



5 July 2013

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

Submitted online: www.aemc.gov.au

Dear Mr Pierce

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

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

Origin supports the AEMC's Draft finding and has provided supporting evidence in the attached submission.

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 blue ink, appearing to read "Phil Moody".

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

Contents

- 1. Executive Summary 3
- 2. Introduction 7
- 3. Market definition 7
- 4. Competition in electricity 7
- 5. Competition in gas 11
- 6. Pathway to removing price regulation 14
- 7. Increasing customer engagement 15

1. Executive Summary

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

Origin supports the AEMC's draft finding that competition in retail electricity and gas services is competitive in New South Wales and retail price regulation should be removed.

The AEMC's draft decision is reinforced by increasing recognition of the benefits of competition among policy makers and growing momentum to deregulate. On June 17 the Queensland Government announced its [intention in principle to](#) deregulate electricity prices by July 1 2015,¹ following similar decisions to deregulate in Victoria and South Australia. In its Final Decision on retail prices in New South Wales the Independent Regulatory and Pricing Tribunal found competition to be effective and that pricing regulation should be removed.²

A highly active and competitive market

Awareness of retail contestability is high among residents and small businesses in NSW, with over 85 percent now aware of their right to choose their electricity and gas retailer. In both fuels the share of second tier retailers has grown steadily since privatisation and rivalry in retail energy markets is intense, with churn reaching 23 percent in electricity and 17 percent in gas in May 2013.³ Just under half of electricity customers are on a market contract and 70 percent of gas customers. Incumbent retailers continue to discount significantly in an attempt to maintain their customer bases.

In an increasingly competitive market and in response to consumer preferences door-to-door campaigns are being displaced by on-line marketing (see Confidential Appendix Figure 1A). Growth in the on-line channel is likely to benefit a number of customer groups as the costs of on-line marketing are uniform across metro, regional and rural customers, thereby helping to expose non-metro segments to greater competition than in the past. Churn has continued to rise since Origin's last submission to the AEMC on this topic, reaching 23 percent in May 2013.

Barriers to entry and exit

Barriers to entry and exit are low in retail electricity and gas markets. In electricity, barriers such as the Electricity Tariff Equalisation Fund (ETEF) and obsolete tariffs have been or are being removed. There are currently multiple sources of supply for hedging contracts in the market and the impact of any privatisation of electricity generation will be the subject of scrutiny from the Australian Competition and Consumer Commission (ACCC) ensuring that ownership arrangements do not lessen competition in downstream markets.

In gas there are multiple sources of supply, with transmission pipelines directly connecting NSW demand centres with supply sources in Victoria and South Australia and

¹ Hon. Mark McArdle, Queensland Minister for Energy and Water Supply "End electricity price regulation to improve competition", Media Statements, June 17

² Independent Pricing and Regulatory Tribunal "Final Report - Review of Regulated Retail Prices for Electricity - From 1 July 2013 to 30 June 2016", June 17

³ AEMO, *National Electricity Market Monthly Retail Transfer Statistics May 2013, Gas Retail Markets Monthly Statistics May 2013*, May 2013

through Moomba connecting to supply sources in Queensland. Transmission and distribution have not proven barriers to entry to second tier retailers in NSW. In gas distribution all major networks in NSW are covered by access regulation, meaning access terms are scrutinised by the Australian Energy Regulator and small players have access on the same terms as large retailers.

Customer experience

Origin notes the findings of the AEMC that only a very small portion of electricity and gas customers who change retailers in NSW do so due to a negative service experience, but that a small minority of customers continue to have negative experiences.

As noted by the AEMC, price regulation does not assist in promoting positive customer experiences. However, a number of other initiatives will improve outcomes in this area. On 1 July 2013 New South Wales adopted the National Energy Customer Framework (NECF), which includes a suite of customer protections designed specifically for a market with deregulated prices. On 19 June Origin announced it would cease door to door marketing, as have a number of major energy retailers in New South Wales. As more marketing moves on line, customers will be better able to compare prices and offers, and retailers' compliance with consumer laws will be more readily assessed.

Path to removing price regulation

Origin concurs with the finding of the AEMC that all prices of all small residential and business customers should be deregulated at the same time in the interest of encouraging competition and minimising confusion. Origin does not see a case for different arrangements for any sub-set of customers. While the market has been effective in creating innovative offers and different structures, this can be confusing for some customers. To assist these customers, the AER could consider further refinements to their comparator site, for example by allowing further filters for customers to narrow down the range of offers most applicable to them. Origin looks forward to working with the AEMC and the regulator towards making the site more useful to customers.

Origin supports all the monitoring measures proposed by the AEMC, with the exception of the proposal to monitor retailer revenues and margins. Monitoring retailer margins is likely to be unnecessary and ineffective because:

- There are other indicators of the effectiveness of competition that are more readily assessed, such as the number of competitors, market share, prices and discounts, which are considered effective by the competition regulator in other deregulated sectors;
- As noted by the AEMC it is difficult to identify an appropriate retailer margin at a given point in time, particularly as these are dynamic and depend on wholesale market outcomes that are necessarily linked to retail competition outcomes, [and this is made more complex due the integrated nature of major retailers](#);
- Monitoring margins across all competitors with any accuracy is a complex and costly exercise akin to full price regulation, which is not warranted when other indicators exist and are effective.

Origin notes also that all the monitoring measures proposed by the AEMC are provided for in the National Energy Retail Law (NERL) with the exception of the monitoring of revenues and margins, which would require a fresh delegation of powers.

Increasing customer engagement

While awareness of retail contestability now surpasses 85 percent of residential and small business customers in both electricity and gas, Origin acknowledges that some customers choose not to engage in the market. This can be addressed through:

- The benefits of sustained competition;
- A coordinated information campaign supporting deregulation.

Improved retailer communications and customer engagement will be a direct benefit of increased competition. Interest in energy products and services has increased significantly in recent years and the sector is only beginning to understand and respond to these needs. Increasingly, a retailer's competitive success will be determined by its ability to provide a more helpful, informative customer experience. The importance of effective and evolving customer engagement is evident outside the energy sector from the rapid growth of on-line product retailing, which allows customers more scope to compare products on their own terms, putting considerable pressure on traditional retailers.

Providing customers with meaningful information requires a sophisticated understanding of customer requirements, since information that is either too limited or too detailed leads customers to disengage. In recognition of this changing environment, in early 2013 Origin launched a national campaign "Knowledge is Power", designed to build a more interactive relationship with its customers. A key and enduring element of the campaign is a new web site "Energy Explorer" designed as a key resource for customers seeking more information about energy. The site deliberately avoids industry jargon to ensure it is consumer friendly and helpful. Market intermediaries have also seen value in coordinated engagement as evidenced by the success of the 'One Big Switch' campaign, which reports it has acquired over 50,000 accounts in Queensland and is now engaged in its NSW campaign. Retailers and intermediaries with more effective approaches to customer engagement will continue to find this a growing source of competitive advantage, honing their strategies through an iterative process of trial and error, supported by competitive rivalry.

In addition to evolving commercial offerings, Origin supports a coordinated information campaign to coincide with deregulation, involving government, retailers and community organisations, and looks forward to working with the AEMC on its blueprint for this campaign. The blueprint should help customers who wish to benefit from competition but who are yet to do so to feel more comfortable choosing an energy plan that suits their needs. The campaign should reassure customers that there is no requirement for them to act for price deregulation to be effective, while also:

- Directing customers to concise fact sheets provided on Government websites, canvassing impartial information on a number of key topics such as comparing prices using a bill, time-of-use tariffs, and comparing terms and conditions;
- Directing customers to the existence of impartial price comparator websites such as the AER's price comparator website;
- Directing customers to existing sources of impartial information such as the Federal Government's various information websites;
- In the first four weeks following deregulation provide a telephone information service to answer customers' questions in relation to the retail energy market;
- Targeting sub-groups with specific needs where these have been identified, such as those from non-English speaking backgrounds or non-metro gas customers, giving them the tools to engage, through community and advocacy groups where possible.

In summary, Origin supports the AEMC's draft finding and looks forward to working with the AEMC and the NSW Government to realise the benefits of a fully deregulated market.

2. Introduction

In October 2012 the AEMC was tasked by the Standing Council and Energy and Resources (SCER) to undertake an assessment of retail competition in NSW. The AEMC initiated its review on 13 December 2012 by releasing an Issues Paper, to which Origin provided a response. On May 23 the AEMC provided its draft response, which:

- Assessed the state of competition in retail electricity and gas in NSW and found these markets to be effectively competitive;
- Recommended steps to remove price regulation.

This submission comprises Origin's response to the AEMC's draft decision.

3. Market definition

Origin supports the decision of the AEMC to define the relevant markets as the electricity only and dual fuel markets. Origin also supports the decision to set the geographic scope of these markets as the state of NSW. We note specifically that non-metro customers continue to benefit from competition, as evidenced by the breakdown of Origin losses across the three distribution areas (Confidential Submission Appendix, Figure A2). Origin has undertaken to address obsolete tariffs in country areas, in line with the findings of IPART in its Final Decision, an issue explored further below in section 4 on Competition in electricity.

4. Competition in electricity

The NSW electricity market is now among the most competitive in Australia, and in 2012 was within the top ten most competitive in the world⁴, with churn reaching 23 percent annualised in May 2013⁵. Customers are active, barriers to entry and exit are low and there is sustained independent rivalry.

Customers are active

Of all the indicators examined by the AEMC with respect to customer activity, NSW is close to or exceeds levels reached in Victoria⁶ Australia's most competitive electricity market. 90 percent of customers are aware of retail contestability. This high level of awareness has been supported by the process of privatisation and increased interest in electricity, driven by growth in regulated retail prices and consumers' growing awareness of environmental issues. A targeted and coordinated information campaign that coincides with deregulation could build upon current high levels of awareness to ensure all customers are well informed of their choices.

The AEMC has identified several factors that may be keeping some customers from engaging in the electricity market, including inadequate information or information that is too complex; price regulation and obsolete tariffs.

⁴ Based on levels of customer switching, VaasaETT, "World Energy Retail Market Rankings Report 2012"

⁵ National Electricity Market Monthly Retail Transfer Statistics May 2013, AEMO

⁶ At the time of the AEMC's assessment of competition in Victoria

Origin addresses the need for better engagement with customers in section 7, 'Increasing customer engagement', below, but notes that this is an evolving task, with the Roy Morgan research commissioned by the AEMC finding that some customers find information inadequate while others find it overly detailed and complex.

Origin notes the finding of the AEMC that not all customers have access to the internet. The AEMC found that in 2010 79 percent of households had an internet connection, with a lower penetration for households with annual incomes under \$40,000. In addition to this there were at that time 6 million mobile wireless broadband connections across Australia. This is the most recent ABS data available, but the penetration of internet is likely to have increased in the intervening years. In addition, connections through their work, universities, libraries, cafes and through families and friends will suggest a higher effective level of access than suggested by the 2010 figures.

Price regulation is likely to be stymieing competition to some degree in NSW, since the existence of a regulated price may encourage some customers to believe that because the price they pay is endorsed by Government therefore it is the most competitive price available. This is a misconception, since price regulation does not guarantee a customer is paying the most efficient price. This problem will be overcome by the removal of price regulation.

Developments in South Australia following the decision to deregulate in that state suggest that retailers' discounting activity will increase following deregulation.⁷

Origin notes the AEMC's finding that the fact that some customers have not entered a market contract does not prove those customers are disengaged from the market or that competition has failed them. We concur with this finding. Firstly, all customers benefit to some extent from the portion of customers who actively investigate better deals and these benefits will increase as competition becomes more vigorous. Secondly, a portion of customers are likely to be happy with the trade off they have made between price, levels of service and time taken to investigate better offers. Roy Morgan found that 36 percent of customers who had not switched were happy with their existing arrangement. Determining that the benefits from investigating further do not outweigh the costs is an efficient decision and does not represent a failure of the competitive market.

Barriers to entry and exit are low

Barriers to entry and exit in retail electricity markets are low. The ETEF and level of regulated prices were the most significant barriers to entry and ETEF was removed as part of the NSW privatisation process and regulated prices have moved closer to sustainable levels over recent years. As evidence of this, new retailers continue to enter the market.

The AEMC has identified obsolete tariffs as a barrier to entry in some rural areas. As outlined in Origin's response to AEMC's Issues Paper as part of this review, Origin has experienced similar levels of churn in the Essential Energy network area as in other areas of NSW.

In IPART's Final decision to its Review regulated electricity retail prices⁸ it determined that obsolete tariffs in the Essential area could be impeding competition somewhat, but

⁷ David Nankervis, Joe Tauriello "Power bills to be cut by an average of \$180 in South Australia" *The Adelaide Advertiser*, December 2012; David Nankervis, "South Australians are switching retailers to get the best deals" *The Adelaide Advertiser*, March 07 2013

⁸ IPART, "Review of regulated electricity retail prices: Final Decision", June 2013

that this was not sufficient to stop competition from evolving further. IPART also invited Origin to develop further its approach to removing obsolete tariffs. Origin will continue to rationalise obsolete prices by moving these to cost-reflective levels. While it is in Origin's interest to move these customers to cost-reflective levels this must be done in a measured fashion to minimise the risk of price shock and negative customer experience that could drive customers to competitors. Origin notes that it continues to lose customers across all three electricity distribution areas which suggests that non-metro customers are also benefiting from competition (Confidential Appendix, Figure 2A).

Price regulation remains a residual barrier to entry in NSW, even regulated as prices have once again reached competitive levels. Regulatory risk remains for second tier retailers, since regulatory pricing outcomes could theoretically change subject to a change in policy. However, this will be resolved with the removal of price regulation.

In the first half of 2013 Click Energy entered the NSW market, further demonstrating that barriers to entry are low.

Origin notes the AEMC's concern that privatisation of the NSW Government's electricity generation assets could result in a market structure where smaller retailers would be less able obtain market hedges than is currently the case. Origin highlights that the Australian Competition and Consumer Commission (ACCC) will be required to examine any acquisition resulting from the privatisation of NSW generation assets to ensure it does not threaten competition in downstream markets. In this context, Origin notes the comments of the ACCC at the time of AGL's acquisition of Loy Yang A in Victoria that any proposal to acquire Macquarie Generation by either of the two vertically integrated NSW electricity retailers would be subject to particular scrutiny to ensure it did not endanger competition.⁹ In this context consolidation is unlikely to create a barrier to entry to tier two retailers.

Independent rivalry

Rivalry between retailers in NSW has grown steadily since privatisation. Around one in five customers switch retailers each year, allowing tier two retailers to take 27 percent of the market. This figure does not reference customers who switch to a more heavily discounted contract with their existing retailer, either at the time their contract ends or when they approach their retailer for a better offer. While concentration remains relatively high compared with Victoria, rivalry between the major retailers has been particularly intense, triggered in part by AGL's failure to obtain an incumbent electricity customer base at the time of privatisation.

Origin concurs that the removal of price regulation is likely to lead to an increase in the diversity of products.

Customers generally satisfied with their experiences

NSW electricity customers are generally satisfied with their experience of the retail market, with only five percent of customers switching as a result of negative experience with their existing retailer. Origin concurs that price regulation does not promote positive customer experiences or protect against poor ones.

Of the market experience issues identified by the AEMC, Origin notes that some of the issues can be effectively addressed as part the information campaign, which we address under "Increasing customer engagement" below, or will be dealt with through existing laws, as outlined in Table 1, below.

⁹ Angela MacDonald-Smith, "Regulator warns on power mergers" *The Australian Financial Review*, 25 May 2012

Issue	Solutions
<i>Actual price doesn't match price quoted or customers told things that weren't true</i>	<ul style="list-style-type: none"> • Origin and other retailers actively improving their communication of prices; • Consumer Law proscribes misleading advertising and this will be easier to monitor and enforce as more marketing takes place on-line rather than at the door • Development of fixed price products offers an alternative to rate changes and helps to reinforce that other products are subject to rate changes
<i>Entered into contract to get more information</i>	<ul style="list-style-type: none"> • NECF requires that an information fact sheet be provided to customers very early in the interaction when marketing at the door. • As more customers compare offers on-line via comparator and aggregator sites it will become easier to compare numerous offers simultaneously
<i>Felt pressured into signing or entering a contract to get salesperson to leave premises or hang up phone</i>	<ul style="list-style-type: none"> • Retailers are working through the establishment of Energy Assured Limited to improve the quality of door-to-door interactions. Reportable incidents have not risen above 0.11 percent of total interactions in the course of 2013. • Customers can go on to the Do Not Call Register or use a Do Not Knock sticker so they are not contacted at the door or by phone.
<i>Transferred without consent or not permitted to terminate agreement during cooling-off period</i>	<ul style="list-style-type: none"> • The Consumer Law and NECF proscribe these practices. • To the extent this is an on-going issue it will be recognised in complaints data and acted on by the ACCC. • In Origin's experience there have only been isolated incidences of this.

Origin acknowledges the potential for problems where customers sign up to offers shortly before a scheduled price change early in their contractual term. Origin has recognised this and has acted to address the issue, by making price increase factsheets available further ahead of scheduled price changes so that customers have more notice of price changes. Origin is also supporting a rule change proposal by the Independent Pricing and Regulatory Tribunal, currently under review by the Australian Energy Markets Commission, whereby the AER would be required to make distributors' approved pricing proposals public further ahead of a network price change. This would give retailers more opportunity to publicise price changes.

Origin notes that rapid price increases also drive complaints. This problem is likely to abate, as price increases due to network revenue growth and green schemes moderate. In any event, price regulation does not guarantee that prices remain low or at the most efficient levels.

Profit margins are consistent with a competitive market

Consistent with the analysis of NERA, growing intensity in competition drives retailer margins down. Wholesale costs fluctuate considerably, which makes it difficult to determine an appropriate margin at any time. However, Origin notes that the margin estimates derived by NERA are consistent with a competitive market.

Time of use tariffs

A wider rollout of interval meters in NSW will allow for a broader and more diverse product offering, as can be seen from the rollout of various products and services in the Origin Smart programme in Victoria. In addition to improved technology, price

deregulation will support a more sophisticated set of tariff offerings tailored to different customer needs.

5. Competition in dual fuel

Competition in the dual fuel market in NSW is effective, with customers aware and active in the market, low barriers to entry and exit and considerable independent rivalry. Like in electricity, customer satisfaction is best dealt with through improved customer engagement and existing rules, rather than through price regulation. NSW remains the only major NEM jurisdiction to maintain price controls on gas.

Customers are active in the market

Dual fuel customers are highly active in the market, with 70 percent having moved to a market contract, this being a higher level than in any of the major gas markets prior to their deregulation,¹⁰ and particularly high given that gas has lower penetration in NSW, and is a lower priced, lower involvement product.

Origin notes that non-metro gas customers are generally less aware of their right to choose a market contract. As outlined in Origin's submission to the NSW Independent Pricing and Regulatory Tribunal on gas pricing,¹¹ gas prices in the country areas need to be cost reflective. As these prices increase competition will increase, encouraging more customers into the market. Equally, non-metro customers could be the target of specific communications as part of the engagement plan to be carried out at the time of deregulation.

Origin notes the concern of the Public Interest Advocacy Centre (PIAC) that some dual fuel customers may be investigating electricity prices but then mistakenly assuming that the attached gas deal is competitive. In Origin's view this concern is not borne out by the evidence, which shows that discounts in gas are considerable. There is no reason to assume that customers are less capable of assessing a gas deal than an electricity deal and indeed gas generally has less complexity (in terms of tariff structure, controlled loads, etc) than electricity. In any event, Origin markets its gas offers separately on its website, which encourages customers to consider each as a stand-alone offer.

Barriers to entry and exit

Origin considers that barriers to entry in gas are not inhibiting second tier retailers from entering, other than perhaps regulated tariffs that may not be cost-reflective in some areas.

There are multiple sources of supply to NSW gas retailers. Equally, rights to transmission and distribution haulage have not proven a barrier to second tier retailers entering the NSW gas market.

We do not believe that gas distribution creates a barrier to entry in NSW. All major gas distribution networks are covered by access regulation under the National Gas Law. Under this regulation, the prices and terms and conditions of the networks are set by the Australian Energy Regulator (AER). The AER consults on these and so the proposed prices

¹⁰ Figures from other jurisdictions relate to the time of the AEMC's reviews of competition in those jurisdictions.

¹¹ Origin, *Submission to the Independent Pricing and Regulatory Tribunal on the review of regulated gas retail tariffs and charges from 2013 to 2016, Gas - Issues Paper*, January 2013

and terms are subject to the scrutiny of major tier one retailers as well as that of the Regulator itself. Access regulation also requires that second tier retailers be provided access to the network on non-discriminatory terms. As such, second tier retailers benefit from the review and scrutiny of the AER and the major retailers.

Access regulation covering gas distribution networks in NSW has an important role in promoting competition in downstream gas markets. This was recognised by the National Competition Council (NCC) in its recent Draft Decision with respect to the Wagga Wagga network, where it determined that revoking coverage on the network would have a negative impact on competition. The NCC found also that:

The [National Competition] Council considers that it is likely that additional incentives for competition in gas supply will emerge in NSW (including in the area serviced by the Wagga Wagga Gas Distribution Network) in the short to medium term. In recent draft reports, both the Australian Energy Market Commission (AEMC) and the NSW regulator, the Independent Pricing and Regulatory Tribunal (IPART), have concluded that competition in gas supply in NSW is sufficiently effective to allow regulation of retail prices to be removed. Acknowledging the preliminary findings of these agencies, the Council agrees with Origin that competition is likely to become more vigorous when retail price regulation is removed and some improvement of margins is allowed.¹²

Based on the above draft decision, the NCC determined that the regulatory regime should remain in place, in view of the increased levels of competition likely in coming years.

[This regulation is important because of the monopoly nature of the assets in question.](#)

Origin notes the AEMC's comments with respect to Jemena's business-to-business (B2B) interface, which is less efficient than equivalents in other jurisdictions. Retailers continue to work with Jemena towards adopting a more sophisticated system, more akin to those in other jurisdictions, but we do not believe this to be a significant barrier to entry.

While some obsolete gas tariffs remain, this will be best resolved in a context of price deregulation.

Independent rivalry

Rivalry in gas has reached considerable levels, with seventy percent of customers now on some form of market contract. Even customers who have moved to a market contract but remain with the Tier 1 retailer AGL are benefitting from discounts relative to the regulated rate. This benefit exists despite the current relatively higher level of concentration. The proportion of customers on a market contract is higher than both Victoria and South Australia at the times the AEMC reviewed competition in those states, states with much higher levels of gas penetration. While much of this rivalry has been between incumbent retailers, this is likely to change as margins improve.

Customer satisfaction

As outlined in the section on customer satisfaction in electricity, price regulation does not promote a more positive customer experience. All the issues raised by the AEMC will be ameliorated to some degree by:

- The adoption of the NECF framework; and

¹² National Competition Council, *Wagga Wagga Gas Distribution Network Application under the National Gas Law for a revocation of coverage determination for the Wagga Wagga Gas Distribution Network Draft Recommendation*, 17 June 2013, cl.4.27

- A lesser focus on door-to-door market, which has already occurred (see Appendix 1, Figure 1A).

The responses outlined in Table 1, on page 10 also apply to gas.

Profit margins consistent with a competitive market

Origin concurs with the AEMC that the profit margins estimated by NERA are consistent with a competitive market.

Evidence of competition

Origin notes the finding of the AEMC that it is difficult to determine exact levels of churn in the dual fuel market, since switching rates cannot identify customers that switched onto a dual fuel contract. In this context we note that several indicators suggest that there is significant competitive activity, including that second tier retailers not offering gas on regulated rates have a higher proportion of customers on dual fuel contracts and that AGL appears to be winning electricity customers from their gas customer base. While market concentration is high, the major gas retailer has been losing market share consistently since full retail contestability began. The removal of price regulation is likely to bolster activity by second tier retailers.

6. Pathway to removing price regulation

Origin supports the AEMC’s finding that price regulation should be removed for all customer groups at once and that no particular customer group should be denied the benefits of competition. A tiered entry will create confusion for no identified benefit.

Origin concurs with the findings of the AEMC in relation to issues which price regulation is not well placed to address, as outlined in Table 2, below.

Issue	Origin comments
<i>Price increases</i>	<ul style="list-style-type: none"> • Price regulation does not protect customers from inefficient prices, since prices set by regulation can be above or below inefficient levels for extended periods. • Effective competition is the best protection against price increases
<i>Customers who do not participate in the market</i>	<ul style="list-style-type: none"> • Customers who do not participate in the market are not protected by price regulation, since prices set by regulation can be above or below efficient levels. • Price regulation can encourage customers to believe they do not need to participate in the market, since they are protected by regulation. • Some customers are disinterested in participating in the market. A failure to participate actively in the market does not automatically mean competition has failed a customer, provided the customer in question is happy with the trade off between price, service quality and the time taken to investigate cheaper offers. • In a market with active competition all customers benefit to some extent from the competitive activity of those engaged in the market reducing margins. These positive spill-over effects are likely to increase as competition becomes more vigorous.
<i>Hardship customers</i>	<ul style="list-style-type: none"> • Price regulation does not address the causes of hardship.
<i>Retailer misconduct</i>	<ul style="list-style-type: none"> • Customers who do not participate in the market are not protected by price regulation, since prices set by regulation can be above or below efficient levels. • Price regulation does not address problems of retailer misconduct, which is better addressed through effective regulation (NECF, Consumer Law) and enforcement. • NECF was designed for an environment of deregulated prices.

Origin supports all the measures for market monitoring proposed by the AEMC, with the exception of monitoring of revenues and profit margins. Origin does not believe that monitoring of revenues and margins will be necessary or effective in a deregulated market. If levels of competition fall this will be apparent from the other indicators the AEMC has proposed, such as changes in prices, changes in the number of offers, changes in the number of competitors, the scope of marketing activity, customer churn and the size of discounts. These indicators are considered effective by the Australian Competition and Consumer Commission (ACCC) in its monitoring of other deregulated sectors.

Monitoring revenues and profits is difficult since identifying an appropriate margin can be challenging. As the AEMC notes:

*It is difficult to identify an appropriate benchmark with which to compare profit margins in the retail market. We have therefore focused on whether the regulated profit margin has been sufficient to support competitive activity.*¹³

In this way, as noted by the AEMC, other proxies for competition are more effective, since it is easier to gauge when competition is effective from these indicators than from revenue and profit margins. Profit margins are dynamic and depend on frequent changes in wholesale cost. As recognised by IPART, long-run and short-run marginal costs of generation vary such that a good or bad wholesale outcome can have a significant influence on profit margins. This can reflect volatility in the wholesale market or the success of a given hedging strategy, rather than changes in the intensity of competition in the retail market.

A further problem with monitoring profit margins is that the exercise is highly complex, akin to full price regulation applied to monopoly industries. This involved not only an understanding of retail costs but also an approach to modelling variation in wholesale costs for a standard retailer. Retailers increasingly have integrated positions across multiple jurisdictions, meaning a significant level of allocation would be required to estimate margins relative to NSW customers only. This complexity and cost is not warranted when other indicators are more readily assessed and are effective proxies for competition. If estimates of profit margins were made at a less complex level than is undertaken for retail price setting then they would be of questionable benefit, their accuracy and reliability greatly reduced. The complexity of estimating integrated retailer positions is apparent from the consultant reports commissioned by IPART in its setting of retail prices. IPART faced considerable difficulty, and ultimately its consultants adopted three different approaches to determining a reasonable margin that delivered three quite different outcomes.

Lastly, Origin notes that all the indicators the AEMC has proposed to monitor can be monitored under NECF powers with the exception of retailer revenues and profits, which would require fresh powers. This suggests that in the process of establishing a retail customer framework for a deregulated environment, policy makers did not foresee that modelling of retailer margins would be necessary.

7. Increasing customer engagement

Origin agrees with the AEMC that increased customer engagement could improve customer outcomes and help to sustain public support for full competition. In Origin's view, this campaign should be a cooperative effort involving Government, retailers and community groups. This can be addressed through:

- The benefits of sustained competition and
- A coordinated information campaign supporting deregulation.

¹³ Australian Energy Market Commission, Review of Competition in the Retail Electricity and Natural Gas Markets in New South Wales 23 May 2013, p.59

Benefits of competition

Improved retailer communications and customer engagement will be a direct benefit of increased competition. Interest in energy products and services has increased significantly in recent years and the sector is only beginning to understand and respond to these needs. Increasingly, a retailer's competitive success will be determined by its ability to provide a more helpfully informative experience for consumers. The importance of effective and evolving customer engagement is evident outside the energy sector from the rapid growth of on-line product retailing, which allows customers more scope to compare products on their own terms.

Providing customers with meaningful information requires a sophisticated understanding of customer requirements, since information that is either too limited or too detailed leads customers to disengage. This is apparent in the findings of Roy Morgan, that some customers find information too complicated while others find it inadequate.

In recognition of this changing environment, in early 2013 Origin launched a national campaign "Knowledge is Power", designed to build a more interactive relationship with its customers. Launched through an innovative marketing approach, the campaign directed customers online, where information was presented in a format that encouraged users to take a greater interest in energy provision, whilst also creating opportunities to ask questions of Origin. Origin has developed an "Energy Explorer" web site which will continue to deliver information about energy and the energy industry in an engaging manner (beyond the life of the campaign). Traffic to Origin's social media sites has also increased in recent months; a format that allows customers to give immediate profile to their questions and concerns, as well as to seek a direct response. Origin sees "Knowledge is Power" campaign as the beginning of a more interactive approach to customer engagement than has traditionally been the case in the sector.

Market intermediaries have also seen value in coordinated engagement as evidenced by the success of the 'One Big Switch' campaign. The campaign reports that it has picked up over 50,000 individual accounts in Queensland and is currently building its client base in NSW. The value available to intermediaries such as these is evident given that customers can sign up to the service for free.

Retailers and intermediaries with more effective approaches to customer engagement will continue to find this a growing source of competitive advantage, honing their strategies through an iterative process of trial and error, supported by competitive rivalry. Requiring all retailers to agree to a uniform approach to increasing customer engagement will mean reduced choice, thereby forfeiting some of the gains of increased competition.

Government information campaign

In addition to evolving commercial offerings, Origin supports a coordinated information campaign to coincide with deregulation, involving government, retailers and community organisations.

The role of Government is of primary importance, particularly in light of findings that a portion of customers can be suspicious of claims made by industry, in light of increases in energy prices in recent years. Government can provide impartial and objective advice that customers can trust.

Such a campaign should help customers who wish to benefit from competition but who are yet to do so to feel more comfortable entering the market, as well as allowing

customers to feel more confident and informed about a decision to stay with their existing retailer. The campaign should:

- Direct customers to fact sheets provided on Government websites, canvassing concise and impartial information on a small number of key topics such as comparing prices using a bill, time of use tariffs and smart meters, and comparing terms and conditions;
- Direct customers to existing impartial price comparator websites, such as the IPART website and the AER website, which could in turn be further refined;
- Direct customers to existing sources of impartial information such as the Federal Government's various information websites;
- In the first few weeks following deregulation provide a telephone information service to answer customers' questions in relation to the retail energy market;
- Target sub-groups with specific needs where these have been identified through relevant community information groups and/or targeted communications, such as:
 - those from non-English speaking backgrounds or
 - non-metro gas customers, giving them the tools to engage.