



**19 February 2015**

Australian Energy Market Commission  
PO Box A2449  
SYDNEY SOUTH NSW 1235

**By email**

**AEMC project number RPR0003**

Dear Sir/Madam,

### **2015 Retail Competition Review – Approach Paper**

AGL Energy welcomes the opportunity to make a submission to the AEMC's Approach Paper on the second of its annual NEM-wide reviews on the state of retail competition.

AGL is one of Australia's leading integrated energy companies and largest ASX listed owner, operator and developer of renewable energy generation in the country. AGL operates retail and merchant energy businesses, power generation assets and an upstream gas portfolio. As one of the largest energy retailers in Australia with over 3.7 million electricity and gas customers in Victoria, New South Wales, Queensland and South Australia, AGL is well placed to comment on issues in the retail energy markets.

AGL has considered the issues that the Commission has listed in Appendix A of the Approach Paper. Some of these issues had been raised in the 2014 competition review which AGL had participated in. In this submission, AGL will provide update and comment on the issues where relevant.

### **The level of customer activity in the market**

There is a range of information available to customers to assist them in choosing an appropriate energy offer. Some of this information are mandated under relevant jurisdictional regulations and others are provided by AGL voluntarily as a means of providing better customer service.

Retailers' obligations to provide information include:

- Retailers must provide a fact sheet to customers when marketing offers, and must publish fact sheets for all current generally available offers on their website. Fact sheets enable consumers to consider and compare the key features of retailer offers available in the market.
- Retailers must provide the relevant regulator with offer information to publish on their respective price comparator websites. For NECF jurisdictions, retailers must provide information on each generally available contract offer to the AER within 2 days of the offer becoming available, to be published on Energy Made Easy. In Victoria, retailers must provide to the ESCV details of the tariffs and terms and conditions of its offers to be published on its price comparator websites - My Power Planner (for electricity) and Your Choice (for gas). The QCA also operates a price comparator website for negotiated and standard retail contracts. These comparator websites present offer information for range of offers available across all retailers in a standardised, comparable format.
- Retailers must also disclose certain information to customers prior to, or as soon as practicable after, entry into a market retail contract. This is typically done by way of a

single written disclosure statement or 'Welcome pack', which includes key offer features, tariffs, and terms and conditions.

AGL also provides information by:

- publishing a range of information on the AGL website including detailed offer information, information on solar energy, billing and metering,
- offering information and help services through call centres, and
- providing My AGL IQ® which allows customers to understand their energy usage. (While this is not directly relevant to the switching process, it allows customers to understand their energy consumption to assist in making an informed decision as to the most appropriate energy offer )

Retailers also provide information on energy offers through traditional media channels such as newspapers, radio and television. Aside from retailers, there are third parties such as brokers and commercial comparator websites who can also provide information to customers.

Surveys by AMR, an independent market research provider commissioned by AGL, on residential customers' attitudes to service in NSW, Victoria, South Australia and Queensland showed that in 2014, 82% of respondents actively chose their electricity supplier and 83% actively chose their gas supplier. Despite this high level of engagement, AGL continues to look for ways to improve consumer awareness and understanding of the choices available. As there is already a substantial amount of information available, these efforts are increasingly targeted at particular customer segments. For example, AGL recently launched a product for eligible Victorian smart meter customers, offering free electricity on Saturdays; this product is aimed at families who tend to be home more on weekends and can take the burden out of what could easily be the highest usage day of the week and is also targeted towards improving customers' awareness of when and how they consume energy. Other offers targeted to certain demographics include specific offers available to Seniors Card holders in Victoria and NSW and marketing in Chinese community newspapers with dedicated interpreters to manage customer enquiries and sales. AGL is also working with community groups and financial counselling organisations in an Affordability Commitment to support hardship customers which includes clear and transparent information on AGL's products and services.

AGL does not adopt different marketing approaches to metropolitan and regional customers.

In relation to solar PV customers, a similar range of information is available. The AER's Retail Pricing Information Guideline (which regulates the information presented on Energy Price Fact Sheets) requires a retailer to clearly indicate when a contract offer is available to customers with solar PV systems, and must indicate the solar feed-in tariff available to the customer. This information is also presented on the AER's price comparator website (Energy Made Easy) which can filter by offers available to solar customers. Similarly, the Queensland code requires retailers to indicate on price fact sheets whether the negotiated retail contract is available to customers with solar PVs, and include the applicable solar feed-in tariff. This information must also be presented on the Queensland price comparator site. The Victorian price comparator site also allows users to input whether or not they have solar panels.

As a solar provider, AGL also has a range of information available on its website that is targeted towards existing or prospective solar customers.

## **Barriers to retailers entering, expanding or exiting the market**

### *Barriers to entry*

In AGL's view, barriers to entry for electricity and natural gas retailers are currently low. New energy retailers continue to enter the market. However, technological developments such as solar PV generation, other renewable generation, energy storage, energy management systems and metering are having an impact on the generation, distribution and retailing of electricity.

A retailer's ability to expand will vary depending on each retailer's capability including branding, scale, experience and financial capacity. The retail energy markets in the NEM are highly competitive as evidenced by high churn rates and discounting in a market where energy demand is declining. Increasing or even maintaining market share is a challenge in this environment.

### *Differences in jurisdictions*

AGL supports the move towards a NEM wide adoption of NECF as it allows participants to enter and efficiently participate in the market. Regulatory costs are generally lower in NECF jurisdictions. This is largely due to a higher degree of consistency in regulatory requirements across participating jurisdictions, and the need to only engage with and report to a single regulator. Examples of areas where retailers can benefit from efficiencies achieved under a single regulatory framework include:

- Performance reporting (ie AGL can report to the AER for each NECF jurisdiction in accordance with a single reporting framework)
- Compliance reporting
- Seeking approval on new or varied hardship programs
- Seeking authorisations or exemptions to operate across a number of NECF jurisdictions
- Consulting on revisions to various Rules, Codes and Guidelines
- Unlike Queensland and Victoria, retailers are not required to pay licencing fees in NECF jurisdictions.

However, while efficiencies can be achieved under a national framework, jurisdictional specific derogations as well as the failure of jurisdictions to adopt NECF to date result in higher costs for retailers and therefore a potential barrier to entry.

### *Mandated minimum feed-in tariffs*

In 2015, minimum feed-in tariffs are mandated only in Victoria, South Australia and regional Queensland. There is a risk that if the minimum feed-in tariff is set too high, it will discourage retailers from competing for solar PV customers as higher wholesale costs can be attributed to these customers. Following the carbon repeal in July 2014, recent reviews have resulted in lower mandatory feed-in rates. In AGL's view, the current level of mandated feed-in tariffs does not create a barrier to entry.

### *Alternative energy sellers*

In NECF jurisdictions, alternative energy sellers are typically exempt from the requirement to hold a retail authorisation. In most circumstances, however, an alternative energy seller will be required to apply to the AER for an individual exemption. Individual exemptions can have a number of conditions placed on them, which typically reflect a subset of the requirements in the NERR and NERL. Some individual exemptions, however, have very few conditions placed on them eg solar power purchasing agreement ('SPPA') providers. Consequently, barriers to entry are very low.

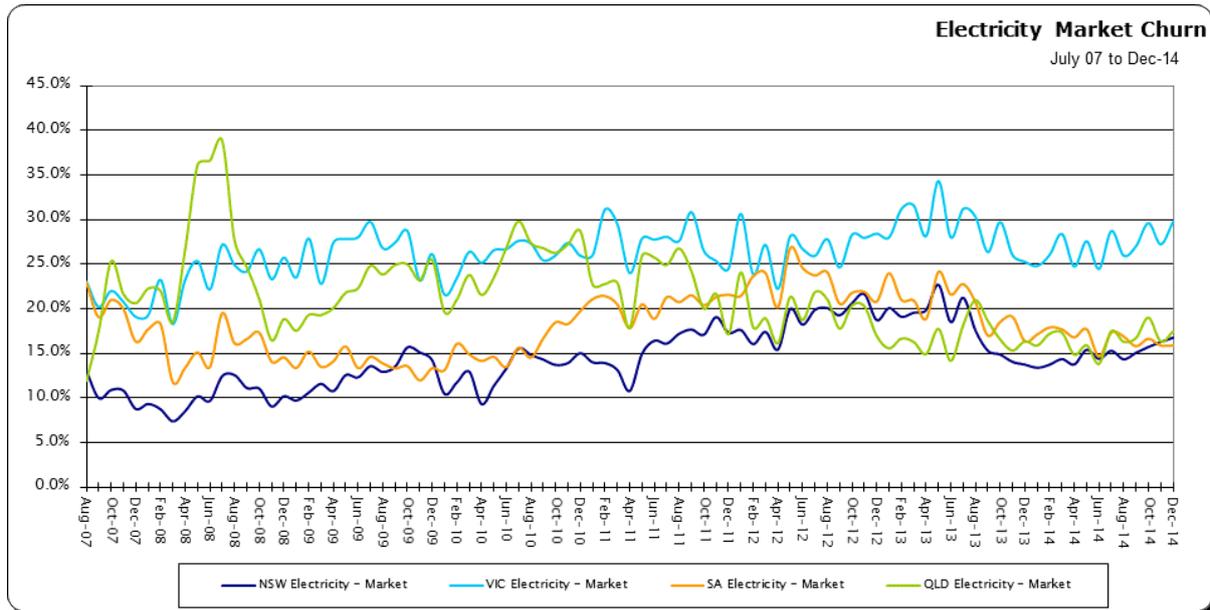
It is AGL's view that these participants will have an impact on competition over time. It is therefore appropriate for the AEMC to monitor the extent of participation of these energy sellers and their impact on competition in energy markets.

## **The degree of independent rivalry**

### *Competing on price, product and service differentiation*

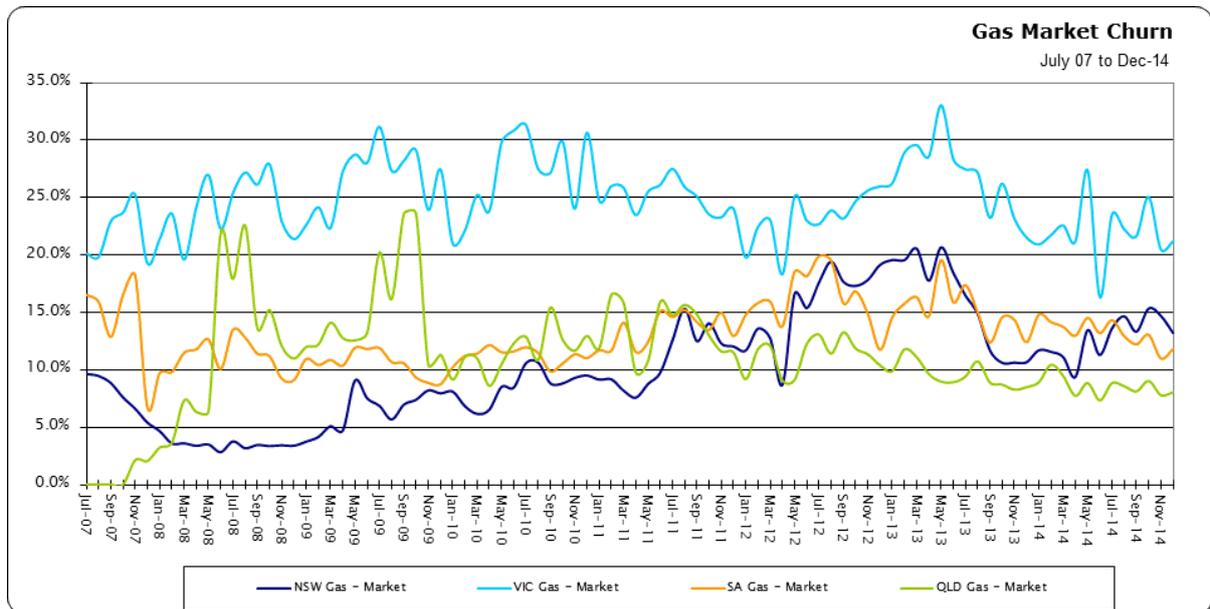
International studies by VaasaETT on switching in retail energy markets have consistently shown that competition in the NEM States in which AGL retails energy has been amongst the highest in the world. This highly competitive environment has encouraged the development of a number of product and service innovations, and improvements in the quality and scope of the products offered to customers. As shown in Figures 2 and 3 below, this high level of churn has persisted for many years. It is noteworthy that the jurisdiction with the highest churn rate in both the electricity and gas retail markets is Victoria where price regulation has been removed since 2009.

**Figure 1 Electricity market churn**



Source: AGL – based on AEMO retail transfer statistics, adjusted by removing regional customers in Queensland

**Figure 2 Gas market churn**



Source: AGL – based on AEMO retail market transfer statistics, adjusted for the migration of Australian Power and Gas customers to AGL in 2014

Although price competition in the form of discounts (credits and vouchers, also) is the main feature, other product and service features enhance the value of the energy offer. AGL’s suite of product incorporate features such as:

- loyalty schemes (flybuys),
- access to AGL Energy Online which allow customers to organise their move, view and monitor energy usage and bill details, pay bills and update personal details,

- access to My AGL IQ® which is an advanced energy report tool which allows customers to track their energy usage (up to the previous day's consumption for customers with digital meters), compare with similar homes and set energy saving goals,
- membership with AGL Rewards® which offers AGL products and services and benefits from over 1,600 merchants nationally, and
- monthly billing and bill smoothing.

Over the last 12 months, AGL has further improved its service offering by introducing 24/7 anytime contact centres, webchat, payment via PayPal and a card for impromptu payments.

As noted in AGL's 2014 submission, AGL has historically launched many of its most innovative products out of Victoria. For some time, Victoria was the only jurisdiction with no price regulation in the retail energy markets in the NEM. Another important reason is the rollout of digital (smart) meters in Victoria which enables the development of products such as "Free Power Saturdays" which utilises the half hourly usage data. Other new offers such as "one month's worth of electricity free" currently offered in NSW are not dependent on digital meters.

Aside from a suite of general offers, AGL has also developed offers which are targeted at certain segments such as families ("Free Power Saturdays"), seniors and communities or based on lifestyles such as customers with pool pumps.

#### *Barriers to innovation*

Product innovation is not a simple process. After a concept is developed and approved, internal infrastructure and processes (including billing systems, B2B, marketing, contact centres) will need to be modified to deliver and maintain the new product. Product development can be expensive and have long lead time.

The ability to innovate is also dependent on data. As mentioned earlier, the availability of digital meters in Victoria has allowed new products to be developed due to the availability of half hourly usage data. Digital meters are also an enabler of emerging technologies such as home energy management, battery storage and electric vehicles. The prevalence of accumulation meters in other NEM States which are manually read on a quarterly basis limits the range of products which can be developed. AGL supports a market led rollout of digital meters across NEM jurisdictions.

### **Customer satisfaction with market outcomes**

#### *Customer satisfaction*

AGL has commissioned AMR to conduct quarterly surveys of electricity and gas customers' attitudes to not only AGL but other retailers as well. These "Customer Attitudes to Service" surveys cover a number of areas including satisfaction, quality and pricing. A recent survey showed that AGL's customer satisfaction score has been increasing and in FY2014, this score reached 7 out of 10, which is the highest level over the past 3 years. This is shown in Figure 3 below.

**Figure 3 Customer satisfaction**



**Notes:**

- The customer satisfaction score results reflect responses to the question of how satisfied customers are with the service provided by their energy supplier on a scale of 0 to 10 (where 0 is not satisfied, 5 is neutral and 10 is extremely satisfied).
- The customer satisfaction score applies to AGL's retail electricity and gas customers across all states in which AGL operates.

Source: 2014 AGL Sustainability Report, [www.agl.com.au](http://www.agl.com.au)

*Customer complaints*

AGL monitors and assesses customer complaints in order to perform root cause analysis of issues that affect customer experience. There was an increase in complaints towards the end of FY2014, which was due to the integration of APG customers into AGL's billing system and the higher underlying rate of complaints from APG customers. On a relative basis however, the total complaints to the Ombudsman per 10,000 customer fell from 50.24 in FY2013 to 48.41 in FY2014 (source: 2014 AGL Sustainability Report).

Customer complaints alone do not necessarily reflect customer outcomes. Across the industry, Ombudsman complaints have been growing in the last few years. They have been inflated by some major changes in the market including corporate mergers and takeovers where systems and processes have to be consolidated. In addition, large volumes in complaints were generated when two of the three Tier 1 retailers moved to a new billing platform and this both directly increased the number of billing complaints recorded by each retailer and also indirectly created issues with transfers in the market. There has also been a rise in credit related complaints across the market as increasing numbers of consumers encounter issues with energy affordability as a result of energy price increases over the past few years. High bill and billing error comprise the main complaints but AGL has categorised over 10 other types of complaints including fee charged, payment processing, pricing and customer services. Some complaints arise from actions or practices of other service providers. Accordingly, understanding the causes of customer complaints is necessary before concluding if they represent any trends in the quality of customer outcomes.

**Competitive retail energy prices**

Whilst retail competition in the NEM has predominantly been based on price or discounting, retailers offer a range of products with different features including the level and type of discounts, contract length and payment options. AGL has a suite of general offers which feature discounting, convenience or flexibility. Recently, AGL has introduced special offers such "Free Power Saturdays" in Victoria or "one month's worth of electricity free" in NSW which focus on the value

which customers receive rather than the traditional discounting based offerings. It is important to note that many customers prefer products which best suit their individual circumstances and not necessarily the cheapest ie highest discount offer.

All AGL standing and market offers fully recover their efficient costs. The discounted market offers not only reflect underlying costs but, given the high churn risk, are also set to compete with other retailers' offers.

If you have any questions in relation to this submission, please contact Meng Goh, Manager Regulated Pricing, on (02) 9921 2221 or mgoh@agl.com.au.

Yours sincerely,

A handwritten signature in blue ink that reads "N Wallis". The signature is written in a cursive, flowing style.

Nicole Wallis  
Head of Energy Market Regulation