal of price regulation can be implemented with appropriate customer communication in a short timeframe and does not require any further “phasing in”.

However, if a path to deregulation is preferred, then as Origin has expressed in its submission to IPART, Origin conditionally supports the opt-in model proposed by IPART during its review of regulated electricity retail prices for 2013-16. Origin notes, as it did in its submission to IPART, that its support for an opt-in model would depend on such a model being clearly implemented as a transitional measure only; an opt-in model without a commitment to the removal of retail price regulation may conversely serve to entrench retail price regulation. It should also be noted that an opt-in model would need to be developed to minimise operational costs and to recognise retailer’s process and systems limitations to ensure that implementation costs do not outweigh likely benefits.

Customers in NSW are currently provided with a high level of consumer protection through the NSW regulatory framework. The NECF is scheduled to commence in NSW on 1 July 2013. NECF provides a comprehensive consumer protection regime developed over many years and framed to support markets that do not have price regulation. Origin therefore considers that the consumer protection measures are in place to support a deregulated NSW retail market.