2016 Energy Retailer Survey

Report for the Australian Energy Market Commission

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Glossary

ACT	Australian Capital Territory
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
B2B	Business-to-business
COAG	Council of Australian Governments
CSO	Community Service Obligation
DNSP	Distribution Network Service Provider
DWGM	Declared Wholesale Gas Market
ECCC	Energy Comparator Code of Conduct
ESC	Essential Services Commission (Victoria)
ESCOSA	Essential Services Commission of South Australia
ESV	Energy Safety Victoria
Gas	Natural gas
ICRC	Independent Competition and Regulatory Commission
IPART	NSW Independent Pricing and Regulatory Tribunal
LPG	Liquid Petroleum Gas
NECF	National Energy Customer Framework
NEM	National Electricity Market
NERL	National Energy Retail Law
NERR	National Energy Retail Rules
NSW	New South Wales
QLD	Queensland
QPC	Queensland Productivity Commission
REES	Residential Energy Efficiency Scheme (SA)
RET	Renewable Energy Target (Australian Government)
RPR	Retail Price Regulation
SA	South Australia
SEQ	South East Queensland
Solar PV	Solar photovoltaic
STTM	Short Term Trading Market
TAS	Tasmania
VIC	Victoria

Executive summary

The Australian Energy Market Commission (AEMC) is conducting its third annual assessment of the state of competition in electricity and natural gas (gas) retail markets across and within all national electricity market (NEM) jurisdictions, being the Australian Capital Territory, New South Wales, Queensland, South Australia, Tasmania and Victoria.

These reviews are conducted under standing terms of reference set by the Council of Australian Governments (COAG) Energy Council in January 2014. The reviews focus on the state of competition in the small customer segment of the electricity and gas markets, and must be completed by 30 June each year.[1] As far as practicable, the terms of reference ask the AEMC to have regard to the following criteria:

- the ability of suppliers to enter the market
- differentiated products and services
- independent rivalry within the market
- the exercise of market choice by customers
- customer switching behaviour
- price and profit margins.

The AEMC's Approach Paper for this third review[2] sets out competitive market indicators for assessment in this review, which are broadly consistent with those that were used in 2015. They are:

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

As in 2014 and 2015,[3] the AEMC has engaged external consultants to conduct surveys and interviews with energy retailers, to elicit their views on these criteria.

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[1] Minister for Industry, Terms of Reference – *Australian Energy Market Commission (AEMC) Reporting on the State of Retail Energy Market Competition Across the National Electricity Market*, January 2014.

[2] AEMC, *Approach Paper- 2016 Retail Competition Review*, 22 October 2015

[3] The 2014 and 2015 survey reports prepared by K Lowe Consulting and Farrier Swier Consulting are available at: http://www.aemc.gov.au/Markets-Reviews-Advice/2014-Retail-Competition-Review and http://www.aemc.gov.au/Markets-Reviews-Advice/2015-retail-competition-review .

This report provides an overview of the views expressed by a representative sample of 22 electricity and 12 gas retailers surveyed and interviewed between 18 January and 23 February 2016 about the current state of competition in retail markets, and the outlook for competition in the future.[4]

Some points to note in reading this report are:

- The research methodology has differed somewhat across the review years, as described in Chapter 2 of this report. The approach adopted in 2016 presents all findings grouped by topic (rather than the past approach with chapters for each jurisdiction), making it easier to compare outcomes for each topic across jurisdictions, and to observe any emerging trends.
- In certain instances, views can vary significantly across retailers, depending on their size, and whether they are host or second tier retailers.[5] Accordingly, in certain instances, this difference may affect the ratings ascribed.
- In respect of certain issues, the sample size of responses has varied. Thus, in relation to these issues, small variations between years or across jurisdictions must be treated with caution.
- Importantly, this report sets out only those views expressed by the retailers surveyed, or observable from the data provided by them. Beyond collating and some background research for context where useful, the authors have not sought to interpret the data.

Notwithstanding these constraints, the survey has confirmed past survey findings with ratings ascribed across most areas in both gas and electricity remaining largely unchanged.

As in previous surveys, retailers assess the existence of retail price regulation as a significant impediment to effective competition in electricity and gas retail markets, with competition increasing following its removal (most recently, in the New South Wales electricity market). In electricity, those jurisdictions with retail price regulation in electricity rate consistently poorer than others on overall competition, retailer rivalry, barriers to entry and exit, and on availability of new products and innovation. In gas markets, where gas is often a fuel of choice competing with electricity and LPG, such differences are not as clear on the ratings given. Nevertheless, where gas retail price

[4] There is considerable information collected and published about Australia's national retail markets. Of particular relevance as background for this report, we note the AER's *State of the Energy Market 2015*, December 2015, updated 4 February 2016, especially Chapter 5 on Energy Retail Markets.

[5] These terms are explained in section 2.4 below. Though terminology differs somewhat between common usage and exact definitions across the NEM, a host or incumbent retailer is a retailer required by a jurisdiction to offer to supply small customers of a particular type, or located in a particular geographic area. These are generally the original retailers in a jurisdiction, with 'second tier' retailers being subsequent entrants in the market.

regulation exists in New South Wales, it is consistently identified by retailers as a significant barrier to entry.

Other significant impediments to entry and expansion identified in electricity markets were tightening wholesale market conditions (particularly affecting South Australia and Queensland),[6] and reportedly increased policy[7] and regulatory risk in Victoria affecting both electricity and gas retailers (though the latter concern was not clearly reflected in competition outcomes). Respondents reported particular concerns with Victoria not yet adopting the National Energy Customer Framework (NECF),[8] and with uncertainty created by a lengthy review of regulatory arrangements for vulnerable and hardship energy customers.

Energy retailers' views remained fairly constant on the importance to overall competition of economies of scale, and of having upstream interests. One exception is the importance of economies of scope, which has increased markedly in 2016 electricity results, and to a lesser extent in 2016 gas results. While noting a lack of statistical evidence, survey comments suggest that increase could be attributable to an increasing focus on bundled products.

There is a reported increase in marketing and retention activity by most retailers, and some concern about the impact on competition of win-back strategies adopted by large retailers. Some retailers launched new products and services during the year, and others are actively planning to do so in the near future.

In 2016, Power of Choice reforms[9] are expected to create new opportunities. With anticipated contestable metering, some electricity retailers are actively considering launching new offers including data services and home energy management in jurisdictions outside Victoria. Some large retailers have established separate divisions focussed on the delivery of distributed energy services and solutions to customers.

Retailers consistently reported jurisdictional differences in regulation – notably, differences in regulation affecting environmental obligations; hardship, vulnerable and

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6 The causes of tighter wholesale market conditions are complex and vary by NEM region. They include vertical integration, the impact of more volatile renewable generation supply, concentrated generation markets, strategic bidding behaviour, interconnector constraints and limitations of interregional hedging, and the interaction of the NEM energy only market design and the Mandatory Renewable Energy Target scheme.

7 Consistent with previous years, 2016 surveys used the term 'political and regulatory risk'. In practice, respondents referred to policy ***and*** political risks (as well as regulatory risks) in a number of instances. Unless an issue raised clearly is a political one, then this report now uses the term 'policy' risk to align with the AEMC's Retail Competition Report.

8 NECF is a suite of legal instruments that regulate the sale and supply of electricity and gas to retail customers. The main NECF documents are the National Energy Retail Law (NERL), the National Energy Retail Rules (NERR), and the National Energy Retail Regulations (Regulations). An overview of the framework is available on the AEMC website at http://www.aemc.gov.au/Energy-Rules/Retail-energy-rules/Guide-to-application-of-the-NECF.

9 In 2015 the AEMC progressed rule changes proposed by COAG as part of reforms to promote efficient use of energy networks and to empower customers to make efficient energy decisions. Reform areas include metering, network pricing and embedded generation, with the AER implementing reforms in cost-reflective network pricing.

concession customers; and Victoria's divergence from NECF. These are seen to create additional costs, administrative and compliance burdens for retailers, and to undermine efficient and consistent outcomes for customers across national retail energy markets. There was some evidence that such differences can discourage retailers from entering or expanding in a particular jurisdiction; and reduce the range of offers, or increase retail prices to particular sections of the market. However, the regulatory differences are not reflected in the overall degree of competition in a jurisdiction.

Views varied widely on the most important factors influencing retail electricity competition over the next five years.

Though there was little change in the key indicators reported in 2016, the survey has clearly flagged the importance of emerging new technologies, products, services and business models, and their increasing impact expected in the future on retailer rivalry, prices, marketing and retention strategies. The convergence in electricity and gas retailing, and between energy retailing and the sale of other related products and services, also gives rise to many new challenges for retail competition, for customer engagement, and for the current regulatory framework. Retailers raised concerns that current regulation could stifle efficient innovation, and apply inequitably to energy retailers compared with other service providers.

In all topics, gas survey results showed very little change from 2015 in any jurisdiction. Whereas grid-supplied electricity is considered an essential service and has achieved extremely high market penetration, in most jurisdictions gas remains a fuel of choice. In some markets such as Tasmania and regional New South Wales, gas is a relatively new offering and must compete with electricity and LPG in order to increase market penetration. Retailers in both of these markets indicated that expansion was challenging due to small market size, and impediments in contracting for wholesale gas and transportation.

As in 2015, Victoria continues to be the only gas market with a very high overall degree of rivalry. Ease of entry and expansion into retail gas markets has changed very little in the past year. The strong message from gas retailers going forward was that access and pricing of wholesale gas is the single most important market-wide factor influencing future retail gas competition. There was considerable optimism regarding the outcomes of the East Coast Gas Review.[10]

Though limited data was gathered on hardship and vulnerable customers, some interesting observations from the survey comments and interviews centred on increasing numbers of customers experiencing financial distress; difficult interactions between hardship arrangements and jurisdictional concession schemes; and differences across jurisdictions that are administratively inefficient, costly to comply with, and impede good customer outcomes for those experiencing hardship.

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[10] Details of this AEMC review are available at http://www.aemc.gov.au/Markets-Reviews-Advice/East-Coast-Wholesale-Gas-Market-and-Pipeline-Frame#

1. Introduction

As noted above, the purpose of this report is to present the positions and views expressed by energy retailers who are active in the NEM on the state of retail competition.

1.1 Structure of this report

An important change initiated for this 2016 survey report is its reporting by key competition indicators, then by sector (electricity, then gas), rather than by jurisdiction, indicator and sector as in 2014 and 2015.

The remainder of this report is structured as follows:

- Chapter 2 provides an overview of the survey process, the questions posed, and the participating retailers.
- Chapter 3 sets out the survey findings for electricity retail markets, reporting and comparing outcomes for each jurisdiction on retailer's perceptions of:
  - **Overall levels of competition** – views on the current level of competition and the outlook for the next one to two years
  - **Retailer rivalry** - the degree of retailer rivalry that exists, and how retailers compete
  - **Prices** - key determinants of retail prices
  - **Ease of entry and expansion** - both within and across jurisdictions, and the importance of economies of scale, scope and vertical integration in these markets
  - **Marketing and retention strategies** – any changes in marketing efforts, new products or services, and changes in competitive behaviour
  - **Customer choice** - the level of customer switching observed
  - **Future developments** - the factors considered to have the greatest influence on competition outcomes in the next five years
- Chapter 4 has survey findings for gas retail markets, reporting and comparing outcomes for each jurisdiction on retailer's perceptions of the same topics as for electricity.
- Chapter 5 draws out issues identified by retailers with convergence of electricity, gas and other markets.
- Chapter 6 describes retailers' views on how the market works in relation to hardship and vulnerable customers.

1.2 Limitations

The following limitations should be borne in mind when reading this report.

Sample size

This report captures views expressed by a limited sample of retailers (set out in section 2.2 of this report). Where necessary to aid understanding, FSC has tried to clarify and validate interview and survey responses. However, such efforts do not constitute comprehensive validation and testing, nor is this report an independent critique by FSC of retailers' views.

Point in time observations

The survey presents retailers' views as at 5 February 2016, with some limited updating through interviews conducted between 17 and 23 February 2016. There have been some important subsequent developments in energy retail markets and regulation, notably:

- The Queensland Government has announced that electricity retail price deregulation will commence on 1 July 2016.[11]
- AGL announced in February 2016 its withdrawal from upstream gas interests in New South Wales and Queensland.
- In March, the Victorian Essential Services Commission (ESC) published its Final Report - *Supporting customers, avoiding labels - outlining the findings of the Energy Hardship Inquiry*.[12] We note that uncertainty regarding the outcome of that year long review was raised by many survey participants.
- A Bill has progressed to apply the NECF connection framework for electricity distributors in Victoria.[13]

Comparability across review years

Some results across survey years are not directly comparable, particularly as between 2014 and later years. Where differences are material, these are highlighted in this report, and 2014 results are omitted from comparison charts.

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[11] This was reported widely in the media on 3 and 4 February 2015, and we understand that letters were sent from the relevant Queensland Minister to electricity retailers.

[12] Details of the review are available at http://www.esc.vic.gov.au/Energy/Energy-Hardship-Review .

[13] The *National Electricity (Victoria) Further Amendment Bill* 2015 passed both Houses of the Victorian Parliament on 5 March 2016. The Bill will amend the *National Electricity (Victoria) Act* 2005 to apply in Victoria the framework set out in chapter 5A of the National Electricity Rules governing the process for connecting small customers, including small-scale renewable energy generation proponents, to the electricity grid.

The 2016 process was agreed with the AEMC, and has involved written retailer surveys, and seven follow-up interviews canvassing common topics with each interviewee. Also, previous respondents were provided with surveys that were populated with their 2015 responses, to update where relevant. This approach differs from:

- 2014, when the key data was obtained principally through very detailed retailer and association interviews, supported by some written surveys, and
- 2015, which focussed on more comprehensive and standardised written retailer surveys, and limited follow-up telephone discussions to clarify specific points.

All survey rating scales used remained constant across 2015 and 2016. However, the survey questions in 2016 differed from 2015 in that:

- Some new questions were added, and some past questions deleted, reflecting areas of particular interest to the AEMC in 2016.
- Some factors consistently raised by respondents in 2015 have been added as prompts within some questions.
- For gas, New South Wales was split into urban and rural/regional[14] areas for the first time.

Breadth of issues

The broad issues canvassed in the surveys span both gas and electricity retail markets, and issues affecting competition in six jurisdictions. As with previous years, this breadth may have constrained survey participants' ability to respond in detail on all issues. The issues selected by different respondents for more detailed commentary varied considerably.

1.3 Acknowledgements

Compiling a report such as this is dependent on the time, effort and cooperation of respondents. We wish to thank the participating retailers for setting aside time to contribute to this process, and for providing their valuable insights into the range of issues currently affecting retail competition in gas and electricity markets within and across the NEM.

[14] The gas surveys referred to 'urban and rural/regional NSW'. However for convenience, this report refers throughout to 'regional NSW' in line with terminology adopted by the AEMC.

2. Survey methodology

This chapter describes the survey and interview process, the sample of participating retailers, the questions posed, and terminology used in this report.

2.1 Survey and interview process

In late December 2015, we agreed with the AEMC a representative list of retailers with diverse characteristics from each jurisdiction, to approach for participation in the 2016 survey. The survey was circulated on 18 January 2016[15] and participants were given 2.5 weeks to complete it.[16]

Based on preliminary findings and new areas of interest to the AEMC that were identified in those responses received as at 5 February 2016, topics for interviews were then agreed with the AEMC (those topics are detailed in section 2.3 below), as well as seven retailers to be interviewed. Selected interviewees provided a range of perspectives from large host retailers, well-established second tier retailers, and very recent new entrants. The interviews occurred between 17 and 23 February 2016.

It was agreed that data collated from retailer surveys and interviews would be used in such a way as to avoid identifying or attributing comments to individual participants.[17]

2.2 Sample of participating retailers

Table 1 is the target list of retailers agreed with the AEMC. Twenty-three of the 27 retailers identified participated in the survey. Though confidentiality precludes identifying the participants, we can state that the sample consisted of:

- **22 retailers currently supplying electricity** to small customers in the Australian Capital Territory, New South Wales, South East Queensland, South Australia, Tasmania and Victoria (85 per cent of retailers approached to participate), and
- **12 retailers currently supplying gas** to small customers in the Australian Capital Territory, New South Wales, Queensland, South Australia, Tasmania and Victoria (86 per cent of gas retailers approached to participate).

All retailers who participated in the 2015 survey also participated in 2016, as well as four new participants.

[15] One retailer on the agreed list was unable to be contacted.

[16] We note that several surveys were received in the two weeks after 5 February 2016. Those results are also captured in this report.

[17] However, the agreed survey methodology allows for aggregated information and non-attributed quotes to be published.

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Table 1 – Retailers asked to participate in 2016 survey

Organisation	Small Customers Supplied		Jurisdictions in which the Retailer is Actively Supplying Residential or Small Business Customers (* used to identify those jurisdictions where a retailer is not supplying some rural or regional areas)														Vertical Interests	
			Electricity							Gas								
					Qld						NSW							
	Residen-tial	Small Business	ACT	NSW	SE Qld	Regional Qld^	SA	Tas	Vic	ACT	Urban	Regional	Qld	SA	Tas	Vic	Electricity Generation in the NEM	Upstream gas interests in Eastern Aus.
ActewAGL	✓	✓	Host	*SE Region*						Host								
AGL and Powerdirect	✓	✓		*			Host		Host		* Host		* Host	*		* Host		
Alinta, Neighbourhood, Harvey Norman Energy	✓	✗												*		*		
Aurora	✓	✓						Host										
Blue NRG	✗	✓																
Click Energy	✓	✓																
Commander	✗	✓																
CovaU	✓	✓																
Diamond Energy	Primarily Residential																	
Dodo Power and Gas	✓	✓														*		
EnergyAustralia	✓	✓		Host					Host		*			*		* Host		
Ergon Energy	✓	✓				Host												
ERM	✗	✓																
Glo Bird	✓	✓																
Go Energy	✓	✓																
Lumo Energy	✓	✓									*					*		
Momentum	✓	✓														*		
Origin Energy	✓	✓		Host	Host				Host		* Host	Host	Host	Host		* Host		
Pacific Hydro	✓	✓																
People Energy	✓	✓																
Powershop	✓	✓							*									

Organisation	Small Customers Supplied		Jurisdictions in which the Retailer is Actively Supplying Residential or Small Business Customers														Vertical Interests	
			Electricity							Gas							Electricity Generation in the NEM	Upstream gas interests in Eastern Aus.
			(* used to identify those jurisdictions where a retailer is not supplying some rural or regional areas)															
					Qld						NSW							
	Residen-tial	Small Business	ACT	NSW	SE Qld	Regional Qld^	SA	Tas	Vic	ACT	Urban	Regional	Qld	SA	Tas	Vic		
QEnergy	Primarily Small Business			*					*									
Red Energy	✓	✓														*		
Sanctuary Energy	✓	×																
Simply Energy	✓	✓												*		*		
Sumo Energy	✓	✓																
Tas Gas Retail	✓	✓																

Sources: Reponses to survey and interview questions, retailer websites and AER, State of the Energy Market, 2015, p125.

Notes: The term 'host retailers' is defined by the AER as follows:

- Host retailers in NSW, ACT and Tasmania are 'those responsible for offering 'regulated offer' contracts to customers in defined regions of each state'.
- Host retailers in Victoria, SA and Queensland are 'those responsible for offering 'standing offer' contracts to customers that establish a new connection in defined regions of each state'.

^ The bounds of this market have been determined having regard to the bounds of Energex' distribution network. In short, this market includes AGNL's Hervey Bay, Maryborough, Bundaberg, Gladstone and Rockhampton distribution networks and that part of Allgas Energy's distribution network that extends into Toowoomba and Oakey

Some characteristics of the sample of participating electricity and gas retailers are set out in Table 2. A comparison with the information in Table 2 suggests that the characteristics of the sample are broadly consistent with those exhibited by the wider population of retailers.

With participation rates of 86 per cent for gas and 85 per cent for electricity, the composition of the sample may be viewed as broadly representative of the population of gas and electricity retailers supplying small customers in the NEM jurisdictions. The sample is generally sufficient to provide reasonable confidence in the reported findings, except where explicitly stated otherwise.

Table 2 – Characteristics of the sample of electricity and gas retailers[18]

Characteristics	Electricity retailers (22 retailers or 71% of active retailers)	Gas retailers (12 retailers or 86% of active retailers)
NEM coverage	The sample of retailers accounted for 72-100% of the electricity retailers in each jurisdiction.	The sample of retailers accounted for 82-100% of the gas retailers in each jurisdiction.
Rural/regional coverage	The majority of electricity retailers in the sample are offering to supply rural/regional areas.	Only a small sub-set of the sample of gas retailers is offering to supply rural and regional areas. This is consistent with the broader population of gas retailers and appears to reflect, amongst other things, the size of these markets and contractual constraints on some regional pipelines.
No. of jurisdictions retailers operate in	With two or three exceptions, all the retailers in the sample are operating across two or more jurisdictions.	
Host vs second tier retailers	The sample of electricity retailers consists of a representative mix of host and second tier retailers	The sample of gas retailers consists of a representative mix of host and second tier retailers.
New entrants	Three of the electricity retailers commenced operations in the last 3 years and another 8 have entered new jurisdictions in this period.	One of the gas retailers has commenced retailing gas in the last 3 years and another three have entered new jurisdictions in this period.
Types of small customers supplied	19 of the electricity retailers are supplying residential customers and 19 are supplying small business customers.	Most of the gas retailers in this sample are supplying residential and small business customers while two only supply residential.
Vertical interests	45% of the sample of electricity retailers has an interest in generation in the NEM and 9% of the sample has an interest in electricity distribution networks.	17% of the sample of gas retailers has interests in upstream gas production and/or exploration and 17% of the sample has an interest in gas distribution networks.
Retailing electricity and/or gas	55% of the electricity retailers are retailing gas.	92% of the gas retailers are also retailing electricity.

[18] Active retailer numbers are based on AER, *State of the Energy Market 2015*, updated 4 February 2016, at p125. In addition we have included three active new entrants as at March 2016 (sourced from AER retailer authorisations and retailer websites).

2.3 Questions posed

The survey questions were developed in consultation with the AEMC. They were designed to enhance understanding of retailers' experiences in gas and electricity retail markets across the NEM and to elicit their views on the focus areas set out in the introduction.

To ensure appropriate coverage of both gas and electricity retail markets, separate sets of survey questions were developed for retailers operating in these markets. Table 3 sets out the types of questions that survey participants were asked about each issue (with the full survey questions set out in Appendix A).

Table 3 – Types of survey questions

Focus area	Retailers were asked…
Nature of the retailer's operations	To identify: • the jurisdictions in which they are actively retailing • any geographic areas within a jurisdiction that they don't operate in • the customer segments they market to (i.e. residential and/or small business) • any other brands their parent company is using to retail gas and/or electricity • any upstream interests they have in electricity generation, electricity networks, upstream gas exploration/production and/or gas pipelines, and recent changes in these interests • whether they had wound back operations in any jurisdiction in the last year and if so, why and • whether they intended to enter, expand or exit from any jurisdiction in the next one to two years
Ease with which entry, expansion and exit can occur	To: • rate the ease with which entry, expansion and exit can occur in each jurisdiction for both gas and electricity on a scale from 1 to 5, where 1 means very difficult and 5 means very easy • identify any barriers to entry or expansion in each jurisdiction and barriers to entering or expanding across multiple jurisdictions • indicate whether the ease with which entry or expansion can occur has changed in the last year • explain whether there are additional barriers to retailing in rural or regional areas • provide their opinion on whether over the next one to two years they expected to see: – any change in the ease with which entry or expansion can occur – new entry, exit or consolidation occurring in in the next one to two years and – any change in the market share held by incumbents or first tier retailers in any jurisdiction • rate the importance of economies of scale, economies of scope (e.g. offering dual fuel or multi-utility products) and vertical integration in each jurisdiction for both gas and electricity on a scale from 1 to 5, where 1 means irrelevant and 5 means critical

Focus area	Retailers were asked...
	• explain whether the importance of any of these factors had changed in the last year
Retailer rivalry	• To rate the degree of price, non-price and the overall degree of rivalry in each jurisdiction on a scale of 1 to 5, where 1 means non-existent and 5 means very high • To identify any change in the relative importance of price vs non-price rivalry and the overall degree of rivalry in the last year • To indicate whether rivalry in regional or rural areas had changed in the last year • To opine on whether they expected to see any change in the degree of rivalry in any jurisdiction in the next one to two years
Prices	• To rate the importance of a set of factors in terms of their influence on pricing decisions (e.g. wholesale costs, transportation costs, competitors' prices)
Marketing & retention	• About changes in marketing efforts new products and services observed changes in competitors' behaviour experiences and policies in relation to vulnerable customers
Customer switching	• To rate on a scale of 1 to 5, where 1 means non-existent and 5 means very high: – the level of switching between retailers in each jurisdiction – the level of switching between their market offers in each jurisdiction
Overall level of competition	• To rate the overall level of competition in each jurisdiction on a scale of 1 to 5, where 1 means non-existent and 5 means very high • To explain what distinguishes jurisdictions that are ascribed a high rating from those assigned a low rating • To indicate whether there had been a substantive change in the degree of competition in any jurisdiction in the last year • To opine on whether they expected to see any change in the degree of competition in any jurisdiction in the next one to two years and, if so, what would prompt this change
Future developments	• What factors they think will have the greatest influence on retail competition in the next five years

In subsequent interviews, seven retailers were asked about:

- new products and services, and bundled products
- tightening electricity wholesale market conditions in South Australia
- changing upstream gas market interests
- hardship and vulnerable customers, practical problems and specific differences across jurisdictions
- specific policy and regulatory risks and how/whether they flow through to retail prices
- recent enforcement actions against retailers
- comparator websites, their evolution and effect on competition, and
- any points for clarification in the specific interviewee's survey responses.

2.4 Terminology

Consistent with the terminology used in previous years, this report distinguishes between the different types of retailers operating across the NEM by using the following terminology:

- The term '**host retailer**' is used to refer to retailers that are obligated to:
  - offer a 'regulated offer' contract to customers in those jurisdictions where retail price regulation is still applied; and
  - offer 'standing offer' contracts to customers to supply gas or electricity in a defined region in those jurisdictions where retail price regulation is no longer applied.[19]

  Host retailers in Tasmania and the Australian Capital Territory must offer 'regulated offer' contracts to customers. Host retailers in New South Wales, Victoria, South Australia and Queensland must offer 'standing offer' contracts to customers that establish a new connection in a defined region.

  The list of electricity host retailers includes ActewAGL, AGL Energy, Aurora, EnergyAustralia, Ergon and Origin Energy, while the list of gas host retailers includes ActewAGL, AGL Energy and Origin Energy and EnergyAustralia (see Table 1).

- The term '**the big three'** refers to energy retailers AGL Energy, Origin Energy and EnergyAustralia.
- The term '**second tier**' is used to refer to retailers such as Alinta, Blue NRG, Click Energy, CovaU, Diamond Energy, M2 (Dodo Power and Gas and Commander Power and Gas), Go Energy, Lumo, Momentum, Pacific Hydro, Powershop, People Energy, Red Energy, Sanctuary Energy, Simply Energy, and Tas Gas Retail.

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[19] See AER, *State of the Energy Market 2015*, 4 February 2016 update, notes to Table 5.1 at p.125. These host retailers may be 'designated retailers' as defined in section2 of the NERL, and 'local area retailers' appointed by each jurisdiction in accordance with section 11 of the NERL. For a description of the variations on these terms, see the AEMC's detailed spreadsheet of state and territory modifications to NECF available at http://www.aemc.gov.au/Energy-Rules/Retail-energy-rules/Guide-to-application-of-the-NECF

3. Electricity retailer survey results

Chapter 3 sets out survey responses and findings on the state of competition in electricity retail markets across the NEM, as reported by retailers in February 2016.

Sections 3.1 to 3.7 deal with:

- the overall degree of competition
- retailer rivalry
- factors influencing prices
- marketing and retention
- customer choice
- anticipated future developments, and
- specific issues raised in relation to comparator sites.

Where applicable, topics are divided into sub-sections with overall findings and graphs, followed by NEM-wide observations, and then comments relevant to individual jurisdictions, in the order Australian Capital Territory, New South Wales, Queensland (first South East Queensland, then regional Queensland), South Australia, Tasmania and Victoria.

Table 4 provides a snapshot of electricity retail markets in each jurisdiction.

Table 4 – Electricity market snapshot[20]

Jurisdiction	Active retailers	Changes in active retailers	NECF in place?	RPR in place?
ACT	7	1 Entry	Yes, since 2012	Yes
NSW	23	4 Entries	Yes, since 2013	No
QLD	16		Yes, since 2015	Yes
SA	16	1 Entry	Yes, since 2013	No
TAS	2		Yes, since 2012	Yes
VIC	24	3 Entries	No	No

[20] Based on the AER, *State of the Energy Market 2015*, updated 4 February 2016, and amended to reflect survey data received.

3.1 Overall level of competition – electricity

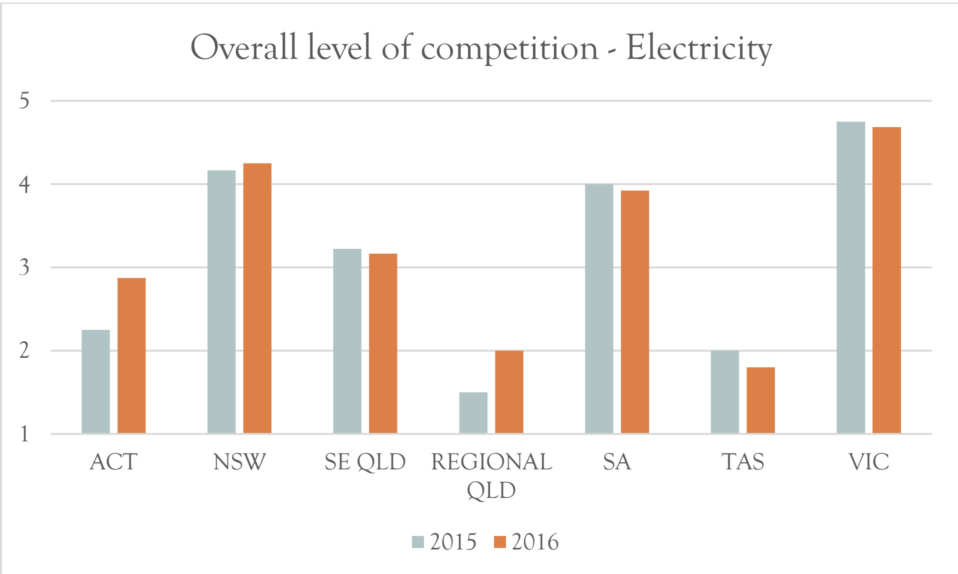
Survey questions were designed to elicit retailers' views on the current level of competition in electricity retail markets, and on the outlook for competition over the next one to two years. Specifically, retailers were asked to:

- rate the overall level of competition in each jurisdiction on a scale of 1 to 5, where 1 means non-existent and 5 means very high
- explain what distinguishes jurisdictions that are ascribed a high rating from those assigned a low rating
- indicate whether there had been a substantive change in the degree of competition in any jurisdiction in the last year, and
- opine on any expected changes in the degree of competition in any jurisdiction in the next one to two years, and what would prompt such changes.

3.1.1 Findings on overall level of competition

Figure 1 below compares retailers' assessments of the overall degree of competition in each jurisdiction in 2015 and 2016. (Comparative results for 2014 have not been included, as questions posed and the rating scale differed significantly in 2014 from those in later years.)

Figure 1 - Average overall level of competition – by jurisdiction



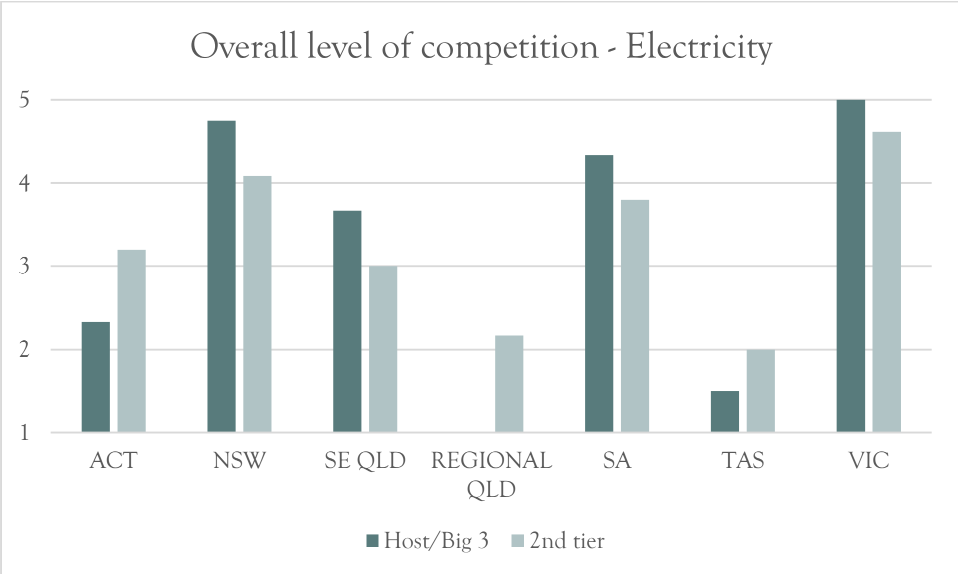
Rating scale: 1 non-existent; 2 minimal; 3 moderate; 4 high; 5 very high

3.1.2 NEM-wide views and comments

Retailers identified significant divergence between those jurisdictions without retail price regulation (New South Wales, South Australia and Victoria rated as 'high' to 'very high'), and those where some form of retail price regulation remains in place (Australian Capital Territory, Queensland and Tasmania).

Analysis shows fairly consistent average ratings for each jurisdiction between years, with reasons given for changes outlined for each jurisdiction below.

Figure 2 – Views on competition in 2016, by retailer size



Rating scale: 1 non-existent; 2 minimal; 3 moderate; 4 high; 5 very high

In New South Wales, South Australia and Victoria, the result may suggest that the big three retailers perceive the level of competition as being somewhat higher than as perceived by second tier retailers. This finding is consistent with comments made in surveys and interviews.

The different outcome in the Australian Capital Territory was echoed in retailer comments and interviews regarding barriers to entry and expansion in that market, centred on retail price regulation, and dominance of the incumbent retailer ActewAGL.

3.1.3 Comments on competition in specific jurisdictions

Australian Capital Territory competition

Retailer responses revealed that, while retailer rivalry and activity has increased in the Australian Capital Territory electricity retail market in the past year, this market is still viewed by most retailers as having minimal to moderate competition.

In 2015, respondents observed that the level of customer engagement was low, and expected little change in the level of competition in this market over the next one to two years. However, a slight increase was observed in 2016, and was attributed by retailers to:

- increased levels of consumer knowledge and awareness of the competitive market
- the number of retailers actively operating in the market, including a concerted marketing effort by a large retailer
- retail margins available (presumably, under the regulated retail price of the incumbent), and
- the ability to innovate, for example, through smart meters.

In contrast, some other retailers identified continuing impediments to effective competition being the existence of retail price regulation *per se*;[21] the incumbent retailer's dominance in the market; the incumbent's ability to retain customers with discounts for bundled products; and the relatively small size of the Australian Capital Territory market.

In the next one to two years, respondents expected to see more retailers entering the Australian Capital Territory market, some aggressive targeting by a large retailer, and a general increase in acquisition activities by retailers.

New South Wales competition

Retailers identified a high degree of competition in the New South Wales electricity retail market. The slight improvement on the results of the 2015 survey was supported by strong comments from many retailers about the attractiveness of New South Wales as a first entry point for new retailers. In support of these comments, respondents observed:

- that competition in this market has increased significantly with the removal of retail price regulation
- additional retailers in the market, and fiercer competition
- prices being even more important than they were formerly
- good interconnector supply from Queensland and Victoria which reduces wholesale risks, and
- a supportive political and regulatory environment.

Since the 2015 survey, several retailers had increased their sales force size and their mainstream marketing exposure, and many commented on a general increase in retailer acquisitive activity.

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[21] The *Independent Competition and Regulatory Commission Act 1997 (ACT)* enables a referring authority to instruct the ICRC to investigate and determine the price of retail electricity. A price investigation is governed by Part 3 of that Act, and the relevant terms of reference, and it results in a 'price direction'. The ICRC currently only regulates the price for the supply of electricity to small customers in the ACT purchased from ActewAGL Retail, with the current price direction applying from 1 July 2014 to 30 June 2017.

Looking forward over the next one to two years, most respondents expected the market to become even more competitive. Expected developments included more new entrants; new innovative service offerings and business models leveraging advances in technology, offering new options for customers to meet their energy needs (see section 3.5.1 below for a description of these new products and services); greater competition between retailers, especially by the larger companies in order to protect and retain their market share; more effective competition; and a slight increase in churn. One contrary view expressed was of the potential for some abatement as 'margins are unsustainably tight'.

South East Queensland competition

We note that most surveys were completed before the Queensland Government confirmed that retail price regulation for South East Queensland will end from 1 July 2016. Comments focus on that government's earlier decision in April 2015 to delay scheduled retail price deregulation, pending a review by the Queensland Productivity Commission (QPC).

Though the retailers' comments are set out below, please note their relevance is affected by the government's subsequent announcement.

Survey and interview results indicate that two retailers have wound back operations in South East Queensland in the past year; with several retailers informing us that they were adopting a 'wait and see' approach before committing to entry or expansion in this region.

Though as in 2015, respondents ascribed a moderate rating to overall levels of competition in the South East Queensland electricity retail market, many retailers commented favourably on the adoption of NECF which commenced in Queensland on 1 July 2015. At February 2016, the factors retailers pointed to as impeding entry and competition in this market were:

- retail price regulation[22]
- political risk, noting in particular the late deferral of anticipated deregulation in 2015
- alleged anti-competitive behaviour from Queensland Government-owned generators[23]

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[22] On 3 February 2016, the Queensland Government announced that electricity prices will be deregulated in south-east Queensland from July after the state's Productivity Commission found that price deregulation would boost competition and potentially lower prices.

[23] We note ACCC attention and media coverage of allegations of Queensland state-owned generators CS Energy and Stanwell Corporation engaging in late-bidding to push up power prices in the NEM. See for example http://www.afr.com/news/politics/sims-puts-qld-gencos-cs-energy-and-stanwell-corporation-on-notice-20151022-

- physical limitations on supply from New South Wales through the interconnector, creating wholesale risk.

We note that in 2015, respondents observed increased volatility and higher pool prices in South East Queensland. This adversely affected retailers through the need to provide greater levels of capital to AEMO to satisfy its prudential requirements and to other counterparties as credit support; increased hedging costs; and falling retail margins. Higher hedging costs and increases in prudential and credit support requirements were identified as particularly problematic for smaller retailers without access to the same level of capital as the larger retailers.[24]

In 2016, several retailers observed decreased competition in this market in line with undesirable (though unspecified) wholesale market conditions in Queensland and policy uncertainty associated with deferred retail price deregulation. Some other retailers considered there had been a general increase in retailer activities targeted at customer acquisition.

In the next one to two years, most retailers expected to see price deregulation encouraging more new entrants, more effective competition, more innovative service offerings, and increased customer churn. However, generator concentration was identified as a significant hindrance to effective competition.

Regional Queensland competition

Despite a slight improvement, retailers in 2016 rate overall electricity retail competition in regional Queensland as minimal. The principal factors that retailers identified as contributing to this low rating are:

- Most small rural customers are supplied by the government-owned retailer, Ergon Energy (Retail), under a standard retail contract reflecting regulated tariffs. Around 28 per cent of large regional business customers are on market contracts, with uptake skewed to the eastern zone.[25]
- The structure of the subsidies paid by the Queensland Government to Ergon Energy (Retail) to fund the Uniform Tariff Policy (UTP), combined with the provision in the *Electricity Act 1994* (Qld) which prohibits Ergon Energy (Retail) from competing with other retailers by not allowing it to offer market contracts to attract new customers.
- The Queensland Government subsidy for regional and rural customers for the additional costs involved in supplying electricity outside South East Queensland,

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gkgiu4#ixzz42AJvrMMk . These allegations have been denied by the generators, and refuted QPC in its 3 February 2016 draft report.

[24] K Lowe Consulting and Farrier Swier Consulting, *AEMC 2015 Retail Competition Review: Retailer Surveys*, May 2015, p. 37

[25] Queensland Productivity Commission, *Draft Report – Electricity Pricing Inquiry*, 3 February 2016, at section 6.1.2

through payments to Ergon Energy. This subsidy is called the Community Service Obligation (CSO).

Other factors identified were:

- over-regulation (for example, in relation to dealing with vulnerable customers and concession arrangements)
- the alleged exercise of market power by Queensland Government-owned generators to raise prices above the level expected under workable competition (noting that this is denied by generators)
- as for South East Queensland, limitations on supply from New South Wales that creates wholesale risk.

Observed changes included decreased competition in line with undesirable wholesale market conditions in Queensland and policy uncertainty. In the next one to two years, retailers saw the possibility of more effective competition only if there were price deregulation and some appropriate modification of the CSO payment.

South Australian competition

Retailer responses continued to attribute a moderate to high rating for overall levels of competition in the South Australian electricity retail market in 2016, albeit dominated by retailers with generation interests in South Australia.

Factors seen as driving this high rating are retail price deregulation, and the number of active retailers competing in the market. There are now 17 active retailers operating in this market, five of which have generation interests in South Australia.[26]

Many retailers expressed concerns about the lack of wholesale market liquidity, and constraints on supply from Victoria creating wholesale risk. While some retailers commented on a general increase in retailer acquisitive activity, others considered that competition has reduced as wholesale market liquidity has reduced.

Access to competitively-priced hedging instruments was of particular concern for non-vertically integrated retailers, and as in 2015, the South Australian Retailer Energy Efficiency Scheme (REES) was viewed as impeding expansions. That scheme is described in the Box below.

[26] AER, *State of the Energy Market 2015*, updated 4 February 2016, Figure 5.3 at p.128

The Retailer Energy Efficiency Scheme (REES)

The REES commenced on 1 January 2015 and will operate to 2020.

The REES is a South Australian Government initiative that requires larger energy retailers to help households and businesses save energy. The objective of the scheme is to reduce household and business energy use, with a focus on low-income households.

Energy retailers that exceed certain thresholds are set annual targets for the delivery of energy efficiency activities to households and/or businesses. In addition, retailers with larger residential customer bases are set targets for ensuring that a certain amount of the energy-efficiency activities they deliver go to low-income households; and providing energy audits to low-income households.

The REES is administered by ESCOSA.

Source: South Australian Government (2016)

Apart from the wholesale market challenges, retailers considered that the one to two-year outlook for this market could see new entrants; greater product innovation; and innovative business models leveraging advances in technology.

Tasmanian competition

For the Tasmanian electricity retail market, the average rating ascribed to the overall level of competition in the 2016 survey was 1.8, indicating minimal competition.

In 2015, responses revealed that competition had only really emerged in the small business segment of the market, with only one retailer supplying residential customers in this market and two retailers supplying small business customers. The continued low rating in 2016 was attributed by respondents to retail price regulation, and the dominance of the incumbent retailer.

There remain significant impediments to entry and expansion (see section 3.4 below), including retail price regulation, and the wholesale market arrangements.[27] The small size and nature of the customer base is relevant, with the level of customer awareness and engagement in the market being reportedly low.

Looking forward over the next one to two years, many respondents do not expect to see any significant change in the level of competition in this market, however several stated that they expect more retailers to enter this market (although no retailer that is not currently active in Tasmania indicated an intention to do so).

[27] Currently, the Tasmanian wholesale and retail markets are being impacted significantly by the failure of the Basslink undersea cable linking Tasmania and Victoria. The link failed on 21 December 2015, and has not yet been repaired. This situation is expected to normalise following completion of repairs. However, the Basslink event was raised by one respondent as changing barriers to entry and expansion in the past year.

Victorian competition

With an average rating of 4.7 (high to very high), retailers continue to view the Victorian electricity retail market as the most competitive in the NEM.

Factors identified by retailers as contributing to this assessment were the time elapsed since price deregulation, a consumer base that is well-educated about electricity competition, and good interconnector supply from New South Wales that reduces wholesale risks.

Retailers observed some changes in competition in this market in the past year, pointing to a general increase in retailer acquisitive activity, fiercer competition, and prices being considered even more important currently than formerly.

The outlook for the next one to two years includes greater product innovation; more innovative business models leveraging advances in technology and offering new solutions to customers;[28] greater competition between retailers (and in particular, focussed retention efforts by the larger retailers); new entrants; and a slight increase in churn. One retailer however, expected some abatement due to retail margins that 'are unsustainably tight'.

3.2 Retailer rivalry – electricity

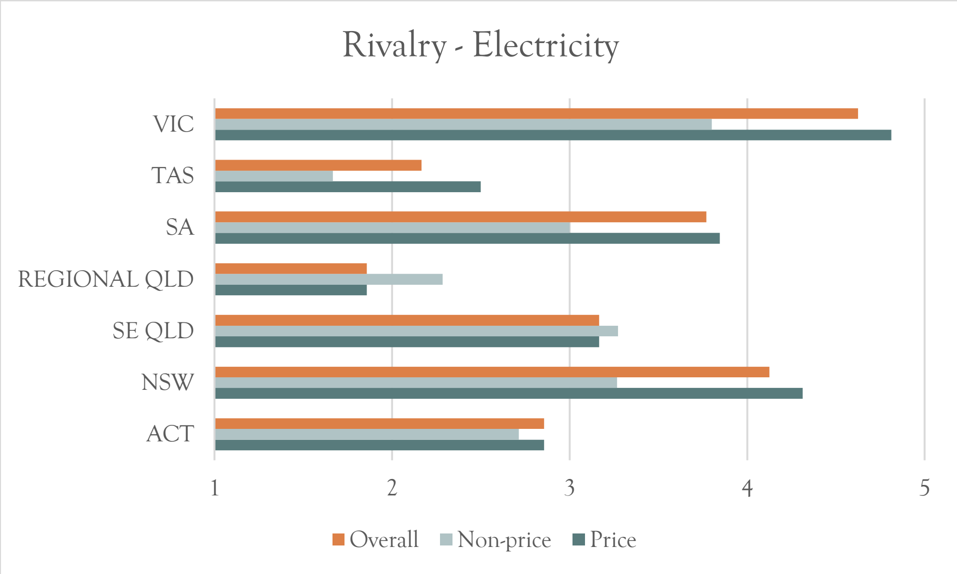
To help inform the AEMC's assessment of the degree of rivalry currently prevailing in the electricity retail markets, survey participants were asked to rate the degree of price and non-price rivalry and the overall degree of rivalry. Price rivalry can take a number of forms including discounts, rebates and alternative tariff structures. Non-price rivalry can take a number of forms including service, incentives, bundling products and non-price contract terms.

Participants were also asked whether they had observed any change in the degree of rivalry in the last year and if they expect to see any further changes in the next one to two years.

The survey results are set out in Figures 3, 4 and 5 below. These results were consistent with views on the overall level of competition in each jurisdiction, discussed in the previous section 3.1.

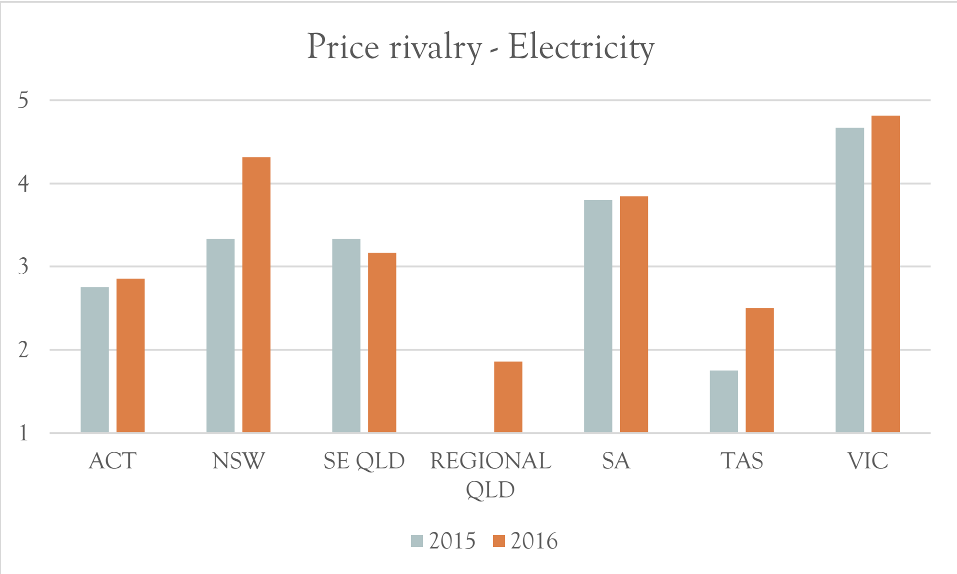
[28] See section 3.5 below for a description of these products and services.

Figure 3 – Retailer overall, price and non-price rivalry



Rating scale: 1 non-existent; 2 minimal; 3 moderate; 4 high; 5 very high

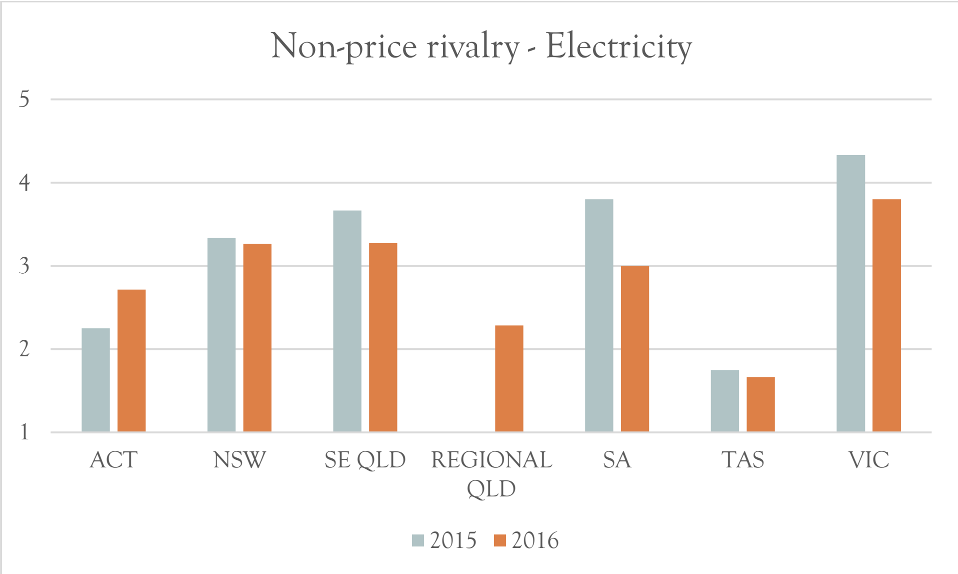
Figure 4 – Changes in price rivalry between 2015 and 2016 – by jurisdiction



Notes:

1. Rating scale: 1 non-existent; 2 minimal; 3 moderate; 4 high; 5 very high
2. An overall rating of '1' was given for regional Queensland in 2015

Figure 5 - Changes in non-price rivalry between 2015 and 2016 – by jurisdiction



Notes:

1. **Rating scale: 1 non-existent; 2 minimal; 3 moderate; 4 high; 5 very high**
2. **An overall rating of '1' was given for regional Queensland in 2015**

3.2.1 NEM-wide views and comments on rivalry

Nearly all respondents perceived little change in rivalry in regional or rural areas in the last year, with only two exceptions; two new entrants observed increased rivalry in regional New South Wales and Victoria.

The larger retailers generally place greater importance than second tier retailers on non-price rivalry in New South Wales, South East Queensland, South Australia and Victoria. This outcome may align with large retailers' initiatives in relation to new products and services (as outlined in section 3.5 below).

One comment made in relation to rivalry in all jurisdictions was:

> *...the emergence of new energy retailing business model being developed off the back of new and advances in existing technologies ... has the potential to increase the level of rivalry.*[29] *The 1-2 year time frame may be a little short it may be more like 3-5 years to see these advances have a significant impact. However any change would need to be supported by changes to the regulatory and legislative oversight regimes.*

[29] See section 5.4 below.

3.2.2 Retailer comments about rivalry in specific jurisdictions

Australian Capital Territory rivalry

Respondents rated as minimal to moderate the degree of price, non-price and overall rivalry in the Australian Capital Territory electricity retail market.

The vast majority of respondents considered that there had been no change in the importance of price vs. non-price rivalry, and only a slight increase in the overall degree of rivalry in the last year.

In their comments, several retailers observed an increase in competitive activity by large retailers in the Australian Capital Territory in the past year, and observed that while price rivalry has increased, non-price factors were still important to Australian Capital Territory customers.

Most respondents expected no change, or perhaps a slight increase, in rivalry in this market in the next one to two years.

New South Wales rivalry

Responses ranged from several retailers who considered there had been no significant change in retailer rivalry in New South Wales in the past year, to others who had observed or were adopting more aggressive sales and marketing initiatives.

All retailers noted the positive effect of price deregulation, and subsequent new entrants.

Retailer views also differed on the likelihood and extent of any changes in rivalry in the next one to two years. More than half did not anticipate significant change, expecting that competition and rivalry would remain stable or increase slightly. Others expected greater and more effective competition both on price and non-price incentives to churn customers.

South East Queensland rivalry

The majority of respondents who reported some increase in rivalry attributed this to moderate increases in regulated prices, and the introduction of non-regulated rates for market contracts.

In the next one to two years, two respondents expected no change, while most respondents expected future price deregulation to encourage new entrants, increased rivalry, and more effective competition. However, one retailer cautioned about the potential impact if Queensland Government-owned generators exercise a 'market squeeze' strategy.

Regional Queensland rivalry

The only areas of change in rivalry in the past year identified by respondents in relation to regional and rural Queensland electricity retail markets were:

- changes associated with the introduction of non-regulated rates for market contracts, and
- retailers which operate in multiple jurisdictions signing up companies with sites across states under one contract.

Over the next one to two years, most respondents expected rivalry to increase with the emergence of new energy retailing business models for advances in technologies, more effective competition, price deregulation, and a possible ‘correction of CSO payments’.

However, one retailer expected reduced rivalry and retailer participation in Queensland relative to other jurisdictions due to concerns with the alleged exercise of market power by Queensland Government-owned generators to raise prices above the level expected under workable competition (noting that this is denied by generators).

South Australian rivalry

Responses were split equally between those who observed no significant change, and those who reported a moderate increase in retailer rivalry.

Looking forward, most retailers expected electricity wholesale market uncertainty in South Australia to lead to reduced rivalry.

Tasmanian rivalry

Apart from one comment about greater emphasis on contract flexibility for large customers, respondents generally had not observed a change in rivalry in the past year. Looking forward, most expected no change; while a minority expected some increased rivalry in the small business segment.

Victorian rivalry

The key changes in rivalry observed by retailers in the Victorian electricity retail market were:

- an evolving market for innovative tariffs
- changes reflecting increasing customer interest in new products and services
- more aggressive competition, particularly from incumbent retailers.

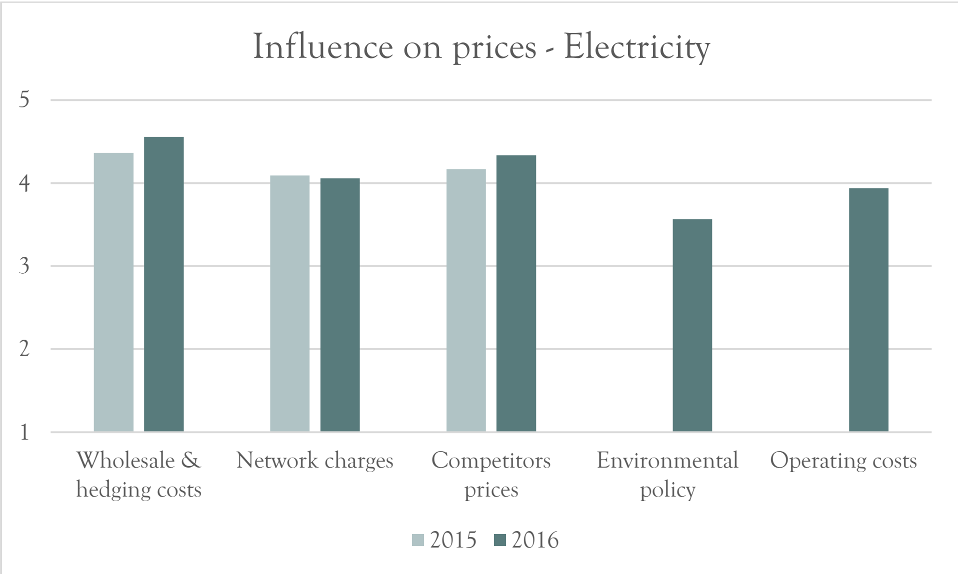
In the next one to two years, most retailers expected both price and non-price rivalry to increase in this market.

3.3 Prices – electricity

Retailers were asked to rate the importance of a set of factors in terms of their influence on pricing decisions (e.g. wholesale costs, transportation costs, competitors' prices, environmental policy costs, retail operating costs); and whether the importance of these factors differed across jurisdictions.

Figure 6 depicts the main factors influencing electricity retail prices across all NEM jurisdictions.

Figure 6 – Factors influencing retailers' electricity prices



Rating scale: 1 irrelevant; 2 slightly important; 3 important; 4 very important; 5 critical

As in 2015, across all jurisdictions in 2016 the factor most influencing retailers' pricing decisions was wholesale market and hedging costs (rated as very important to critical), followed closely by network charges and competitors' prices. Two other factors identified by many retailers in 2015 were environmental policy and operating costs;[30] these were rated as important to very important in 2016.

In addition to the factors provided in the survey (wholesale and hedging costs, network charges, competitors' prices, environmental policies, and operating costs), respondents identified – generally without rating them - the following factors as contributors to price:

- licence fee arrangements

[30] In the 2016 survey questionnaires, these factors were added to listed factors for rating by participants the first time, hence 2015 rating comparisons are not available.

- AEMO fees and prudential requirements
- meter type, and payment frequency
- regulatory certainty.

On relative importance of factors across jurisdictions, two thirds of respondents did not consider there to be any difference. However, one retailer observed that though the importance of the factors does not change across jurisdictions, their potential impact does.

Of the remaining retailers which did cite differences, they referred to:

- jurisdictions with price regulation, where there is 'a greater impost on a retailer's ability to manage its risk', and regulated offers have primary importance
- differences in the level of competition
- differences in the nature of price regulation that exists a jurisdiction
- the specific circumstances in regional Queensland with CSO payments and Ergon Energy Queensland's inability to offer market retail contracts
- environmental policies leading to higher operating costs in some jurisdictions.

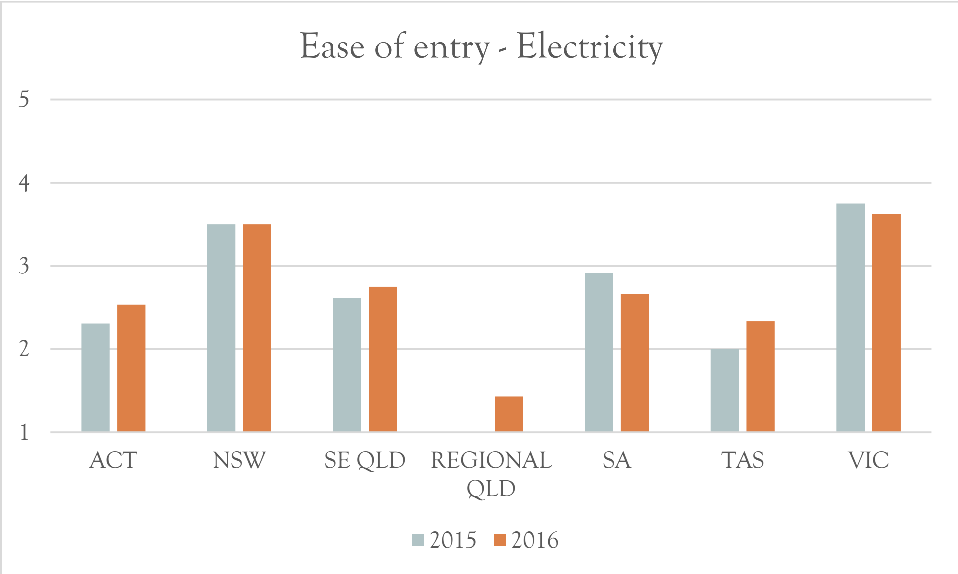
3.4 Barriers to entry and expansion – electricity

Retailers were asked to rate the ease with which entry, expansion and exit can occur across the NEM, to identify any barriers to entry or expansion in each jurisdiction, or barriers to entering or expanding across multiple jurisdictions. They were also asked about any changes observed in the last year, and any additional barriers to retailing in rural or regional areas.

Retailers were invited to comment on whether over the next one to two years they expected to see any change in the ease with which entry or expansion can occur; new entry, exit or consolidation occurring in; and any change in the market share held by incumbents or first tier retailers in any jurisdiction.

Lastly, retailers were asked to rate the importance of economies of scale, economies of scope (e.g. offering dual fuel or multi-utility products) [31] and vertical integration in each jurisdiction, and whether the importance of any of these factors had changed in the last year. Retailers' findings are summarised in Figures 7 and 8 below.

Figure 7 - Ease of entry in 2015 and 2016– by jurisdiction[32]



Notes:

1. **Rating scale: 1 very difficult; 2 difficult; 3 neither; 4 easy; 5 very easy**
2. **A rating of '1' was given for regional Queensland in 2015**

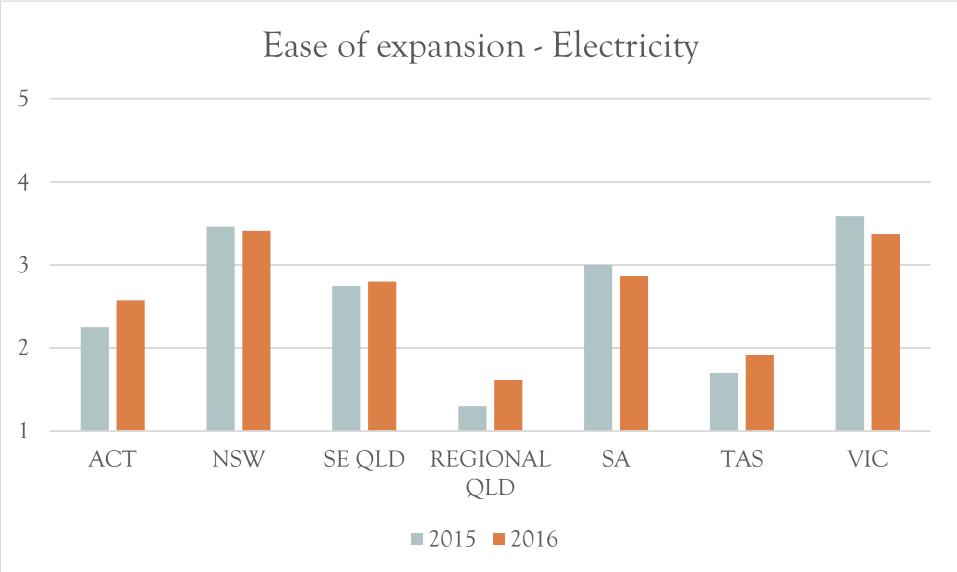
Of the mature markets, South Australia was ascribed a marginally lower rating for ease of entry in 2016. Survey responses and interviews pointed to the reasons for this being

[31] The terms 'economies of scale' and 'economies of scope' are described in section 3.4.2 below.

[32] Questions posed and rating scale differed significantly in 2014 from those in later years, hence comparative results for 2014 have not been included.

difficulty accessing reasonably priced hedging products (see Figure 9 in section 3.4.1 below), and interconnector limitations compared with the Victorian and New South Wales markets. A similar marginal decline in Victoria was attributed to policy and regulatory risks, focussed on divergence from NECF, and uncertainty surrounding hardship regulatory arrangements.[33] These differences are outlined further in the commentary for each specific region in section 3.4.4 below.

Figure 8 – Ease of expansion



Rating scale: 1 very difficult; 2 difficult; 3 neither; 4 easy; 5 very easy

Retailers rated the ease of expansion in regional Queensland and Tasmania as 'very difficult' to 'difficult'; the Australian Capital Territory, South East Queensland and South Australia as between 'difficult' and 'neither difficult nor easy'; in New South Wales and Vic as between 'neither difficult nor easy' and 'easy'.

These ratings are very similar to those given for ease of entry in each jurisdiction.

3.4.1 NEM-wide views and comments

Retailers consistently raised concerns with retail price regulation where it exists; tightening wholesale market conditions in some jurisdictions; and increased policy and regulatory risk in Victoria. Some retailers identified as a barrier in all jurisdictions limited options for competitively priced hedging due to vertical integration of the big

[33] On 4 February 2015, the Victorian Government issued terms of reference to the Essential Services Commission to inquire into best practice financial hardship programs of energy retailers. A draft report, *Supporting Customers, Avoiding Labels -Energy Hardship Inquiry Draft Report*, was released in September 2015. Details of the review are available at http://www.esc.vic.gov.au/Energy/Energy-Hardship-Review

three retailers; and one considered that market system certification and registration complexities create barriers across the NEM.

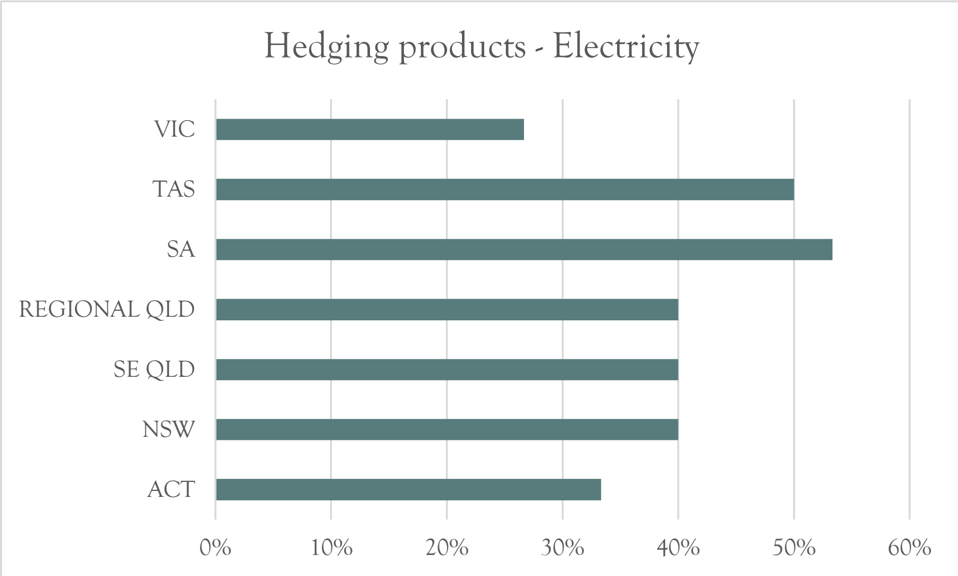
Tightening wholesale market conditions refers to increased difficulty in retailers accessing reasonably priced hedging products and increased risk from exposure to spot price volatility. The causes of tighter wholesale market conditions are complex and vary by NEM region, and causes can interact with one another. They include:

- vertical integration, especially of the big three retailers
- the impact of significant levels of more volatile renewable generation supply (most notably in South Australia)[34]
- concentrated generation markets (noted in Tasmania, South Australia and Queensland)
- strategic bidding behaviour (said to be a factor in Queensland)
- interconnector constraints and inability of retailers to rely in interregional hedging (most notably in South Australia, Queensland and Tasmania)
- the interaction of the NEM energy only market design and the Mandatory Renewable Energy Target scheme which, amongst other things, is leading to the exit of thermal generation (most notably in South Australia).

The graph below indicates the prevalence of concerns regarding access to reasonably priced hedging products across the NEM.

[34] AEMO and ElectraNet recently released an updated technical report investigating power system security in South Australia, as the state continues to lead the world with its high penetration of renewable generation. See AEMO and ElectraNet, *Update to Renewable Energy Integration in South Australia*, February 2016 available at http://www.aemo.com.au/News-and-Events/News/News/Joint-report-further-investigates-stability-of-South-Australias-evolving-power-system

Figure 9 – Proportion of retailers identifying access to hedging products as a barrier to entry



Many respondents, including both large and small retailers, identified inconsistent jurisdictional arrangements across the NEM for vulnerable, hardship and concession customers (characterised as a lack of harmonisation) as barriers to entry and expansion. One second tier retailer also identified as a barrier across all jurisdictions the costs and risks associated with prudential requirements and credit support arrangements.

One large second tier retailer commented that the identified barriers to entry operate to create financial risk exposure or, as a result of the exposure, absorb working capital that could otherwise be invested in expanding into an existing market, including reinvestment in innovative products and services. Another large retailer described the cumulative impact of barriers as follows:

> *No one factor would prevent entering or expanding, but each difference does increase the cost to service for each customer, meaning the value proposition (margin) per customer would need to cover that increased cost.*

In contrast, two smaller new entrants did not consider there to be any significant barriers to entry or expansion in any NEM jurisdiction; these retailers viewed concerns identified by others simply as routine requirements and costs of doing business in energy retail markets.

Multiple jurisdictions

Similar to 2015 results, the barriers to retailing across multiple jurisdictions that retailers identified in 2016 were:

- retail price regulation
  - whether prices are regulated, and if so, the form of price regulation that applies, and level at which prices are set

- for those retailers without generation interests, limited options for accessing reasonably priced hedging products (linked by some respondents to vertical integration of the big three retailers)
- regulatory or legislative inconsistencies and differences, for example differences in:
  - environmental, energy efficiency and feed-in schemes
  - customer protection, hardship and concession schemes (this continues to be identified as a significant issue)
- delays in NECF implementation, and to a lesser extent, derogations from NECF[35]
  - for example, a retailer previously operating only in a NECF jurisdiction would need to obtain a licence to operate in Victoria, and to understand and meet different regulatory obligations
  - differences increase compliance efforts required, and increase regulatory costs.

3.4.2 Economies of scope, scale and importance of generation interests

Retailers were asked to rate the importance of each of economies of scope, scale, and having generation interests in terms of ability to compete effectively in each jurisdiction in in which they operate.

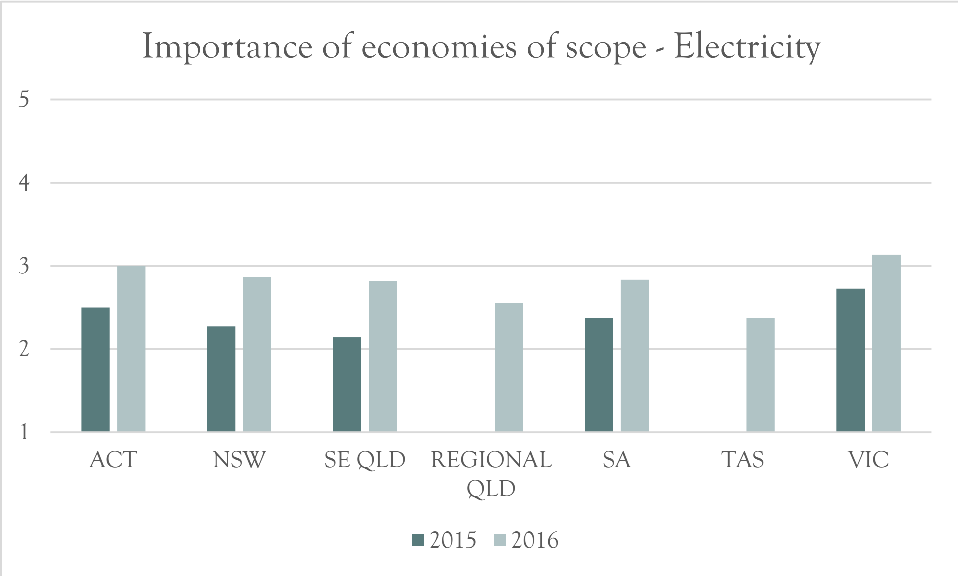
As noted in the surveys, the term 'economies of scale' refers to a situation where a retailer's long run average cost declines as the size of its customer base increases. This may occur if a retailer has significant fixed or sunk costs and may mean retailers have to attract a minimum number of customers to compete effectively. 'Economies of scope' refers to a situation where the unit cost of a retailer supplying two or more products or services (such as gas and electricity) is lower for a given level of output than if those products or services were supplied by two separate retailers.

The results in Figures 10, 11 and 12 indicate the importance of economies of scope; the importance of economies of scale; and the importance of having generation interests (all assessed by year[36] and jurisdiction).

[35] See the AEMC's guide to state and territory application of NECF available at http://www.aemc.gov.au/Energy-Rules/Retail-energy-rules/Guide-to-application-of-the-NECF

[36] Questions posed and the rating scale used differed significantly in 2014 from those in later years, hence comparative results for 2014 have not been included.

Figure 10 – Importance of economies of scope – by year, jurisdiction

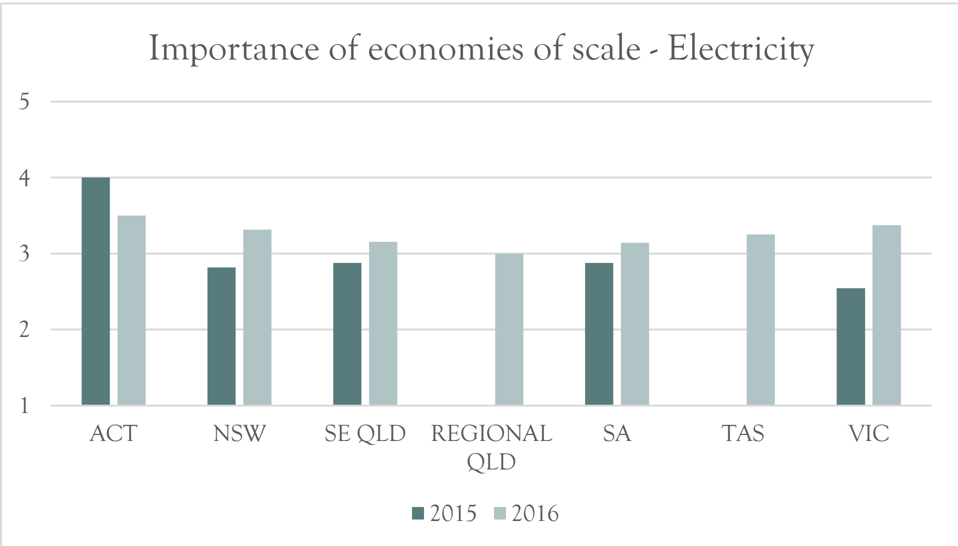


Notes:

1. **Rating scale: 1 irrelevant; 2 slightly important; 3 important; 4 very important; 5 critical**
2. **Ratings of '1' were given for regional Queensland and Tasmania in 2015**

Retailers' ratings indicated that the importance of economies of scope in electricity retail markets has increased markedly in 2016. This increase appears consistent with retailers' comments regarding an increasing focus on bundled products (though there is no statistical data establishing this link).

Figure 11 – Importance of economies of scale– by year, jurisdiction



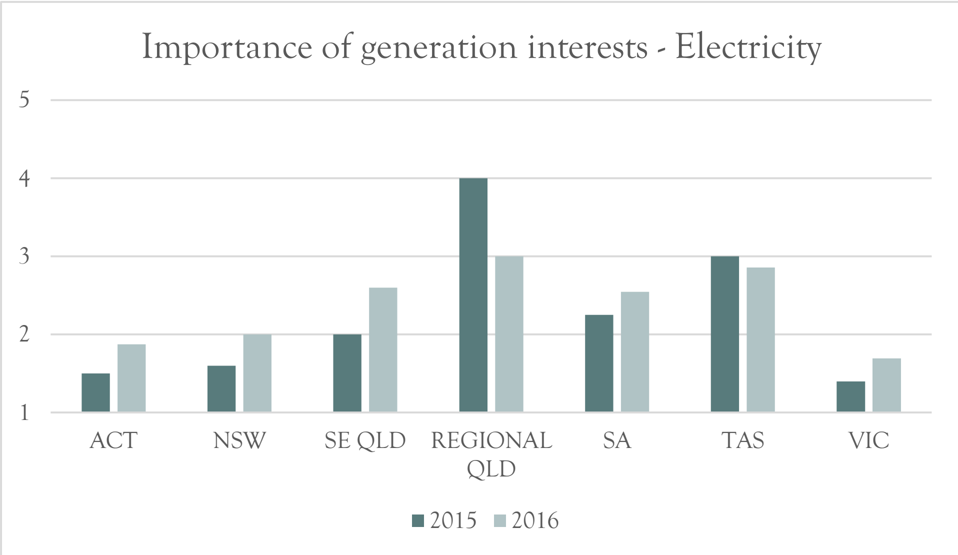
Notes:

1. **Rating scale: 1 irrelevant; 2 slightly important; 3 important; 4 very important; 5 critical**
2. **2015 results for regional Queensland and Tasmania have been omitted due the small sample biased by incorrect survey completion**

The apparent reduction in the Australian Capital Territory may be a product of the smaller sample in 2015, which contains some outlier results. The ratings in all regions in 2016 align with retailer comments on the importance in economies of scale.

Figure 12 shows average ratings given on the importance of retailers having generation interests, by year and jurisdiction.

Figure 12 – Importance of generation interests – by year, jurisdiction



Rating scale: 1 irrelevant; 2 slightly important; 3 important; 4 very important; 5 critical

The ratings in 2016 align with retailer comments on the importance in economies of scale in that region. The apparent reduction in rating for regional Queensland is likely to be a product of the smaller sample in 2015, which contains some outlier results.

Nearly all retailers surveyed in 2016 considered that there had been no change in the importance of a retailer having generation interests since 2015. However, the contrary view of two retailers was that:

- The importance of having generation interests in South Australia has increased in the last year, as wholesale liquidity has reduced, increasing the price of wholesale procurement.
- Queensland has become 'almost impossible to compete in safely' relative to Victoria and New South Wales. Respondents echoed concerns recently highlighted by the QPC[37] regarding the concentration of generation base load and capacity with

[37] Queensland Productivity Commission, *Draft Report – Electricity Pricing Inquiry*, 3 February 2016, at p. 40. Table 4 compares market concentration across the Queensland, NSW and Victorian generation sectors.

two generators, Stanwell and CS Energy, controlling an estimated 64 per cent of capacity. These concerns are detailed in section 3.4.4 below.

We note that in comparing Queensland, New South Wales and Victorian wholesale market structures, the QPC recently observed that:

> *In comparison to Queensland's wholesale electricity market, in New South Wales and Victoria:*
>
> – *the two largest generators control a smaller proportion of the market, at around 56 and 48 per cent respectively; and*
>
> – *beyond this dominant pair, there are larger 'second tier' operators producing electricity.*

3.4.3 Barriers in rural and regional areas

In the Australian Capital Territory, New South Wales, South East Queensland, South Australia, Tasmania and Victoria, the vast majority of retailers did not consider there to be additional barriers to entry or expansion in rural and regional electricity retail markets (i.e. additional barriers relative to those in urban markets). However, more than half noted additional barriers in regional Queensland, largely stemming from retail price regulation, the uniform tariff policy and CSO arrangements (see the section on regional Queensland in 3.4.4 below).

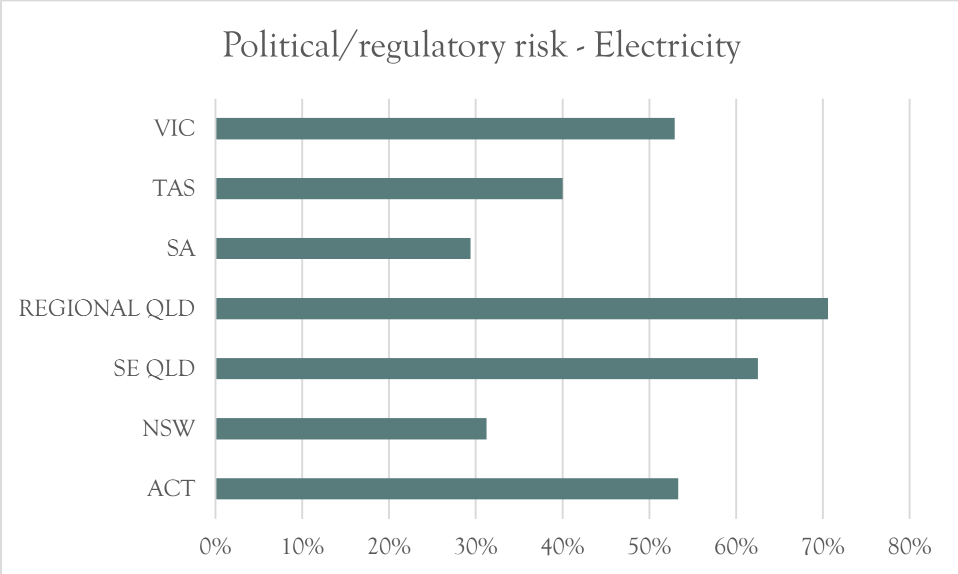
Where retailers identified additional barriers to entry and expansion in regional and rural areas, they consistently referred to geographical distances, inability to build on economies of scale in offering services, and relatively high costs to serve these customers. Where additional jurisdiction-specific comments were made, they are detailed in each sub-section below.

It is also worth noting that some retailers adopted marketing strategies targeted only at higher populated regions, tapping into sales and services of other companies (such as solar product providers).

3.4.4 Barriers in specific jurisdictions

The following sub-sections outline additional comments retailers made in relation to specific jurisdictions. As a preliminary observation, Figure 13 shows the proportion of electricity retailers who identified political and regulatory risks as barriers to entry in each jurisdiction.

Figure 13 – Proportion of retailers identifying political and regulatory risk as a barrier to entry



As expected, more respondents identified policy/political and regulatory risk in regions with retail price regulation. We also note that in 2016, many retailers also identified Victoria as posing policy and regulatory risks (discussed in the sub section on Victorian barriers to entry and expansion below).

Australian Capital Territory barriers to entry and expansion

Retailers' views on the most important **barriers to entry** in the Australian Capital Territory electricity retail market was retail price regulation, including uncertain treatment of cost items used to calculate the regulated retail price.

Other barriers observed were: small market size; and environmental scheme costs and effects (the example provided was that once a retailer exceeds the threshold trigger for the energy efficiency scheme, costs to serve all customers increase).

Respondents did not consider that there had been material changes in barriers to entry or expansion in the Australian Capital Territory electricity retail market in the past year.

There was a range of views on the **outlook for the next one to two years**. These included expectations of: no change; retailer consolidation; new entrants emerging; new entrants in the form of alternate energy suppliers rather than that of traditional retailers, with new retail models to be introduced to the market; and new business models leveraging new technology.

Views were also divided on the expected change in the incumbent's market share, with most expecting no change, one expecting second tier retailer's market share to increase, and another flagging the potential consolidation of smaller players and/or acquisition by incumbents.

New South Wales barriers to entry and expansion

Views differed on the most important **barriers to entry** in New South Wales, with responses listing:

- Economies of scale - New South Wales is a competitive market where price is the number one motivator. Smaller retailers have increased costs due to lesser economies of scale.
- Costs associated with New South Wales environmental schemes.

Also noted were arrangements for concession customers, described by one smaller retailer as 'archaic and unworkable'. An example given was the requirement in New South Wales for paper vouchers, which was particularly problematic for those retailers that focus on online service delivery.

Most respondents considered that there had been no material changes in barriers to entry in the New South Wales electricity retail market in the past year, though several commented on improvements attributable to the removal of retail price regulation, and adoption of NECF, and a stable political and regulatory environment.

Barriers to expansion in New South Wales were seen to have reduced with price deregulation. Retailers that previously focussed on certain customer areas and classes have since expanded their areas of operation, and customer classes serviced. Retailers considered the most important barriers to expansion in the New South Wales electricity retail market to be:

- Economies of scale - A small second tier retailer observed that it faced increased costs, such as IT costs, which larger retailers are able to spread over a larger customer base
- Overly burdensome obligations in managing customer credit defaults.

Other barriers to expansion in New South Wales identified by retailers were:

- Retention strategies of incumbent retailers, described by one large second tier retailer as follows:

> *Aggressive customer win-back … offers from incumbent retailers (with the scale to absorb such offers) make it difficult for smaller tier two retailers entering the market to obtain market share.*

Most respondents consider there has been no material changes in barriers to expansion in the New South Wales electricity retail market in the past year, though several commented on improvements attributable to the same factors as for barriers to entry (such as further price deregulation). One considered that acquisition of generation assets by AGL has further increased barriers to expansion. In contrast, another retailer stated that expansion has become easier due to price deregulation.

Rural and regional barriers to entry in New South Wales identified by retailers were high loss factors, and a requirement to publish pricing, but inability to then charge residential customers based on loss factors; and high network prices.

The respondents' **outlook for the next one to two years** is for significant new entry (possibly in the form of alternate energy suppliers rather than that of traditional retailers), and further consolidation of second tier retailers.

Views were also divided on the **expected change in incumbent market share**, with several expecting no change, but more than half expecting second tier retailers' market shares to increase, and another flagging the potential consolidation of smaller players and/or acquisition by incumbents.

South East Queensland - barriers to entry and expansion

We note retailers welcomed the adoption of NECF in Queensland from 1 July 2015 as a positive step in reducing barriers to entry and expansion.

As flagged in section 3.1 on overall levels of competition, retailers identified as barriers to entry in the South East Queensland electricity market, the general categories listed in the survey of retail market price regulation and policy/political and regulatory risk, generator behaviour, and limitations on supply from New South Wales.

More detailed views on the most important **barriers to entry** in South East Queensland are set out in the box below. Note, these views pre-date the Queensland Government's announcement regarding the removal of retail price regulation in this region from 1 July 2016.

Reported key barriers to entry in South East Queensland

- Price regulation
  - Jurisdictions with price regulation tend to be less attractive when considering market entry
- Wholesale market conditions, manifested by 'extraordinarily high local price volatility' and difficulty in accessing reasonably priced hedging products. These are said to be caused by:
  - Concentration of generation ownership
  - Strategic generator bidding behaviour[38]
  - Interconnector constraints

[38] The Queensland Productivity Commission notes that generators have a strategic incentive to rebid close to a given dispatch interval to limit the time available for other supply or demand-side participants to respond. Strategic late rebidding can result in: higher wholesale market prices, greater market volatility, and higher forward contract prices. See Queensland Productivity Commission, Draft *Report – Electricity Pricing Inquiry*, 3 February 2016, p.39.

- Policy/political and regulatory risk
  - Promise of price deregulation led some retailers to begin to expand retailing activities, but the change in government and the potential to overturn price deregulation increased the political and regulatory risk
  - Preparedness of government to reregulate retrospectively
- Perceptions of over-regulation (some factors here overlap with regulatory risks)
  - Prudential and credit support arrangements, which both carry a high level of financial risk and impost
  - Environmental policies / energy efficiency schemes
  - Increased regulatory intervention in the market
- Costs associated with environmental schemes

Other potential barriers to entry in the South East Queensland retail electricity market (identified by one small and one large retailer) were customer protection, hardship and concession schemes that differed from those in other jurisdictions. The example given was of a Queensland regulatory requirement not to have a customer on hold for over a minute.

The majority of retailers did not consider that there had been material **changes in barriers to entry** in the South East Queensland electricity retail market past year.

Views expressed on the most important **barriers to expansion** largely followed comments given for barriers to entry in this market. Some specific comments were:

- One new entrant saw no significant barriers to expansion
- One asserted that Queensland Government-owned generators were adopting a 'margin squeeze' strategy[39]
- Standard pricing is capped for one year after price deregulation.

Most respondents considered there had been no material changes in barriers to expansion in the South East Queensland electricity retail market in the past year, though some commented on improvements with the implementation of NECF.

On the outlook for the next one to two years, there was a range of views. These views included expectations of:

- New entry - possibly by alternate energy suppliers, rather than traditional retailers, and with new retail models to be introduced to the market (see section 5.4 below)
- Retailer consolidation or exit

[39] That is, creating high pool prices and offering poor trading terms to competing retailers in the market.

- Greater prospect for new entrants employing new business models and leveraging new technology.

Participant views were also divided on the **expected change in incumbent market share**, with most expecting the incumbent's share to reduce with increasing competition, and another flagging the potential consolidation of smaller players and/or acquisition by incumbents.

Regional Queensland - barriers to entry and expansion

Some particular characteristics of the retail electricity market in regional Queensland[40] are:

- For electricity pricing, regional Queensland is defined as the Ergon Energy distribution area, which supplies electricity to approximately 34 per cent of the electricity connections in Queensland across 97 per cent of the geographical area of the State, including remote areas.[41]
- Regulated prices for regional Queensland are set below cost, under a Uniform Tariff Policy (UTP). In the Ergon Energy distribution area, regulated electricity prices for small customer prices are based on the cost of supplying electricity for the same class of customer as in South East Queensland.[42]
- Retail electricity is supplied by government-owned Ergon Energy (Retail). As the revenue Ergon Energy (Retail) receives from regulated prices is lower than its actual costs of supplying electricity in regional Queensland, the Queensland Government provides Ergon Energy (Retail) with an offsetting CSO payment.[43]

Retailers identified the following as the most important barriers to entry in the regional Queensland electricity retail market:

- Regulated pricing, uniform tariff policy, CSO[44]
  - Structure of the subsidies paid by the Queensland Government to Ergon Energy (Retail) to fund the UTP
  - Regulated retail prices are not cost reflective, leaving a negative margin
- Barriers identified above for South East Queensland:

[40] See Queensland Productivity Commission, *Draft Report – Electricity Pricing Inquiry*, 3 February 2016.

[41] Ibid, at p.149

[42] Ibid, at p.155

[43] Ibid, at p. 150

[44] Respondents also referred to the former Long Term Energy Procurement (LEP) programme. Prior to 1 January 2014, the CSO arrangements included arrangements for wholesale electricity purchasing, which meant that the CSO was exposed to a level of energy trading risk. These arrangements were changed in 2014 so that the CSO reflected only those cost differentials outside the control of Ergon Energy (Retail). See, Queensland Productivity Commission, *Draft Report – Electricity Pricing Inquiry*, 3 February 2016, at p. 151.

- Policy/political and regulatory risk
- Wholesale market conditions (especially price volatility)
- Costs associated with environmental schemes
- Concentration of generation ownership, generator behaviour
- Limited interconnector supply from New South Wales.

Other potential barriers to entry in regional Queensland electricity retail market identified by retailers were incumbent retailer behaviour, and Queensland customer protection, hardship and concession schemes that differ materially from those in place in other NEM jurisdictions.

Respondents considered that there had been either no change, or some increase, in barriers to entry in this market in the past year. Increased barriers were attributed to increasing input costs for gas fired generators, creating less desirable wholesale market conditions for new retail entrants in Queensland generally, and the unwinding of the deregulation pathway proposed by the former government.[45]

Views expressed on the most important **barriers to expansion** largely followed comments given for barriers to entry in this market, although one new entrant saw no significant barriers to expansion. In contrast, a large retailer considered that marketing costs act as a barrier to expansion in this market.

Most respondents considered that there had been no material changes in barriers to expansion in of the regional Queensland electricity retail market past year, though some commented on improvements with the implementation of NECF. Another repeated its concerns regarding generator behaviour.

Participants identified many **barriers to entry that stem from the rural and regional characteristics of this market**. They are:

- Geographical distances inherent in supply and retailing of electricity to customers on the large Ergon network
- Inability to build on economies of scale in offering services
- Higher network prices which reduce potential customer savings from market offers, and lead to very small margins for retailers in relation to these customers.

On the **outlook for the next one to two years**, participants' views echoed those expressed for South East Queensland. Views were also divided **on the expected change in incumbent market share**, with most expected no change.

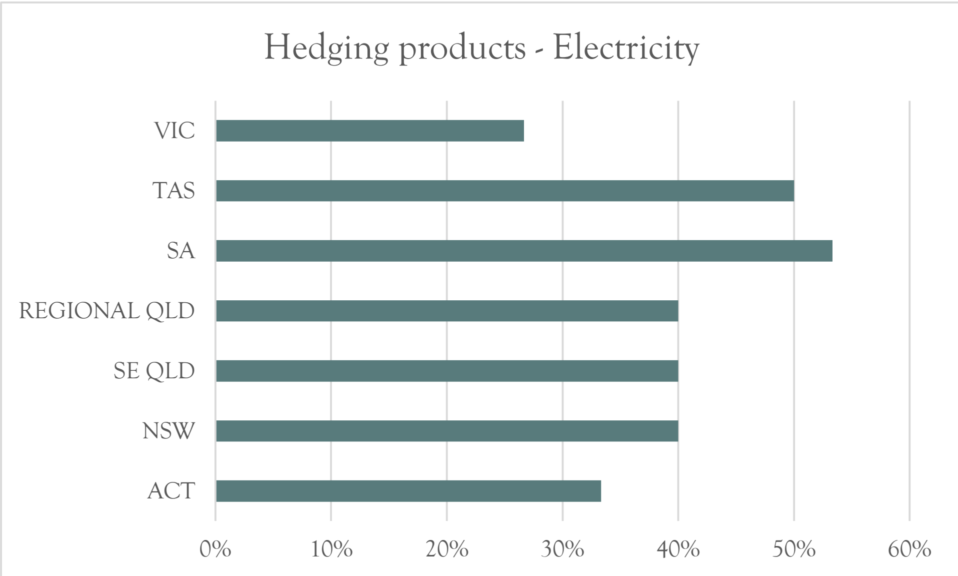
South Australia – barriers to entry and expansion

[45] As noted previously, this comment was made prior to the Queensland Government's announcement regarding price deregulation in SEQ.

Wholesale market conditions in the South Australian market were seen as a significant barrier to entry in 2016. Several respondents identified an increase in barriers to entry, attributed to wholesale market dynamics and a further reduction in access to affordable capacity hedging. One retailer stated, 'Wholesale market uncertainty, if left unresolved, may create difficulties for some retailers and inhibit both entry and expansion'.

Figure 13 shows that access to hedging products was seen as a more important barrier to entry to the retail market in South Australia than in any other jurisdiction.

Figure 13 – Proportion of retailers identifying access to hedging products as a barrier to entry



As in 2015, the stated causes of a lack of hedging products were:

- wholesale prices exhibiting a significant degree of volatility when the interconnector goes down and the inability to rely on interregional hedges when this occurred
- the high level of vertical integration in non-renewable generation in South Australia resulting in the trading terms (including prices) offered by these generators under hedging contracts being relatively poor.

The impact of significant levels of more volatile renewable generation supply was identified as a further factor contributing to more volatile spot prices. One retailer stated that wholesale prices in South Australia were unsustainably low for non-renewable generators, and that it was inevitable that there would be a further reduction in generation capacity offered to the market.

A number of respondents identified the REES as creating a barrier to entry. Retailers supplying 5,000 or more customers must participate in this energy efficiency scheme. Several respondents informed us that the threshold was, in their view, too low and that it can impose significant costs on small retailers because it is not a tradable scheme.

Another second tier retailer asserted that the cost of licencing administered by ESCOSA in South Australia was prohibitive, and criticised the inability to scale licensing fees to the size of a retailer's operations. Another small retailer also identified barriers to entry in South Australia that stem generally from onerous customer protections, hardship and concession arrangements.

Views expressed on **barriers to expansion** in the South Australian electricity retail market largely followed comments above relating to barriers to entry. For most retailers, the most important **barrier to expansion** was wholesale market conditions and uncertainty.

Other factors noted were trigger points for the REES scheme whereby expansion could trigger scheme thresholds, and lead to additional compliance obligations and operating costs that outweigh potential commercial benefits. Most respondents did not consider that there had been material changes in barriers to expansion in this market in the past year.

An additional perceived barrier to entry in **South Australia rural and regional** areas was the priority group arrangements under REES. This is understood to refer to the process whereby the relevant South Australian Minister sets an amount of the energy efficiency target required to be undertaken in low-income households.[46]

On the outlook for the next one to two years, there was a range of views. More than half expected new entrants to emerge; some expect the new entrants to be in the form of alternate energy suppliers rather than traditional retailers, with new business models to be introduced to the market; leveraging new technology. Others expected some consolidation or exit of current retailers.

Views were also divided on the **expected change in incumbent market share**, with most expecting second tier retailers' market share to increase, and another flagging the potential consolidation of smaller players and/or acquisition by incumbents. Two retailers did not expect any significant change, and one expected the incumbent share to increase.

Tasmania – barriers to entry and expansion

In the Tasmanian electricity retail market, the most important **barriers to entry** identified in 2016 were:

- Wholesale market conditions (access to hedging products and high local price volatility) with the particular causes in Tasmania being:
  - the structure and small size of the Tasmanian wholesale market (i.e. a single generator, Hydro Tasmania);
  - a single physical link to Victoria (Basslink), which failed in late 2015 and has not yet been repaired; and

[46] These annual priority group energy efficiency targets are described on the ESCOA website at http://www.escosa.sa.gov.au/residential-energy-efficiency-scheme-rees/rees-targets.aspx

- – the inability of retailers to rely on interregional hedges to cover their wholesale positions
- Retail price regulation, which leaves little margin
- Policy risk.

Most respondents observed no material changes in barriers to entry in the Tasmanian electricity retail market in the past year.

The most important **barriers to expansion** identified in the Tasmanian electricity retail market were:

- inability to access a range of wholesale providers
- lack of full contestability
- no competitive advantage in wholesale supply given the single supplier model, and
- the small size of this market.

No respondent considered that there had been any changes in barriers to expansion in this market in the past year.

On the **outlook for the next one to two years**, retailers' views ranged from an expectation of no change; to retailer consolidation; new entrants emerging in the small customer segment. As with all other jurisdictions, some retailers expect new entrants in the form of alternate energy suppliers rather than that of traditional retailers, with new retail models to be introduced to the market; and new business models and leveraging new technology.

Most did not expect any noticeable change in the incumbent's market share, though one retailer thought change was possible as competition advanced, with the potential consolidation of smaller players and/or acquisition by incumbents.

Victoria – barriers to entry and expansion

The views differed on the most important **barriers to entry** in the Victorian electricity retail market, but the most common barrier identified in 2016 responses was **political and regulatory risk**. Figure 13 comparing this factor across jurisdictions above highlights the significance of this perception for the mature Victorian electricity retail market.

There was widespread criticism of barriers created by regulatory differences between Victoria and other jurisdictions, and of recent amendments to the *Electricity Industry Act 2000* (Vic) seen to further entrench different requirements.[47] Respondents referred to:

[47] We note that this Act was amended twice in 2015, by the *Energy Legislation Amendment (Publication of Retail Offers) Act 2015*, and the *Energy Legislation Amendment (Consumer Protection) Act 2015*.

- both regulatory uncertainty and inconsistency with other jurisdictions in regulatory administration, and
- increased government intervention in the market through legislative and regulatory changes, and continuing derogations from the NECF.

We note that Victoria has completed a process to harmonise the Victorian Energy Retail Code and Guidelines and the NECF, but has not yet announced a date for full NECF implementation.[48]

Those retailers operating outside Victoria asserted the different regulatory arrangements in Victoria necessitate retailers having separate systems to support Victoria operations, increase compliance efforts and regulatory costs, and act as a clear barrier to entry. Several respondents queried the efficacy of efforts to harmonise Victorian regulatory framework with the nationally applied NECF, indicating that material differences arise from Victorian procedures, reporting requirements and licence obligations. One second tier retailer stated that it was difficult to obtain a Victorian retail licence. Several large and small retailers pointed to increased costs to comply with Victoria's regulatory arrangements for hardship and vulnerable customers, and uncertainty about what future arrangements may apply following the current review by the ESC into hardship arrangements.

Nearly all respondents considered that there had been no changes in barriers to entry in the Victorian electricity retail market in the past year. Only one considered that the introduction of 'onerous customer support arrangements' had increased barriers to entry in this market.[49]

Views expressed on the most important **barriers to expansion** echoed those for barriers to entry above. In addition, several second tier retailers commented on particular challenges for smaller retailers in this market. They observed:

- that the Victorian electricity retail regulatory framework disproportionately hamstrings smaller retailers, creating a *de facto* competitive benefit for larger retailers
- the prescriptive nature of regulation in Victoria, and
- perceived burdensome obligations in managing customer credit defaults (for example, wrongful disconnection and hardship regimes).

These factors were seen to create a barrier to innovation (and therefore expansion) for smaller retailers.

Another barrier to expansion identified was access to capital, with fierce competition among retailers; and host retailers implementing strong retention/win-back campaigns.

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[48] As noted in section 1.2 of this report, the Victorian Government has progressed a Bill to implement the NECF connection framework for electricity distributors.

[49] This is presumed to be a reference to the *Energy Legislation Amendment (Consumer Protection) Act 2015* (Vic).

(See section 3.5 on marketing and retention strategies.) One small second tier retailer identified dealings with Energy Safe Victoria as a barrier, though no specific details were provided.

Most respondents did not consider that there had been material changes in barriers to expansion in the Victorian electricity retail market in the past year, with one describing it as a 'very harsh, competitive marketplace'.

On the **outlook for the next one to two years**, respondents expect a change in ownership of some retailers, new retailer entry and some consolidation involving smaller retailers. As with other jurisdictions, they expect new entrants in the form of alternate energy suppliers rather than that of traditional retailers, with new retail models to be introduced to the market; and new business models leveraging new technology.

On **expected changes in incumbent market share**, retailers observed that notwithstanding strong competition and eventual reduction, changes are very slow. A development noted by one retailer was the Victorian ESC's practice of collecting and publishing the number of customers for each retailer who are on standing offer contracts. This practice was seen as conducive to exposing the high percentage of incumbent retailer customers who pay the higher standing offer rates, and ultimately reducing incumbent market shares.

3.5 Marketing and retention – electricity

This topic was not reported in the 2015 survey report, though some survey data was collected. In 2016, retailers were asked about any changes in their marketing efforts in the past year, new products and services, and observed changes in competitors' behaviour.

Also, questions posed under this topic sought to improve the AEMC's understanding about retailers' experiences and activities to attract and compete for the hardship and vulnerable customer section of the market. Those findings are discussed in Chapter 6 of this report.

The 2016 surveys and interviews elicited a range of views on emerging changes and challenges, and in particular insights about new products and services; regulatory issues around market convergence between electricity retailing, and selling related products and services; the potential for customer 'lock in'; digital platforms; and trends in marketing.

We note that in all jurisdictions, the majority of retailers reported that the electricity industry had improved in terms of customer service and marketing practices, as a factor of market maturity, and successful enforcement actions against energy retailers during 2015.

3.5.1 NEM-wide comments on marketing and retention, new products

Surveys and interviews indicated increased marketing and retention activity by most retailers in the past year. Retailers observed significant activity in retailers launching new products and services or actively planning new products and services in the near future. The highly competitive, commercially confidential nature of responses was considered to indicate a healthy competitive development in the market.

New products and services

Figure 14 illustrates the reported proportion of retailers who introduced new products in the past year.

Figure 14 – Proportion of retailers who introduced new products in past year

Notes:

1. **Figures (%) presented are the proportion of positive responses relative to total valid responses**
2. **Where a retailer only entered positive responses, all others were assumed to be false**

New South Wales stands out for product innovation in the past year. The high result for New South Wales supports comments reported in section 3.1 above regarding the degree of competition and the attractiveness of New South Wales as a first entry point for new retailers. Results for the Australian Capital Territory, South Australia and Victoria also mirror perceptions of competition. No respondents in Tasmania or regional Queensland reported introducing new products in the past year.

Areas singled for comment in both surveys and interviews were solar PV and storage, with the launch of new products in the past year being a notable development. New technologies include batteries and other energy storage solutions, and digital meters.

Power of Choice is expected by retailers to create new opportunities. For example, with anticipated contestable metering, some electricity retailers are actively considering launching offers based on the roll out of smart meters (with data services and home energy management) in jurisdictions outside Victoria.

Some large retailers have established separate divisions focussed on the delivery of distributed energy services and solutions to customers. Several observed that competitors are watching developments closely, and copying them. One consequence of this competition is the increased frequency with which offers are varied.

All retailers expect to see greater diversification of pricing and bundling of additional services. They state that these developments are driven by:

- greater customer interest and engagement, technological change, improved cost effectiveness of alternative energy sources and additional products (e.g. batteries, other demand management tools), and tools to assist customers to better understand and manage consumption profile, and
- continued improvement in customer understanding of their energy usage, generation and costs.

Many retailers offer a range of incentives to attract and retain customers, such as sign-on bonuses, frequent flyer points, gift cards, magazine subscriptions, or free power.

Many respondents said they were developing more flexible pricing options. The introduction of cost reflective network tariffs is considered likely to influence customer interest and incentives, particularly in Victoria. Nationally, this development will be influenced by the market led rollout of smart meters. Respondents commented that stability and certainty of regulatory frameworks is particularly important to support new retail pricing models.

Another trend identified is multi-utility offerings, for example bundling telecommunications, insurance, and IT products with electricity products. An example of this is Red Energy's partnership with Panasonic, for Panasonic battery storage.

Retention strategies

There were conflicting characterisations by respondents of the retention strategies adopted by their competitors. These ranged from assertions of very aggressive, even 'misleading' retailer behaviours, through to characterisation as normal and expected behaviour in a competitive market (with marketing strategies available to limit the effectiveness of aggressive strategies; and adequate consumer protection laws to address excessive or misleading behaviours).

To understand the respondents' comments, it is useful to distinguish between the three types of retention strategies reported in the 2016 survey. They are:

1. **Efforts by a current retailer to retain its existing customers** – These ongoing retention strategies may involve offering better terms and conditions (deals) for existing customers in response to competition.

2. **Win-back strategies –** These are the strategies of a current retailer that involve offering incentives, or a better deal (either short term, or ongoing), but which are implemented only when an existing profitable customer has indicated an intention to transfer to another retailer. The better deal is offered only to the customer in question.
3. **Customer 'lock in'** - This refers to situations where there is a financial disincentive for customers contemplating switching retailers, such as exit fees for early contract termination. In 2016, some respondents also used 'lock in' to describe the situation where retailers use bundled products and structures (for example, the financial arrangements and incentives created by those arrangements) to deliberately create a perception of energy retail customers being locked in to continue taking supply from their current retailer, even where the regulatory framework stipulates that a transfer must be allowed. One example provided was where a discount on a non-energy product that was bundled with the electricity product ceased if the electricity retail contract was terminated.

In relation to win-back strategies, second tier retailers observed that large retailers' successful retention programs offer customers big discounts only when a customer has decided to leave, which reduces the incentive on those larger retailers to offer good pricing to existing customers. A second tier retailer described its concerns with observed behaviours as follows.

> *Counter-offers are made to former customers that significantly undercut market pricing levels. These offers are not generally available, being offered only once a customer has signed with another retailer.*
>
> *This behaviour is common from first-tier retailers that can cross-subsidise these rates from their large incumbent standing offer customer bases.*
>
> *The lack of transparency confuses customers, and impedes other retailers' ability to compete on an even playing field.*

Retailers had mixed views on the effectiveness of existing laws and regulations to protect customers experiencing aggressive retention strategies. We note that the New Zealand Electricity Authority introduced a switch saving protection scheme in 2015[50]. In doing so, it noted that unlike in most other markets, the current retailer had advanced notice of a switch and could take action to save the switching customer. It was concerned that this raised the cost of acquisition activity and reduced retail market competition.

Customer transfer processes

[50] See the New Zealand Electricity Authority website at https://www.ea.govt.nz/operations/retail/retailers/switch-saving-protection-scheme /

Some respondents asserted the customer transfer processes were unnecessarily complex, inflexible and onerous (in terms of actions required by the customer in all instances), or being misused by some retailers to delay and discourage customers from switching retailers. The specific examples given were:

- Unauthorised transfers – where a customer had been transferred incorrectly more than once to the same retailer, with the transferring retailer insisting on the customer contacting it directly in each instance
- Abuse of transfer process, the specific nature of which was not stipulated in the survey response[51]
- Explicit informed consent protections dissuade customers – with the many consent pages in online sign-up procedures for a large retailer causing a significant number of customers (contemplating moving to different market contracts) to discontinue the process, and remain on less favourable contracts.

How prices are presented

One retailer was concerned about the way that prices are presented to customers. They stated:

> *Advertising and communicating offers to customers as a given percentage discount, rather than the applicable rates, is misleading customers.*
>
> *We often receive feedback from customers who believe they have been made a more competitive offer based on the size of the discount, rather than the underlying rates.*

Comparator websites

Respondents reported that comparator websites (also called online comparison tools) and switching services play an important role in facilitating customer choice and in the effectiveness of competition. They also affect the marketing and retention strategies adopted by retailers. A number of electricity retailers raised issues and concerns about comparator websites. As similar issues arise for both electricity and gas retailing this topic is considered in Chapter 5 below on convergence in energy retailing and related markets.

[51] We note that the AEMC received a rule change request on 26 November 2015 from the COAG Energy Council to amend the National Electricity Rules and National Energy Retail Rules, to improve the accuracy of the customer transfer process. That request is pending.

3.5.2 Marketing in specific jurisdictions

In addition to the general comments above, respondents made the following varied observations about changes to electricity retail marketing activities in specific jurisdictions.

Table 5 – Changes in marketing activities – by jurisdiction

Jurisdiction	Majority response?	Other views	Possible adverse behaviours[52]
ACT	No change	Greater focus on digital marketing Increased intensity of market efforts in response to competitive pressures Many retailers have expanded into provision of solar and/or batteries on finance	No systemic issues observed Areas of possible concern raised were: • Occasional examples of problematic practices including explicit informed consent breaches, removal of discount without notification, poor clarity of discounts and underlying rates • Choosing structures and products to create a perception of customer 'lock in'
NSW	Very mixed, ranging from no change, to significantly increased activities	Increased activities, including: • Changes in response to more effective competition • Greater focus on digital marketing • New entrant online and door to door campaigns • Significant introductory price discounting 'from overly inflated base rates' (asserting that host retailers can cross-subsidise these rates from large standing offer customer bases) • at least one retailer undertaking a smart meter rollout in-house rather than using a third party Reduced activities Ceased activities - pending finalising new, profitable and	Areas of possible concern raised were: • Unauthorised transfers, or using transfer processes as a shield to discourage switching • Misleading customers by advertising and communicating offers as a percentage discount, rather than the applicable rates • Choosing structures and products to create a perception of customer 'lock in'

[52] Retailers were asked to identify any behaviour that they considered could undermine good customer outcomes, for example, consumer protections, competition, and industry reputation.

Jurisdiction	Majority response?	Other views	Possible adverse behaviours[52]
		competitive products to offer the market	
SEQ	Very mixed, ranging from no change, to significantly increased activities	Changes in response to more effective competition Reduced activities Changes to cope with price volatility[53] Ceased pending finalising new, profitable and competitive products to offer the market	Responses ranged from: • No adverse behaviours observed, to • Choosing structures and products to create a perception of customer 'lock in'
Regional Qld	No change	Looking to offer other channels such as online offerings	Responses ranged from: • No adverse behaviours observed, to • Misleading claims by solar providers, and • Creating lock in perception, described above
SA	Intensity of market efforts have increased in response to competitive pressures	Range of views: • Reduced activities • Unchanged • Limited change Continues to evolve, following a number of retailers exiting the direct selling space Greater utilisation of 'above the line' marketing[54] and the use of digital platforms when seeking to acquire customers Greater focus and resources to retain existing customers Ceased pending finalising new, profitable and competitive products to offer the market	Responses ranged from: • No adverse behaviours observed, to • Significant introductory price discounting from overly inflated base rates, and • Creating lock in perception, described above
TAS	No change	One retailer has ceased activities	No adverse behaviours observed
VIC	Very mixed, ranging from reduced effort, to significantly	Reduced activities No change Limited change Increased in response to more effective competition	Responses ranged from: • No adverse behaviours observed, to • Concerns about possible 'dishonest or

[53] This may refer to wholesale market price volatility, as described in section 3.1.3 of this report. Though respondents appeared to be referring to volatile spot prices, this could also refer to volatility in ancillary service charges.

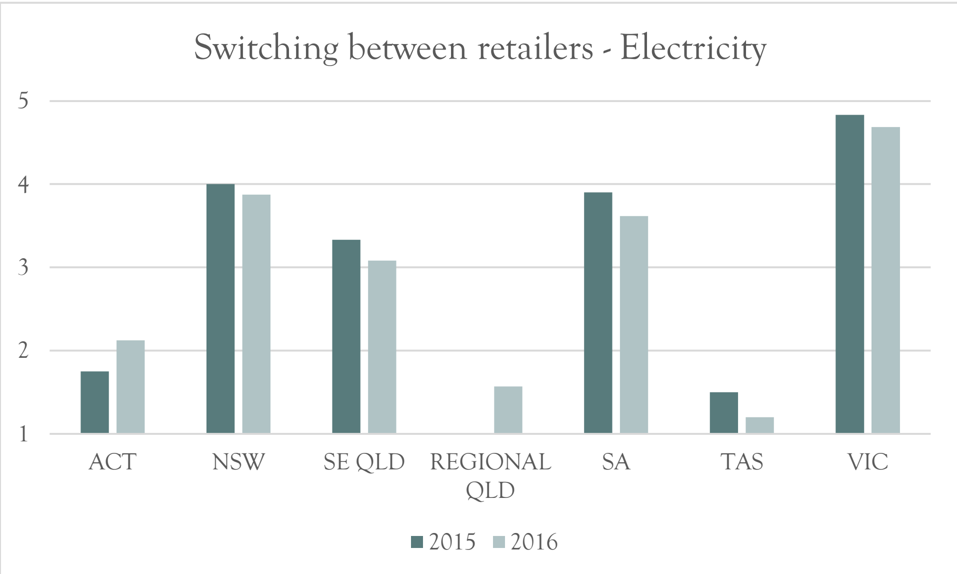
[54] 'Above the line' communications use media that are broadcast and published to mass audiences, as distinct from 'below the line' communications which use media that are more niche focused, tailoring messages in a more personal manner to the audience.

Jurisdiction	Majority response?	Other views	Possible adverse behaviours[52]
	increased activities	Highly aggressive retention activity Significant introductory price discounting from 'overly inflated base rates' Continues to evolve, following a number of retailers exiting the direct selling space Greater utilisation of above the line marketing and the use of digital platforms when seeking to acquire customers Greater focus and resources to retain existing customers	misleading' retention activities, and • Creating lock in perception, described above

3.6 Customer choice – electricity

Participants were asked to rate the level of switching by small customers between retailers, and between their own market offers, in each jurisdiction using a scale of 1 to 5, where 1 means non-existent, and 5 means very high. The average results are set out in Figures 15 and 16.

Figure 15 – Average rating for customer switching between retailers

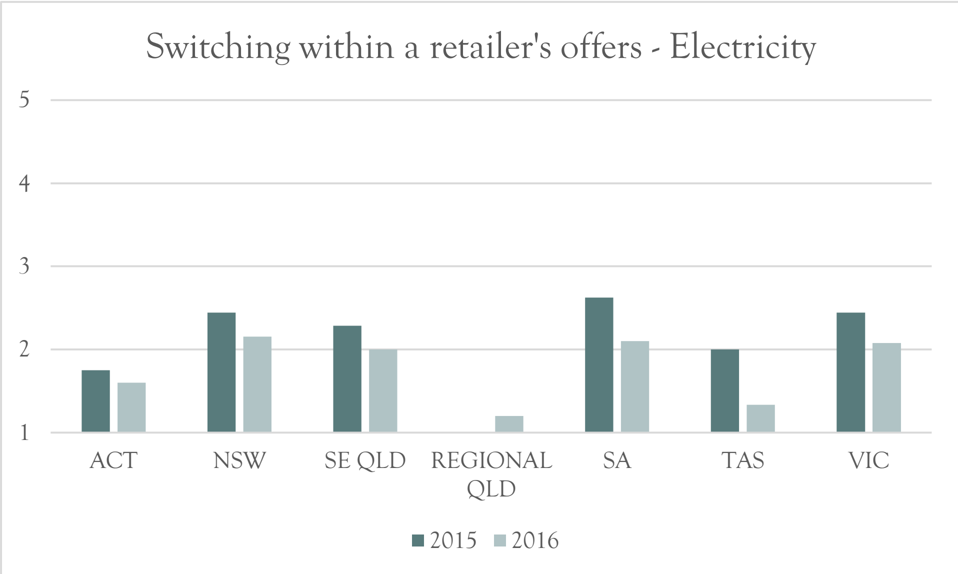


Note:

1. **Rating scale: 1 non-existent; 2 minimal; 3 moderate; 4 high; 5 very high**
2. **Regional Queensland had a rating of '1' in 2015**

These results indicate no significant changes in the past year. It should be noted that more comprehensive data on this topic is available from the AER website.[55]

Figure 16 – Average rating for customer switching between a retailer's offers



Notes:

1. **Rating scale: 1 non-existent; 2 minimal; 3 moderate; 4 high; 5 very high**
2. **Regional Queensland had a rating of '1' in 2015**

The results suggest that switching between a retailer's own offers is marginally lower in all areas other than regional Queensland.

3.7 Future developments – electricity

This section draws out retailers comments on likely future developments in electricity retail markets.

3.7.1 Factors with greatest influence on retail competition

Survey participants were asked what **single** factor they thought would have the greatest influence on retail competition in the next five years, either within an individual jurisdiction or across the NEM. There were diverse responses to this question, with no single factor raised consistently.

NEM wide factors identified (in no particular order) were:

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[55]Available at https://www.aer.gov.au/retail-markets/retail-statistics/electricity-customer-switching

- the rapid pace of technological innovation, especially the increasing influence of distributed generation and battery storage, and the opportunity for regulatory reform to better support resulting competition in both the retail electricity market and related markets (see section 5.4.2)
- the likely entry of new retailers into the market
- challenging wholesale electricity market conditions[56] including:
  - wholesale market volatility[57]
  - restrictive credit support terms
  - limited generator competition in certain NEM regions
- the view that improvements in policy/political and regulatory certainty would support improvements in competition, given:
  - a perceived risk of significant changes to energy policies and regulatory environmental schemes leading to increased business risks and increased sector costs, and
  - the risk of inadequate impact assessment of future regulation proposals
- the opportunity for network tariff reform[58] to provide better incentives for customers to make use of and invest in electrical appliances and devices including distributed generation and battery storage
- cost-reflective retail tariffs could better differentiate retailers' approaches to pricing and customer communications
- the opportunity to reform out-dated regulations that inhibit adoption of efficient digital billing platforms (as outlined in section 5.3, retailers singled out current regulatory requirements for paper bills, payments at post office, and the default to quarterly billing), and
- the potential re-introduction of a carbon tax.

Specific jurisdictional factors identified (in no particular order) were:

- implementing retail price deregulation in Queensland
- risks created by a lack of hedge contract availability and limited wholesale market liquidity in South Australia
- opportunities arising from metering competition (especially in jurisdictions other than Victoria)

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[56] These conditions are described in section 3.4 on barriers to entry and expansion.

[57] Generally, respondents appeared to be referring to volatile spot prices, but we note that this could also refer to volatility in ancillary service charges.

[58] Network tariff reform refers to regulated network companies changing the structure of network tariffs to better reflect the consumption choices of individual consumers and better reflect the costs of providing electricity to consumers with different patterns of consumption. See National Electricity Amendment (Distribution Network Pricing Arrangements) Rule 2014 No. 9.

- Victorian Government adoption of NECF.

3.7.2 Other factors influencing future competition

Survey participants were also asked about other factors that will influence retail competition in the next five years. Again there were diverse responses to this question. Factors identified (in no particular order) were:

- some stakeholders' scepticism about the ability of competitive markets to deliver appropriate outcomes, resulting in calls for costly or inefficient regulation
- further development of services offered by online brokers using digital technology to make it simpler for customers to understand market offers and make more informed decisions
- the potential consolidation of second tier retailers to improve economies of scale and vertical integration
- the emergence of new business models and participants (for example, exempt sellers) bypassing the regulatory framework to offer energy management products
- the opportunity for regulatory improvements regarding brokers and private sector comparative websites that ensure clear disclosure of remuneration and consistency in information provision to maintain trust in the sector and facilitate consumer engagement (see section 5.2) and
- the opportunity, through AEMO processes, for improvement in operational and B2B requirements to improve the operational efficiency of retail markets.

4. Gas retailer survey results

This Chapter 4 sets out survey responses and findings on the state of competition in gas retail markets across the NEM jurisdictions, as reported by retailers in February 2016.

Sections 4.1 to 4.9 deal with:

- the gas market context
- the overall degree of competition
- retailer rivalry
- factors influencing gas prices
- barriers to entry and expansion
- marketing and retention
- customer choice
- anticipated future developments, and
- competition in regional New South Wales.

Where applicable, topics are divided into sub-sections with overall findings and graphs, followed by NEM-wide observations, and then comments relevant to individual jurisdictions and regions (in the order Australian Capital Territory, New South Wales Urban, regional New South Wales, South East Queensland, regional Queensland, South Australia, Tasmania and Victoria).

In viewing the gas results below, we note that, given the smaller sample size in gas than electricity, small variations between years or across jurisdictions should be treated with caution. Also there is no comparative data for 2015 for New South Wales regional areas, as 2016 is the first year when separate questions have been posed for New South Wales urban and regional areas.

4.1 Gas market context, recent developments

There are 14 active retailers in total supplying small customers in NEM jurisdictions,[59] with numbers of retailers in each market varying widely, correlating to evidence regarding the overall level of competition in each region (see section 4.2).

Gas is reticulated to most Australian capital cities, major regional areas and towns, but the proportion of households and businesses connected to the networks varies widely across regions. Gas penetration rates vary significantly across the different jurisdictions,

[59] AER, *State of the Energy Market 2015* – updated 4 February 2016, Table 5.1 at p.125

which is a relevant factor affecting commercial decisions about entry and expansion (discussed in section 4.5 below). The current market context is depicted in Table 6.

Table 6 – Gas market snapshot

	ACT	NSW	QLD	SA	TAS	VIC
Gas penetration rate[60]	80%	45%	10%	60%	5%	90%
No. of active retailers[61]	4	7	2	5	2	11
NECF in place?	Yes, since 2012	Yes, since 2013	Yes, since 2015	Yes, since 2013	No	No
Retail price regulation in place?	No	Yes	No	No	No	No
Transportation model	Contract carriage	Contract carriage	Contract carriage	Contract carriage	Contract carriage	Market carriage in the DWGM Contract carriage in regional pipelines
Balancing model	No formal balancing market	STTM in Sydney	STTM in Brisbane Gas supply hub at Wallumbilla	STTM in Adelaide	No formal balancing market.	Balancing occurs through the DWGM.

During 2015, AEMO progressed reforms to wholesale gas markets, notably:

- Wallumbilla gas supply hub - to replace the hub's three trading locations with a single voluntary trading market, and to introduce new optional services
- Moomba gas trading hub – to be launched in July 2016 in South Australia.[62]

Also in 2015, the Australian Government asked the ACCC to inquire into the competitiveness and structure of eastern Australia's gas industry, with a final report due

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[60] Residential gas customer numbers: AER, Retail statistics, 2015, www.aer.gov.au/retail-markets/retail-statistics; Total household numbers; Australian Bureau of Statistics 2015, as cited in AER, State of the Energy Market 2015, p110.

[61] AER, *State of the Energy Market 2015*, updated 4 February 2016, at p125, as updated from survey data received.

[62] Moomba is regarded as a gateway for the eastern Australia gas market, linking gas production in south east Australia with markets in Queensland.

to be published in April 2016.[63] The AER has observed that some submissions to that inquiry raise concerns that industry players are taking advantage of a volatile market through non-competitive pricing, oil linked pricing, joint marketing, high pipeline charges, a lack of innovative transportation deals, and capacity hoarding on pipelines.[64]

During 2015, Queensland LNG projects affected gas wholesale prices. Two major projects commenced exports in 2015, and a third was set to commence in early 2016. The AER noted that, 'Domestic gas supply contracts are now being struck with reference to global prices, and spot gas prices in eastern Australia have become increasingly volatile....Brisbane prices remained volatile during 2015, periodically falling below $1 per gigajoule, but then rising as high as $12'.[65]

Importantly, in February 2015, the COAG Energy Council directed the AEMC to review the design, function and roles of facilitated gas markets and gas transportation arrangements on the east coast of Australia (the East Coast Wholesale Gas Market and Pipeline Frameworks Review).[66] The COAG Energy Council also asked the AEMC to review pipeline capacity, investment, planning and risk management mechanisms in the Victorian Declared Wholesale Gas Market (DWGM).

In December 2015, the AEMC made draft recommendations for an inter-related package of reforms relating to wholesale gas trading markets, pipeline access and information provision, and provided a roadmap for the future development of the market.[67]

4.2 Overall level of competition

Survey questions were designed to elicit retailers' views on the current level of competition in gas retail markets, and on the outlook for competition over the next one to two years. Specifically, retailers were asked to:

- rate the overall level of competition in each jurisdiction on a scale of 1 to 5, where 1 means non-existent and 5 means very high
- explain what distinguishes jurisdictions that are ascribed a high rating from those assigned a low rating

[63] ACCC, *Inquiry into Eastern and Southern Australian Wholesale Gas Prices*, Media release, 13 April 2015. A draft report has been published. See AEMC, *East Coast Wholesale Gas Market and Pipeline Frameworks Review, Stage 2 Draft Report*, 4 December 2015

[64] AER, *State of the Energy Market*, 4 February 2016 update, at p.15

[65] Ibid, at p.11

[66] Details of this review are available at http://www.aemc.gov.au/Markets-Reviews-Advice/East-Coast-Wholesale-Gas-Market-and-Pipeline-Frame#

[67] AEMC, *Stage 2 Draft Report - East Coast Wholesale Gas Market and Pipeline Frameworks Review*, 4 December 2015

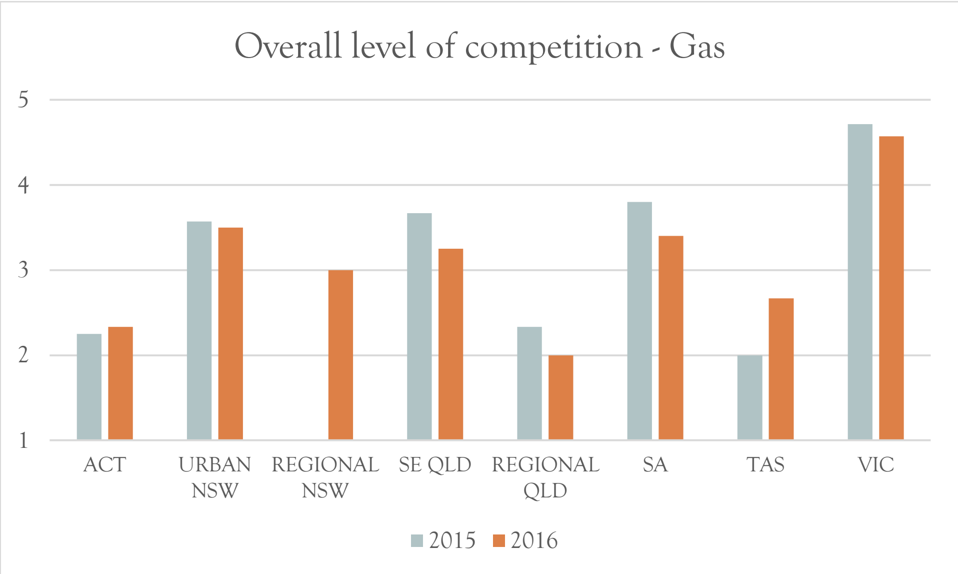
- indicate whether there had been a substantive change in the degree of competition in any jurisdiction in the last year, and
- opine on any expected changes in the degree of competition in any jurisdiction in the next one to two years, and what would prompt such changes.

4.2.1 Overall levels of competition across all regions

In 2015, retailers foreshadowed three key developments expected to adversely affect competition in gas retail markets.[68] These were tightening wholesale market conditions (brought about in part by the development of LNG facilities in Queensland); deterioration in the competitiveness of gas (compared with electricity and LNG); and policy and regulatory uncertainty and inconsistent regulatory frameworks and administration across jurisdictions.

Figure 17 below shows how retailers' perceptions of overall levels of competition in retail gas markets have changed in the past year.

Figure 17 – Average rating for overall level of competition in gas – by region



Notes:

1. **Rating scale: 1 non-existent; 2 minimal; 3 moderate; 4 high; 5 very high**
2. **No data is available for regional New South Wales in 2015**
3. **Tasmanian 2016 result is based on 3 responses**

[68] See section 9.3.2 in K Lowe and Farrier Swier Consulting, *AEMC 2015 Retail Competition Review: Retailer Surveys*, May 2015, at pp.93-94.

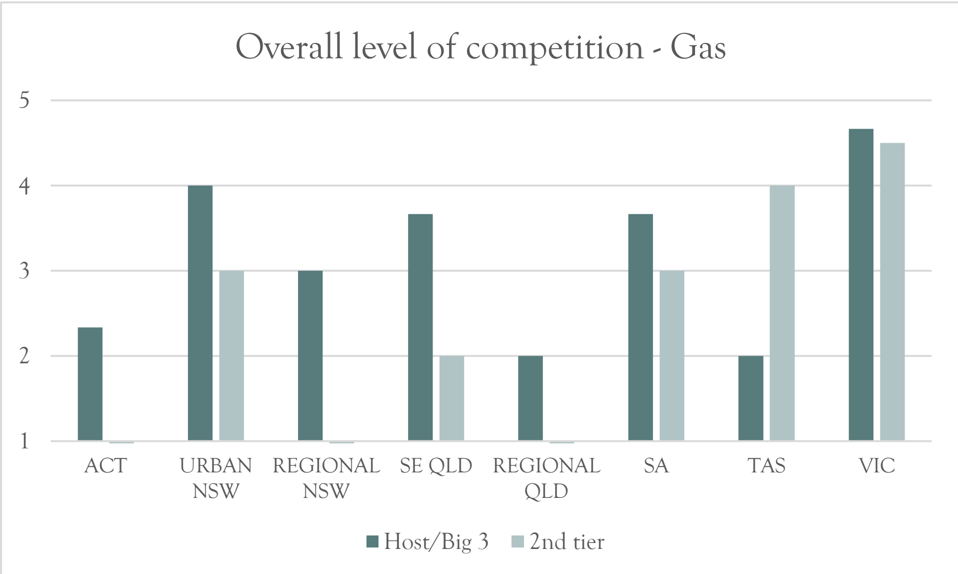
Despite concerns expressed in 2015, retailers reported no significant change since 2015 in the overall level of competition in gas retail markets across the NEM, which was borne out by survey comments and interviews.

As in 2015, Victoria continues to be the only gas market with a high overall level of competition. Gas retail markets in New South Wales (urban and regional), South East Queensland, and South Australia have moderate competition, and the Australian Capital Territory and Tasmania are still viewed by most retailers as having minimal competition.

Retailers considered that the difference in competition levels between jurisdictions reflects the level of gas penetration, the existence of price deregulation, and market size. Also considered relevant are the level of consumer knowledge and awareness of the competitive market, and the number of retailers operating in the market.

A common theme expressed across all regions was that whereas grid-supplied electricity is considered an essential service and has achieved extremely high market penetration, **gas is a fuel of choice** and competes with electricity and also LPG.

Figure 18 – Average perceptions of overall level of competition – by retailer size



Notes:

1. **Rating scale: 1 non-existent; 2 minimal; 3 moderate; 4 high; 5 very high**
2. **There were no second tier retailer responses to this question for the ACT or for regional New South Wales**
3. **Tasmanian result is based on only 3 responses**

Figure 18 indicates that the large retailers consistently give higher ratings than smaller second tier retailers for the overall level of competition. The exception is Tasmania, where the small sample size and lack of supporting commentary suggest little weight should be given to the difference shown.

4.2.2 Observations about competition in specific jurisdictions

Comments captured below indicate slight increases competition in gas retail markets in New South Wales and Victoria. All other jurisdictions reported no observable changes.

Table 7 – Competition in gas – comments for specific regions

Region	Observed changes in competition levels?	Expected changes	Reasons for change
ACT	Majority said no change Other view - aggressive targeting by large retailers	Increased competition	Customers are more educated and aware of choices
NSW Urban	Majority said no change Other views: • Moderate increase, with price deregulation proceeding • Increase in sales force, greater mainstream marketing exposure	Greater competition between retailers especially by larger companies More competitors Slight increase in second tier participation Higher pricing NSW/ACT Retail B2B Gas Project, enabling ease of entry and ability to operate in the market	Removal of price regulation, accompanying measures to promote customer engagement and awareness of opportunities available within competitive market Large retailer retention strategies East coast gas market rule changes
NSW Regional	No change observed	Increased competition Greater competition between retailers especially by larger companies	Focus of regulators and NSW Government Deregulation Customers are more educated and choice aware Large retailer retention strategies
SEQ	No change observed	East coast gas market rule changes	
Regional QLD	No change observed	Increased competition with competing fuel sources	Competition with competing fuel sources will increase as the delivered cost of natural gas increases
SA	Majority said no change Other view – moderate increase	Varied responses: • No real change • Some increase • East coast gas market rule changes	Maturing market
TAS	Majority said no change Other view – some increase	Increased competition with competing fuel sources	Competition with competing fuel sources will increase as the delivered cost of natural gas increases

Region	Observed changes in competition levels?	Expected changes	Reasons for change
			Retailer re-engagement in the market following an unsuccessful sale process[69]
VIC	Varied responses split equally between: • No/ no real change • Moderate increase Changes observed: Increase in sales force, greater main-stream marketing exposure Evolving market, some [electricity] retailers choosing to market gas New entrants More offers Less emphasis on door to door sales	Greater competition between retailers especially by larger companies East coast gas market rule changes New entrants Slight increase in second tier participation Increased competition with competing fuel sources	Maturing market Large retailer retention strategies Competition with competing fuel sources will increase as the delivered cost of natural gas increases

4.3 Retailer rivalry – gas

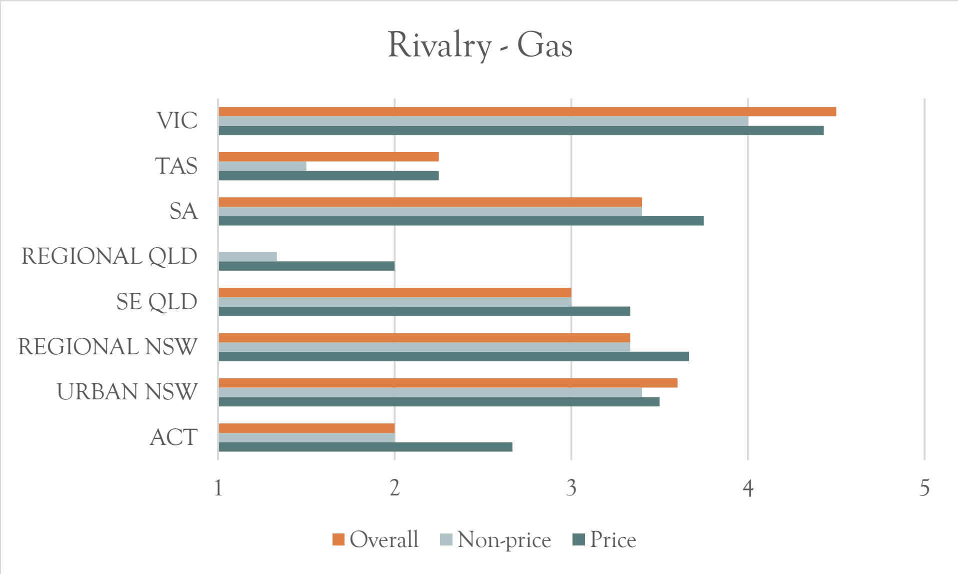
To help inform the AEMC's assessment of the degree of rivalry currently prevailing in the gas retail markets, survey participants were asked to rate the degree of price and non-price rivalry and the overall degree of rivalry. Participants were also asked whether they had observed any change in the degree of rivalry in the last year and if they expect to see any further changes in the next one to two years.

The survey results set out in Figures 19, 20, 21 and 22 below describe overall, price and non-price rivalry in 2016, changes in price rivalry since 2015 by region, and changes in non-price rivalry since 2015 by region.

As the small number of responses to these particular questions may affect the validity of these results, they should be read with caution.

[69] This is assumed to be a reference to the proposed sale of Aurora Energy, that was discontinued.

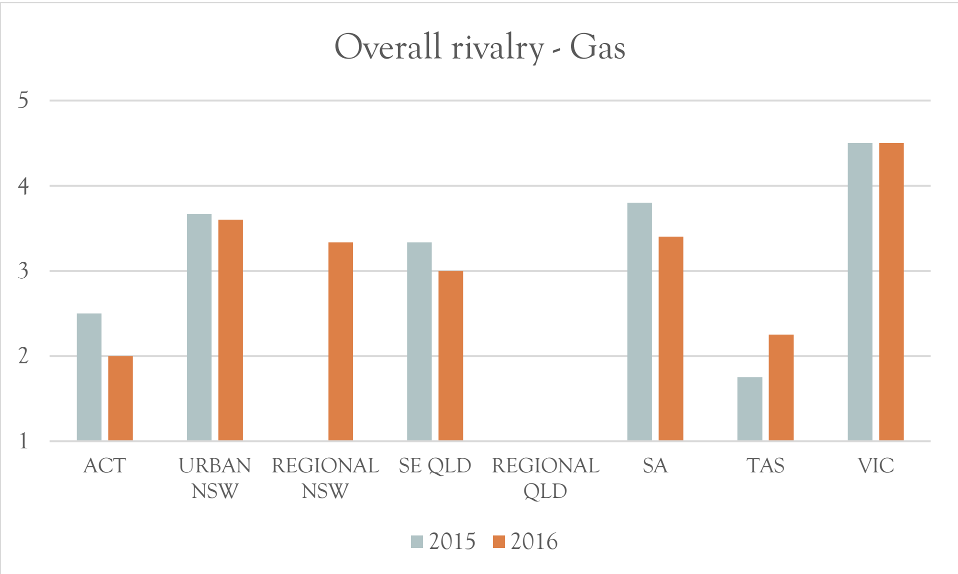
Figure 19 - Retailer overall, price and non-price rivalry



Notes:

1. Rating scale: 1 non-existent; 2 minimal; 3 moderate; 4 high; 5 very high
2. Regional Queensland had an overall rating of '1'

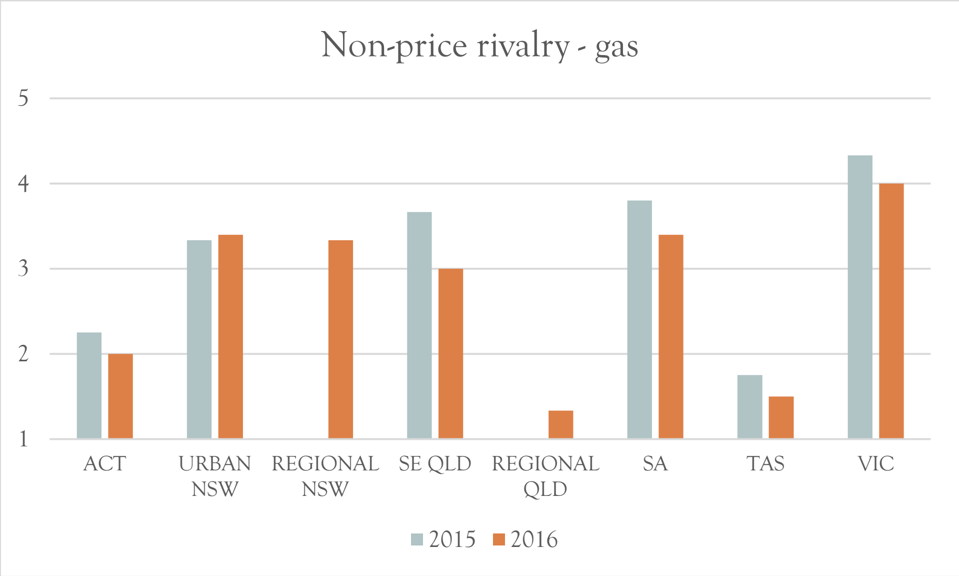
Figure 20 – Changes in <u>overall rivalry</u>– by region



Notes:

1. Rating scale: 1 non-existent; 2 minimal; 3 moderate; 4 high; 5 very high
2. There was no separate reporting for regional New South Wales in 2015
3. Regional Queensland had a rating of '1' in 2015 and 2016

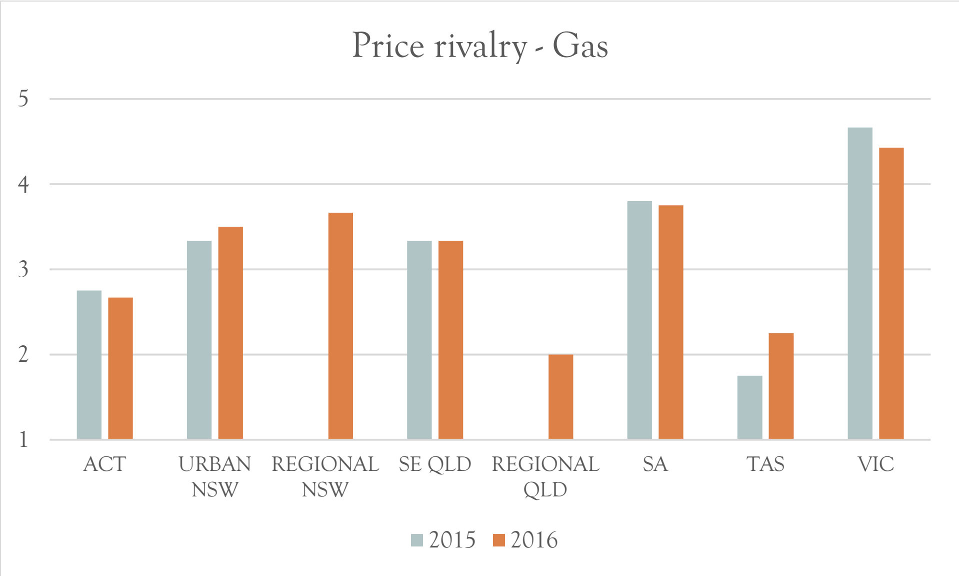
Figure 21 – Changes in non-price rivalry– by region



Notes:

1. Rating scale: 1 non-existent; 2 minimal; 3 moderate; 4 high; 5 very high
2. There was no separate reporting for regional New South Wales in 2015
3. Regional Queensland had a rating of '1' in 2015

Figure 22 – Changes in price rivalry– by region



Notes:

1. Rating scale: 1 non-existent; 2 minimal; 3 moderate; 4 high; 5 very high
2. There was no separate reporting for regional New South Wales in 2015
3. Regional Queensland had a rating of '1' in 2015

These results indicate consistency in price and non-price rivalry in gas across years, with rivalry reflecting ratings reflecting overall levels of competition.

We note that the apparent increase in regional Queensland is not supported by other evidence and is considered to reflect the limitations of the sample size in 2015.

4.3.1 NEM-wide comments on rivalry – gas

Retailer views on rivalry are broadly consistent with survey results on the overall level of competition in each region. That is, as in 2015, Victoria continues to be the only gas market with a 'high' to 'very high' overall degree of rivalry. The New South Wales urban gas retail market is rated as having 'moderate' to 'high' rivalry. Gas retail markets in regional New South Wales, South East Queensland, and South Australia evince a moderate degree of rivalry, the Australian Capital Territory has minimal rivalry, and rivalry in regional Queensland is considered non-existent.

Results show that price rivalry clearly is more important than non-price rivalry in gas, with Tasmania the only jurisdiction where a respondent perceived an increase in non-price rivalry.

The vast majority of respondents considered that there had been no change in the past year in the degree of price and non-price rivalry in all retail gas markets. However, there were some exceptions to this view both from incumbent retailers and recent new entrants, who considered that overall rivalry had increased slightly.

4.3.2 Rivalry in specific regions –gas

The following comments were made in relation to specific regions.

Table 8 – Retailer rivalry – comments for specific regions

Region	Observed changes in rivalry?	Reasons for observed change	Expected changes in rivalry?
ACT	Majority silent or indicated no change One view – Price rivalry has increased slightly	Increase in competitive activity by a large retailer	No change expected
NSW Urban	Majority silent, or indicated no change Other view – Sales and marketing incentives to customers	Emerging competition post price deregulation, NECF	Increased rivalry Greater competition both on price and non-price incentives East coast gas market rule changes
NSW Regional	Majority silent, or indicated no change One other view – Some change observed, but nature unspecified		Increase in rivalry, competition due to: • focus of regulators and NSW Government • potential removal of price regulation
SEQ	No change		Increase in rivalry, emerging competition following expected east coast gas market rule changes

Region	Observed changes in rivalry?	Reasons for observed change	Expected changes in rivalry?
Regional QLD	No change		Responses divided between: • No change expected • Rivalry from alternate fuel sources will increase as the delivered price to customers increases, particularly from LPG
SA	No changes noted		Responses divided between: • No real change • Yes, continued evolution of market following expected east coast gas market rule changes
TAS	Majority silent, or indicated no change Other view – Change in relative importance of price vs. non-price rivalry	Economies of scale and ability to purchase reasonably priced commodity and transmission	Alternate retailer may be sold or may decide to drop its natural gas portfolio to focus on electricity only retailing Rivalry from alternate fuel sources will increase as the delivered price to customers increases, particularly from LPG
VIC	One observed no changes Other views: Sales and marketing incentives to customers More electricity and gas bundling	Maturing and expanding market	Responses divided between: • No real change (minority) • Greater competition both on price and non-price incentives • Continued evolution of market and expected east coast gas market rule changes • Rivalry from alternate fuel sources will increase as the delivered price to customers increases, particularly from LPG.

Farrier Swier Consulting

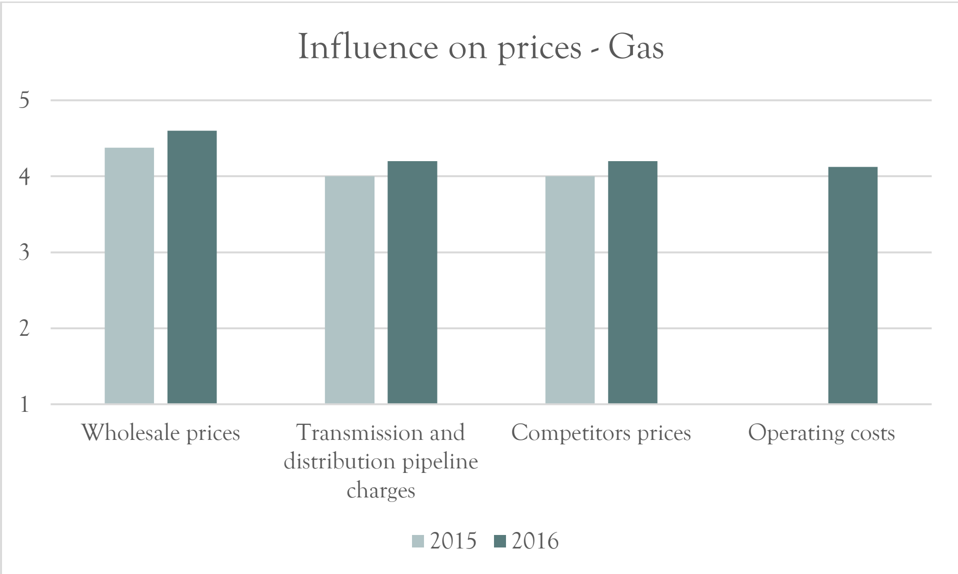
4.4 Gas retail prices

As general background to this section, we note a recent Oakley Greenwood Gas Price Trends Review Report.[70]

Retailers were asked to rate the importance of a set of factors in terms of their influence on pricing decisions (e.g. wholesale costs, transportation costs, competitors' prices, environmental policy costs, retail operating costs) and whether the importance of these factors differed across jurisdictions.

Figure 23 depicts the main factors that reporters reported as influencing gas retail prices across all jurisdictions.

Figure 23 - Factors influencing retail gas prices



Notes:

1. **Rating scale: 1 irrelevant; 2 slightly important; 3 important; 4 very important; 5 critical**
2. **A category 'Operational costs of retailing' was first added to the survey in 2016**

Survey responses indicate that no single factor stands out as driving gas retail prices; with a 'very important' rating ascribed to each of wholesale gas prices, pipeline transportation charges, competitors' prices and retail operating costs. (Because operating costs were raised by several respondents in 2015, it was added as a new prompt in the 2016 survey.) Retailers also stated that prices were influenced by customer impacts.

[70] See Oakley Greenwood, *Gas Price Trends Review*, December 2015. This report was commissioned by the Commonwealth Department of Industry, Innovation and Science. It contains an aggregation of historical gas prices compiled to provide users with an understanding of industrial and residential gas prices.

The majority of participants did not consider there to be differences in price influences across jurisdictions. However, others observed the following jurisdictional differences:

- Retail price regulation - where regulated pricing is in place, noting:
    - wholesale gas costs are critical when preparing regulatory proposals/price paths
    - once the regulated price is set, it constrains a retailer's ability to pass through costs to remain competitive.
- Some jurisdictions have less wholesale providers, which impedes competitive entry.
- In some markets, transmission is more easily accessed and more reasonably priced due to economies of scale.
- Available retail markets are larger whether there is greater gas penetration, which supports competition and therefore may promote lower prices.

One Tasmanian participant noted the greater importance in Tasmania of transmission and distribution charges, due to low utilisation relative to the asset value. Another important influence on pricing was the need for gas to be competitive with electricity and LPG given the currently low market penetration for natural gas. One participant was concerned that uncompetitive retail gas prices were driving some customers to reconsider their future use of natural gas; and observed a downward trend in the number of residential gas connections.

4.5 Barriers to entry and expansion – gas

Retailers were asked to rate the ease with which entry, expansion and exit can occur across each jurisdiction the NEM, to identify any barriers to entry or expansion in each region. They were also asked about any changes observed in the last year, and any additional barriers to retailing in rural or regional areas.

Retailers were invited to comment on whether over the next one to two years they expected to see: any change in the ease with which entry or expansion can occur; new entry, exit or consolidation occurring; and any change in the market share held by host retailers in any jurisdiction.

Retailers were asked to rate the importance of economies of scale, economies of scope (e.g. offering dual fuel or multi-utility products) and having an interest in upstream gas production in each jurisdiction, and whether the importance of any of these factors had changed in the last year. Lastly, they were asked whether economies of scale were more important in gas than in electricity.

4.5.1 NEM-wide views and comments

The observations in section 4.1 above about the retail gas market context and developments are very relevant to this topic. We also note that retail price regulation remains in place in New South Wales, but this is under review by the New South Wales Government and IPART.

The findings set out in this section show little evidence of material changes in retailers' perceptions about barriers to entry and expansion in the past year. However, retailers consistently looked to future developments arising from the initiatives described in section 4.1 above (notably, the AEMC's East Coast Gas Review) to improve the competitiveness of retail gas markets in the near future.

In terms of specific concerns notes across all jurisdictions, a number of retailers were critical of the accreditation process for certification in the STTM and DWGM,[71] considering them complex and cumbersome, thereby creating barriers to entry. Consistent comments made by some retailers in jurisdictions operating a STTM or the DWGM asserted that barriers to entry arise from:

- the requirement to participate in the STTM or DWGM *per se*
- low demand and STTM shipper/contractual requirements (the nature of these concerns was not specified)
- the accreditation process for certification, that some considered complex and cumbersome.

One retailer observed that asymmetric information flows, market complexity, and multiple price signals made hedging very difficult and ineffective to manage risks.

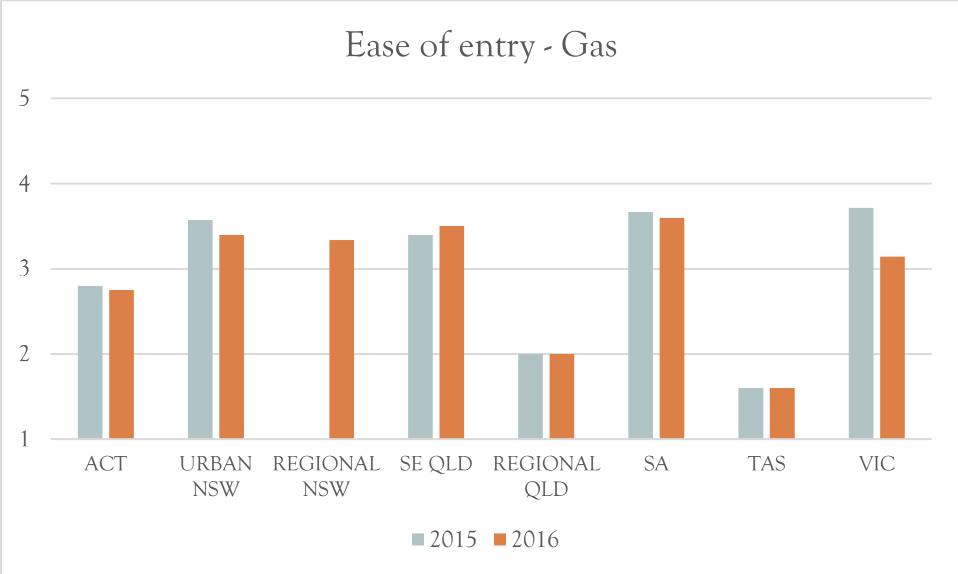
In several regions, retailers noted barriers arising from difficulty accessing gas and transportation on reasonable terms. We note that the significance of the components of gas retail prices was set out in a recent Oakley Greenwood Gas Price Trends Review Report.[72]

Retailers' average ratings ascribed to ease of entry and expansion in retail gas markets are set out in Figure 24 and 25 below.

[71] We note that AEMO operates retail and wholesale markets in South-East Australia. It operates the Gas Short Term Trading Market (STTM) in NSW, Qld and SA, and Victoria's Declared Wholesale Transmission Market (DWGM).

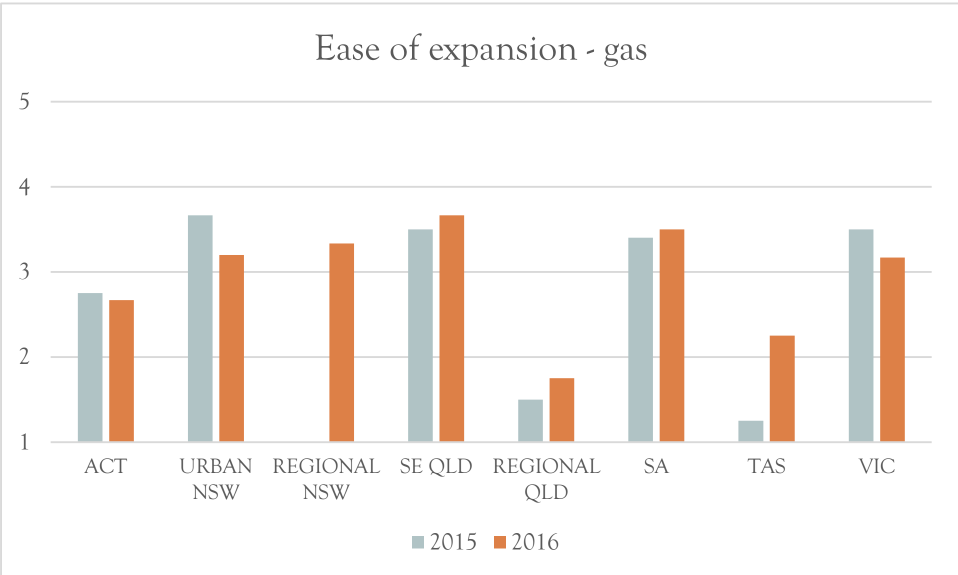
[72] See Oakley Greenwood, *Gas Price Trends Review*, December 2015. This report was commissioned by the Commonwealth Department of Industry, Innovation and Science. It contains an aggregation of historical gas prices compiled to provide users with an understanding of industrial and residential gas prices.

Figure 24 - Ease of entry to retail gas markets - by jurisdiction[73]



Rating scale: 1 very difficult; 2 difficult; 3 neither; 4 easy; 5 very easy

Figure 25 - Ease of expansion to retail gas markets - by jurisdiction



Rating scale: 1 very difficult; 2 difficult; 3 neither; 4 easy; 5 very easy

These two survey results demonstrate that there has been little change in retailers' perceptions of ease of entry and expansion in gas retail markets since the 2015 survey.

In terms of **ease of entry**, four jurisdictions, New South Wales (both urban and regional), South East Queensland, South Australia and Victoria, rated between 'neither

[73] 2016 is the first survey year when NSW results have been reported separately for urban, regional and rural areas.

easy nor difficult' and 'easy'. Entry in the Australian Capital Territory is considered to rate between 'difficult' and 'neither easy nor difficult'. Regional Queensland is 'difficult', and Tasmania is rated between 'very difficult' and 'difficult'.

In terms of **ease of expansion**, the same four jurisdictions, New South Wales (both urban and regional), South East Queensland, South Australia and Victoria, rated between 'neither easy nor difficult' and 'easy'. Expansion in the Australian Capital Territory is considered to rate between 'difficult' and 'neither easy nor difficult'. Regional Queensland and Tasmania are rated between 'very difficult' and 'difficult'.

4.5.2 Economies of scope, scale and importance of upstream interests

Importance of retailers having upstream interests

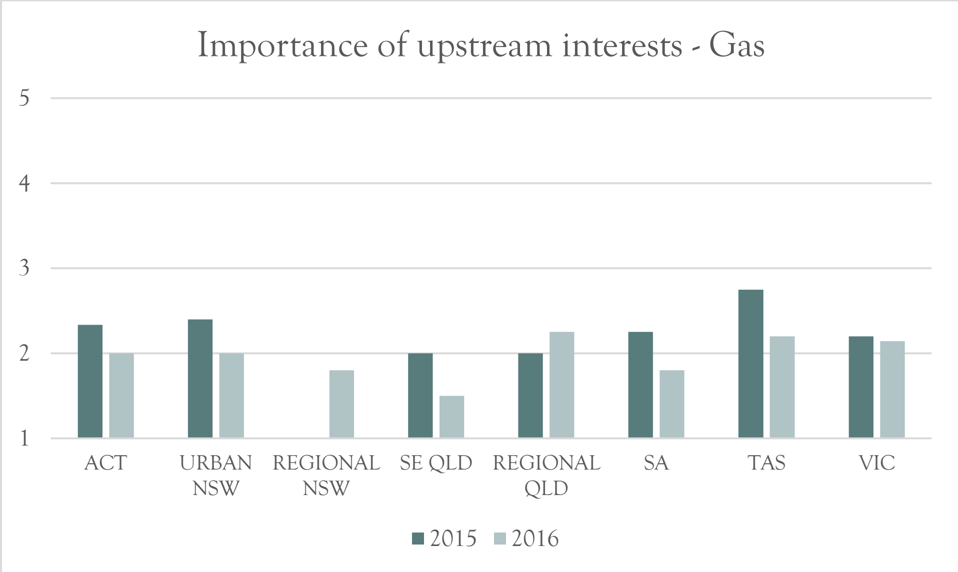
Survey participants were asked to rate the importance of having an interest in upstream gas production in terms of being able to compete effectively in each jurisdiction.

We note that the big three retailers, AGL Energy, Origin Energy and EnergyAustralia each has significant interests in upstream gas production and/or gas storage to complement their interests in gas fired electricity generation and energy retailing. The AER reports[74] that Origin Energy is a gas producer in Queensland, South Australia and Victoria. AGL Energy produces coal seam gas in Queensland and New South Wales, and in 2015 opened a liquefied natural gas storage facility in Newcastle. Those interests have since changed, with AGL Energy's announced divestment of its gas projects in Queensland and New South Wales in February 2016.

In that context, the 2016 average ratings retailers ascribed to the importance of a retailer having an upstream interest are set out in Figure 26.

[74] AER, *State of the Energy Market*, 4 February 2016 update, at pp. 126, 127

Figure 26 - Importance of having upstream interest in gas – by region



Rating: 1 irrelevant; 2 slightly important; 3 important; 4 very important; 5 critical

The results indicate minimal change in views since 2015 on the importance of a retailer having an upstream interest in gas production, with reported changes considered unlikely to be statistically significant.

Economies of scale and scope

Each individual respondent tended to ascribe the same rating to the importance of economies of scale and economies of scope to all jurisdictions in which they operated.

The majority of participants considered that economies of scale were **not** more important in gas than in electricity. The contrary views expressed by some were:

- Given gas is more of a discretionary fuel, economy of scale plays a greater part. This is particularly the case in terms of availability, i.e. where reticulated gas is available to end consumers. Given the discretionary nature of the fuel it is not uncommon for large areas not to have access to reticulated gas.
- Tasmanian retailers compete in the market against competitive fuel sources, in particular electricity which has 100% market penetration. Natural gas with only 4% market penetration, suffers from a lack of economies of scale, making it more difficult to compete with electricity pricing.

Only one second tier retailer considered economies of scope more important than economies of scale in gas than electricity. That participant rated them as 'very important' and 'critical' respectively.

On whether there had been **any change in the importance of scale, scope or upstream interests**, nearly all participants said there had been no change.

4.5.3 Barriers in specific regions

The following sections set out participants' comments that apply to specific regions.

Australian Capital Territory barriers to entry and expansion

Participants identified the following factors as the most important barriers to entry and expansion in the Australian Capital Territory gas retail market:

- Access to gas and transportation on reasonable terms
- Regulated prices
- Small demand base limits growth opportunities.

Other perceived barriers to entry and expansion were the current state of the wholesale market, and a lack of market transparency.

There was no perceived change in ease of entry in the past year in this market.

Over the next one to two years:

- No respondent expected any change in the ease of entry or expansion. One observed that the significant barrier of access to pipeline transportation would only be addressed through infrastructure investment. Also, current LNG projects have the potential to impact commodity availability.
- Half of respondents expected no change in retailer entry and exit; while others expected either new entry, or some consolidation of existing retailers.
- Nearly all respondents did not expect a change in the incumbent retailer's market share.

New South Wales urban barriers to entry and expansion

Participants identified the following factors as the most important **barriers to entry** in the New South Wales urban gas retail market:

- Access to gas and transportation[75]
- Price regulation.

Another barrier to entry was the lack of existing B2B procedures in New South Wales. This absence had impeded one retailer's plans to offer gas as part of a dual fuel offer.

The only specific **barriers to expansion** identified for the New South Wales urban gas retail market were capital requirements and human resources required to supply retail

[75] For the significance of transportation costs, see Oakley Greenwood, *Gas Price Trends Review*, December 2015 at p.21.

gas customers in this region. There was no perceived change in ease of entry or expansion in the past year in this market. However, over the next one to two years:

- Some respondents expected to see changes in the ease of entry or expansion arising from:
  - Expected AEMC rule changes that will promote transparency in pricing and access to pipelines in larger markets
  - Current LNG projects with the potential to impact commodity availability
  - Retail price deregulation
  - Outcomes of the NSW/ACT Retail B2B Gas Project.[76]
- Most respondents expected either new entry, or some consolidation of existing retailers.
- The majority of respondents expected to see some reduction in the incumbent retailer's market share.

Regional New South Wales barriers to entry and expansion

Participants identified the following factors as the most important **barriers to entry** in regional New South Wales gas retail markets:

- Retail price regulation
- The lack of existing B2B procedures in New South Wales
- Small market size
- Access to gas and transportation
- Difficulty analysing and accessing transmission capacity
- Legacy haulage agreements limiting entry in regional areas
- Lack of mains gas (presumably referring to a lack of built pipelines servicing particular areas)
- Incumbent retailer dominance - Cooma/Bombala, Temora/Culcairn/Henty/ Walla Walla; Gundagai/Tumut, Tamworth, Nowra (Shoalhaven) are small networks dominated by incumbent retailers.

The **barriers to expansion** identified by respondents were economies of scale, and disproportionately high capital requirements and human resources costs to service a small number of customers. One retailer referred to increased costs for smaller retailers (for example, for IT costs), which larger retailers can spread over a larger customer base.

[76] This is assumed to be a reference to AEMO's NSW-ACT Retail Gas Market Procedures and Gas Interface Protocol changes for NARGP As Built consultation, details of which are set out at http://www.aemo.com.au/Consultations/Gas-Consultations/NSW_ACT-Retail/IN01815-NSWACT-Retail-Gas-Market-Procedures-and-Gas-Interface-Protocol

In contrast, a larger second tier retailer did not consider the incremental costs of supplying additional regional customers to be material.

There was no perceived change in ease of entry or expansion in the past year in this market. However, over the next one to two years:

- Some respondents expected to see changes in the ease of entry or expansion arising from:
  - Possible removal of price regulation
  - Current LNG projects with the potential to impact commodity availability (as described in section 4.1 above)
  - Outcomes of a current IPART and New South Wales Government review.[77]
- Most respondents expected either new entry, or some consolidation of existing retailers. One large retailer was actively evaluating market entry into major regional centres.
- The majority of respondents did not expect to see a change in the incumbent retailer market share.

South East Queensland barriers to entry and expansion

Participants identified the following factors as the most important **barriers to entry** in the South East Queensland gas retail market:

- Access to gas and transportation
- Low demand and STTM shipper/contractual requirements
- Asymmetric information flows and complexity of market and multiple price signals make hedging very difficult and ineffective
- The status of wholesale markets (see comments in section 4.1 above).

One respondent listed the lack of distribution pipelines as a barrier to entry in South East Queensland rural areas. No specific **barriers to expansion** were identified.

There was **no perceived change in ease of entry or expansion in the past year** in this market. However, over the next one to two years:

- Respondents were divided on the likelihood of changes in the ease of entry or expansion. Those who expected change referred to:
  - Expected AEMC rule changes that will promote transparency in pricing and access to pipelines in larger markets

[77] The NSW Minister for Industry, Resources and Energy announced that the NSW Government will look to deregulate retail gas prices from 1 July 2017 if there is an increase in competition, particularly in regional areas of the state. As part of IPART's current price review, it will also review the competitiveness of the retail gas market to identify and recommend additional measures to strengthen competition in regional areas.

   – Current LNG projects with the potential to impact commodity availability.

- Views were evenly divided between those expecting no change, those expecting new entrants, and those expecting some consolidation of existing retailers.
- The majority of respondents did not expect to see any change in the incumbent retailer market share.

One participant listed the most important barriers to expansion in South East Queensland rural areas to be lack of mains gas, the high cost of new transmission capacity and limited wholesale gas suppliers. One retailer also noted the lack of demand growth in this market. These factors limited the ability for new entrants to compete with incumbents and made natural gas less competitive with other fuels.

Regional QLD barriers to entry and expansion

Participants identified the following factors as the most important **barriers to entry** in the regional Queensland gas retail market:

- In common with South East Queensland barriers, access to gas and transportation
- The small demand base limits potential for growth
- Perceived policy and regulatory concerns, such as:
   – The legislative, governance and market framework which does not support the participation of smaller and niche operators, but favours energy companies serving a large customer base
   – Ongoing regulatory uncertainty (the nature of which was not made explicit in the survey responses)
   – The cost to achieve regulatory compliance, licencing, and system requirements seen as not conducive to the entry of niche providers into the market.
- Market and regulatory complexity, and poor transparency about the interaction of various players in the supply chain and the roles and responsibilities of each.
- Inability to offer dual fuel as it is uneconomic to compete in electricity market without access to CSO payments.[78]

One respondent commented that in the Townsville area, the key barrier is access to gas within the immediate vicinity. Gas must be sourced from Rockhampton.

No specific **barriers to expansion** were identified.

There was no perceived change in ease of entry or expansion in the past year in this market. Over the next one to two years:

- Most respondents expected no changes in the ease of entry or expansion.

[78] The CSO arrangements are described in section 3.4.4 of this report.

- Views were fairly evenly divided between those expecting no change, those expecting new entrants, and those expecting some consolidation of existing retailers.
- The majority of respondents did not expect to see any change in the incumbent retailer market share, noting that new entrants in greenfield sites would have no impact on an incumbent in another area.

South Australian barriers to entry and expansion

Participants identified the following factors as the most important **barriers to entry** in the South Australian gas retail market:

- Access to gas and transportation
- Wholesale market conditions
- Low demand and STTM shipper requirements
- Asymmetric information flows and complexity of market and multiple price signals make hedging very difficult and ineffective

In rural areas, the barriers to entry cited were access to regional pipelines, lack of mains gas, geographical distances, and lack of ability to build on economies of scale in offering services.

The **barriers to expansion** identified in this market were

- Availability of hedging products
- Access to gas and transportation
- Prudential and credit support requirements, and their associated high level of financial risk and impost

There was no perceived change in ease of entry or expansion in the past year in this market. Over the next one to two years:

- Most respondents expected no changes in the ease of entry or expansion, though one expected proposed AEMC rule changes to promote transparency in pricing and access to pipelines in larger markets. Another thought that current LNG projects have the potential to impact commodity availability.
- The majority of respondents expect some consolidation of existing retailers.
- Respondents were equally divided between those who did not expect to see any change in the incumbent retailer market share, and those expecting NECF and expanding second tier activity to reduce the incumbent share.

Tasmanian barriers to entry and expansion

Some participants stated that the Tasmanian gas retail market faces greater challenges than markets in other jurisdictions. They identified the most important **barriers to**

entry in this market to be the small market size, limited number of wholesale gas providers, and the high cost of new transmission capacity. There was also a concern with National Gas Laws, and AEMO prudential requirements which were considered excessive and not reflective of the specific circumstances of the market. One participant was concerned that high network charges would result in an underutilised network, and make natural gas less competitive with LPG or electricity.

In **Tasmanian rural areas**, respondents noted additional barriers to entry in the form of limited penetration of the gas distribution network (see Table 6 above). Also, customers in regional areas had less knowledge and understanding of natural gas. Furthermore, they faced higher connection costs than in urban areas. With pockets of low-socio-economic households, the cost of connection together with the purchase of new appliances was often prohibitive.

Views varied on perceived change in ease of entry or expansion in the past year in this market. Most reported no change. However, one retailer observed worsening barriers to entry, asserting transmission charges were not reflective of actual costs, and that retailers were unable to obtain pricing or supply certainty for an adequate period into the future.

Looking forward over the next one to two years:

- Most respondents expected no change in the ease of entry or expansion. One expected barriers to increase, with competition from other more profitable fuel sources, and no expansion plans for the gas network.
- Most expect no retailer entry or exit. The contrary view of other respondents was that consolidation or retailer exit was likely.
- No respondents expected to see any change in the incumbent retailer market share.

Victorian barriers to entry and expansion

Participants made the following comments when asked about the most important **barriers to entry** in the Victorian gas retail market:

- Access to gas and transportation
- Legacy haulage agreements limit entry in regional areas (notably, South Gippsland)
- Safety case requirements and distributor contracts[79]
- Asymmetric information flows and complexity of market and multiple price signals make hedging very difficult and ineffective
- The legislative, governance and market framework does not support the participation of smaller and niche operators. It is set up in favour of energy

[79] In 2015, retailers identified that the Victorian Gas Safety Case requirements were expensive to develop.

companies serving a large customer base. The cost to achieve regulatory compliance, licencing, and system requirements is not conducive to the entry of niche providers into the market. Participation and regulation is quite complex and at times not transparent about the interaction of various players in the supply chain and the roles and responsibilities of each.

In Victorian **rural and regional areas,** participants pointed to additional barriers being:

- Geographical distances and lack of ability to build on economies of scale in offering services
- Small market size
- Gaining pipeline access on reasonable terms
- Regulatory impediments to innovation
  - One retailer noted that in Terang, Kerang, Nathalia, Robinvale, Lakes Entrance, Swan Hill, Orbost, Maldon, Heathcote, Marong and Invermay, there are no available transmission pipelines. Its proposal involving compressed natural gas reticulated through a traditional network was reportedly impeded by the current regulatory, licencing and market framework.

Specific **barriers to expansion** identified for the Victorian gas retail market were access to gas and transportation, access to hedge products, and prudential and credit support requirements.

There was no perceived change in **ease of entry or expansion** in the past year in this market. Looking forward over the next **one to two years**:

- Though most respondents did not expect to see changes in the ease of entry or expansion, some expected changes arising from:
  - Expected AEMC rule changes that will promote transparency in pricing and access to pipelines in larger markets
  - Current LNG projects with the potential to impact commodity availability.
- All respondents expected either new entry, or some consolidation of existing retailers.
- In relation to incumbents' market share, the majority of respondents expected to see some decline.

4.6 Marketing and retention - gas

Retailers were asked about any changes in their marketing efforts, new products and services, observed changes in competitors' behaviour, and experiences and policies in relation to vulnerable customers. (Findings in relation to vulnerable and hardship customers are discussed in Chapter 6 of this report.)

The surveys and interviews elicited views on emerging produce development trends and changes in the level of marketing activity. There were no responses on a question about any adverse competitor behaviour.

4.6.1 New products and services

Product development trends noted across most retail gas markets were:

- an increase in bundling of electricity and gas offers
- an increased focus on digital marketing (for example AGL's Energy App[80]). This trend mirrors that observed in electricity marketing, and is discussed further in section 5.3.
- fixed and free months for energy plans, and
- new discount structures.

Some retailers noted an improved level of energy literacy among customers, and a demand for information. The ability to provide retail gas customers will give greater visibility over aspects of consumption profile (e.g. timing, usage by appliance) and control over consumption decisions, but is however constrained by current technology, which is less evolved than electricity.

4.6.2 Changes in marketing

As with electricity retailing, most retailers observed that there is less emphasis on door to door sales.

Participants noted an increase in the **level of marketing activity** in the New South Wales urban gas retail market in line with the development of a more effective competitive environment. One major retailer indicated that it was evaluating entry into New South Wales major regional centres.

Marketing of gas as an optional fuel source in certain regional Victorian homes is expanding following the Victorian Government's Regional Gas Infrastructure Program. That program has finalised agreements to supply gas to 18 regional Victorian towns, with seven towns to be connected to Victoria's existing natural gas network under agreements with gas distribution businesses, and 11 towns connected using a using a compressed natural gas (CNG) delivery solution.[81]

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[80] The AGL Energy App allows customers to track electricity usage details and gas bills, view account balances, and pay bills. https://www.agl.com.au/residential/why-choose-agl/agl-energy-app

[81] Details of this program are available at http://www.rdv.vic.gov.au/regional-projects/regional-gas-infrastructure

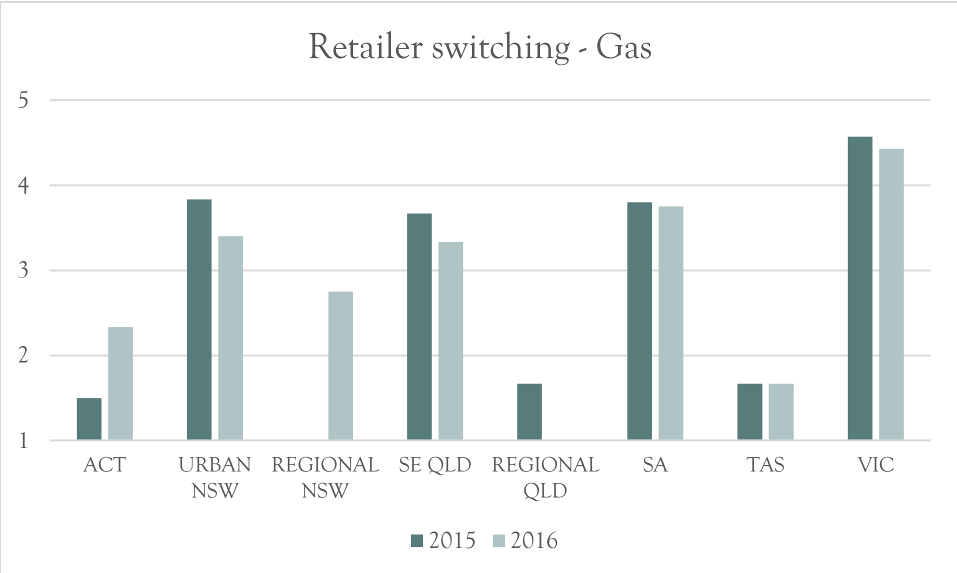
No changes in the level of marketing activities were identified in the Australian Capital Territory, regional Queensland, South Australia, Tasmania or other parts of Victoria.

In terms of **product development,** one retailer in Tasmania noted rebates offered to encourage customers to use additional gas appliances.

4.7 Customer choice - gas

As for electricity, participants in the gas survey were asked to rate the level of customer switching between gas retailers and between their own gas offers. Figures 27 and 28 set out the survey results. It should be noted that more comprehensive data on this topic is available from the AER website.[82]

Figure 27 – Customer switching between retailers – gas



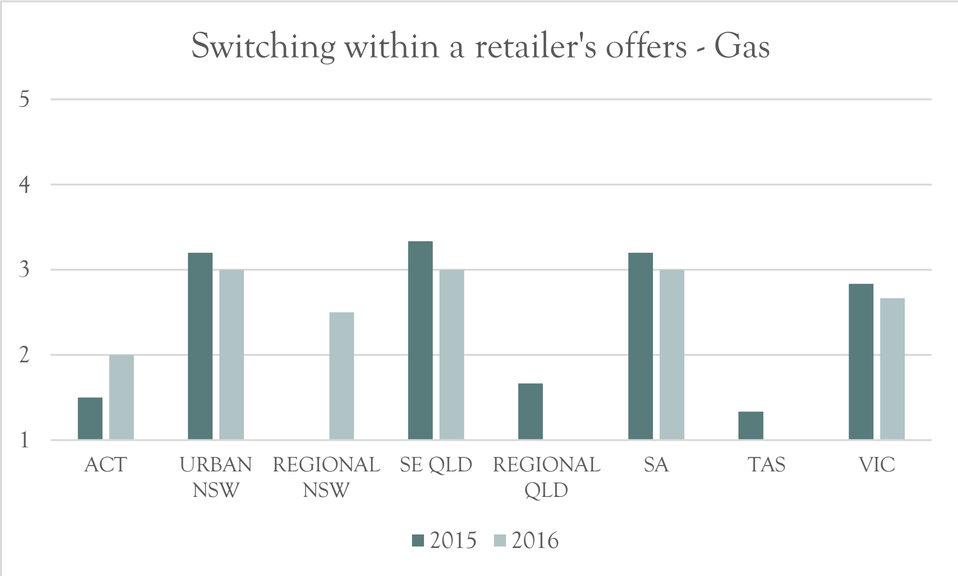
Notes:

1. **Rating scale: 1 non-existent; 2 minimal; 3 moderate; 4 high; 5 very high**
2. **There was no separate reporting for regional New South Wales in 2015**
3. **Regional Queensland had a rating of '1' in 2016**

As shown in Figure 27, the rating for retailer switching has increased in 2016 in the Australian Capital Territory and is now rated as 'minimal'. This is consistent with comments made about concerted efforts by a large retailer to expand its customer base in this market. We note that minor reductions in the rate of retailer switching in other jurisdictions are not considered significant, or supported by commentary.

[82]Available at https://www.aer.gov.au/retail-markets/retail-statistics/gas-customer-switching

Figure 28 - Customer switching between a retailer's offers – gas



Notes:

1. **Rating scale: 1 non-existent; 2 minimal; 3 moderate; 4 high; 5 very high**
2. **There was no separate reporting for regional New South Wales in 2015**
3. **Regional Queensland and Tasmania had a rating of '1' in 2016**

As shown in Figure 28, there are generally low switching rates observed between a retailer's offers, the exceptions being for large retailers in New South Wales urban, South Australia and Victoria where average switching rates are 'moderate'.

4.8 Future developments

Survey participants were asked to comment on factors expected to have the greatest influence on gas retail competition over the next five years.

4.8.1 Single factor with greatest influence on retail competition

Survey participants were asked what **single** factor they thought would have the greatest influence on retail competition in the next five years, across the relevant retail gas markets or within an individual jurisdiction.

The majority of retailers identified access and pricing of wholesale gas as the single most important market wide factor influencing future retail gas competition. Future competition in the upstream gas market was considered important with participants highlighting the potential for regulatory reform emerging from the AEMC and ACCC gas market reviews (as described in section 4.1). Specific concerns noted were:

- a trend towards more volatile wholesale gas prices
- ongoing concern about the lack of contract market transparency

- the impact of LNG exports on spot and forward gas prices; and
- access to pipeline transportation capacity.

One retailer asserted that the gas market would operate more effectively if system price monitoring was established similar to the electricity market.

One retailer nominated technology developments in the electricity sector as being a key factor influencing future gas retail markets.[83]

Specific jurisdictional factors identified (in no particular order) were:

- The removal of price regulation in New South Wales which was seen as having a beneficial effect on competition.
- The price of transmission and gas in Tasmania which was seen by one retailer as the most important factor affecting future competition in that market.[84] The price of competing fuel sources will likely have a significant impact on the viability of natural gas in Tasmania.

4.8.2 Other factors

Survey participants were also asked about other factors expected to influence retail gas competition over the next five years. Factors identified (in no particular order) were:

- The opportunity, through AEMO processes, for improvement in operational and B2B requirements (including in New South Wales) to improve the operational efficiency of retail markets.
- The potential consolidation of second tier retailers (closely related to the potential consolidation of electricity retailers noted in section 3.7).
- The expected increase in wholesale and retail gas prices affecting the competitiveness of gas relative to electricity, and the associated implications for the size of the retail gas market

4.9 Gas competition in regional New South Wales

A particular focus area for the AEMC in this 2016 survey has been competition in regional New South Wales gas.

[83] An example cited was the increase use of induction cookers which are preferred to gas cooking in NSW.

[84] This retailer noted that the State Government currently holds rights to transmission with the pipeline which expires 31 December 2017 and is likely not to be renewed. As the largest consumer of transmission on the pipeline (which is already significantly underutilised) this will drive up transmission prices to the remaining users. Prices are already steeply rising in anticipation of this event. The retailer also asserted that the existing retailers had limited purchasing power to buy reasonably priced gas commodity from the Victorian market.

In addition to survey findings set out within specific topics throughout this chapter, this section draws together some common themes applicable to regional New South Wales gas retail markets.

Deregulation was expected to encourage increased competition, though it was not seen as the only issue. One stated that deregulation was just 'one less barrier'. There was a relatively low level of interest from the majority of retailers in these markets. Those servicing or interested in servicing this market cited as challenges:

- Small market size - One large retailer intending to enter these markets in the near future noted the low customer density, with some areas having as few as 400 customers. Given this, the effort currently required to procure a haulage agreement was not considered justifiable.
- Transportation - Retailers pointed to their inability to procure transportation on reasonable terms and conditions, and concerns with legacy haulage agreements.
- Wholesale gas contracting – Retailers flagged their difficulty in committing to a forward gas supply agreement, given an uncertain market.

5. Convergence in energy retailing and related markets

This chapter draws out issues identified by this survey that relate to convergence:

- in electricity and gas retailing, and
- between energy retailing and the sale of other related products and services.

5.1 Dual fuel retailing

As in last year's survey, the ability for retailers to retail electricity and gas continues to be an important feature of rivalry between retailers.

One retailer noted internal customer research confirming that dual fuel offers were attractive to customers. One considered that, particularly in Victoria with its large residential and small business gas market, bundled dual fuel offers enabled large retailers to shift margins from electricity to gas to produce a lower electricity price that could not be easily matched by electricity-only suppliers. Dual fuel offers were also said to be attractive to commercial aggregators, brokers and comparator services, because marketing effort could be spread over a larger value transaction.

Some electricity retailers noted that, given the competitive imperatives to make dual fuel offers, higher barriers to entry in gas retailing had a consequential impact on electricity competition. For example, one retailer referred to a 'gas handbrake in Victoria' as a factor impeding its expansion in the electricity retail market.

5.2 Comparator websites

This section considers issues raised by retailers about government comparator websites and private comparator and switching service websites. Similar issues arise for both electricity and gas retailing, though most of the comments received from retailers concerned the role the comparator websites play in electricity retailing.

5.2.1 Government comparator websites

There are two government comparator websites that enable retail energy price comparisons to be made by small customers: Energy Made Easy[85] and Victorian Energy Compare.[86]

One retailer commentated that these sites play an important role in promoting competition in the market.

The feedback on the government websites generally was positive, with retailers observing site improvements in recent years. One retailer however was more critical, stating that the government comparator websites are hard for consumers to use, and have a poor backend.[87] Another stated that they acted as an impediment to innovation with the specific example given being the lack of flexibility for government websites to accommodate brief special promotions.

Retailers identified the potential for improvements in relation to:

- the customer experience, for example by making the websites easier for customers to understand and use
- accuracy and timeliness of information, that is:
  - for information used as the basis of comparisons
  - processing updates on offers (with comments received about backlogs), and
- meeting the needs of rental customers who want bundled services.

Nearly all retailers stated that bundling and other value added benefits create a real challenge for these comparator sites, with sites needing to 'become more fluid in future' to accommodate expected developments.

5.2.2 Private sector comparator websites

There are many private sector comparator websites that provide customers with the opportunity to compare electricity and gas retail offers and to initiate retailer switching.[88]

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[85] https://www.aer.gov.au/consumers/switching-retailers/online-comparison-tools EnergyMade Easy is operated by the AER and applies to the states and territories where the National Energy Retail Law has commenced (currently Tasmania, the Australian Capital Territory, South Australia, New South Wales and Queensland)

[86] https://compare.switchon.vic.gov.au/ Operated by the Victorian Government.

[87] This refers to the IT systems that customers do not interface with directly.

[88] As at February 2016 the following comparator websites were signatories to the Energy Comparator Code of Conduct (ECCC): Energy Compare, Electric Wizard, Energy Deal, Energy Monster, iselect; Make it Cheaper, Thought World, U Choose. (Source http://www.cuac.org.au/consumer-and-community-resources/energy-comparator-code-of-conduct) Other comparator websites that are not signatories to the ECCC include yourcompare, energywatch and comparethemarket.

Several retailers use private comparator and switching sites as principal marketing channels. One large retailer stated that it only dealt with two or three of the comparator websites. Another retailer stated that it deliberately avoided some comparator websites. One retailer commented on innovation where some comparator websites are using digital technology to make it easier and simpler for customers to understand market offers and make more informed decisions.

The retail interviews highlighted four main concerns with the performance of at least some of the private comparator websites:

- **Inappropriate basis for comparison.** One retailer stated that some websites would make comparisons with retailers' published standing offers, rather than actual discounted offers in the market. As asserted by another retailer 'comparator websites are not comparing apples with apples'. For one second tier retailer which had no customers on its standing offer, this approach caused concern.
- **Accuracy of comparisons**. One retailer stated that it could not replicate the comparison results produced by some websites. Another stated that it had entered the same information into two different websites and obtained very different results.
- **Ability to compare complex offers**. One retailer stated that some websites lack the ability to properly compare more complex offers such as a bundled product or bonus offers (for example energy efficiency checks). In contrast, another retailer considered that the private sector comparator websites were more responsive to marketing of new products (such as bundled offers) than the government websites.
- **Recommendations linked to commissions.** A common concern expressed was that some comparators would only recommend a retailer's product if the retailer paid a commission. One retailer commented that 'comparison services have financial interests which drive them not to make honest comparisons'. This retailer also identified that there was not only the potential for a comparator site to receive a commission for acquiring a customer for its funding retailer, but an incentive to stop someone else acquiring that customer. Another retailer stated 'commercial interests drive the comparator websites to structure their comparisons in a way that leads to the most desirable outcome for the comparator, not the customer'. Another retailer questioned how customers could feasibly assess the effectiveness of a website's recommendations.

Adequacy of current regulatory arrangements

The Consumer Utilities Advocacy Centre has jointly developed an Energy Comparator Code of Conduct (ECCC) which is a voluntary, self-enforceable code for commercial comparator and switching service organisations.[89] The ACCC has also recently released consumer and industry guidance on the operation and use of comparator websites.[90]

There was significant discussion in retailer interviews about these regulatory oversight arrangements. Some retailers were confident about the effectiveness of this code; others expressed strong reservations. One retailer stated that the conduct of the comparator websites was 'increasingly challenging for regulators'. It also asserted that the incumbent retailers and the comparator services had too much influence over the process of developing the ECCC. Another stated that a voluntary code would not be effective: rather there was a need for a binding code capable of enforcement and with adequate penalties. Another considered, however, that there may be adequate scope for the ACCC to enforce existing competition laws (that is, the Australian Consumer Law[91]) on comparator websites.

5.3 Regulatory impediments to adopting digital platforms

Some retailers highlighted the potential benefits of moving to fully digital switching, customer service and billing platforms, these benefits being more efficient billing systems, and improved customer experience.

Some retailers asserted that outdated regulations are inhibiting the adoption of fully efficient digital billing platforms. These include regulatory requirements for paper bills, payments at post office, and default to quarterly billing (characterised as a three-month loan for an unknown amount).

Other examples provided by retailers of regulatory impediments were:

- regulations for switching processes, which result in customers needing to repeat the answers to the same questions, even when the change is to a more favourable arrangement for the customer with the same retailer (to a point where retailers asserted that frustration leads customers to discontinue the switching process)
- development of a mobile app aimed at home movers, which is being impeded by lengthy consent requirements.

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[89] http://www.cuac.org.au/consumer-and-community-resources/energy-comparator-code-of-conduct

[90] ACCC releases comparator website guidance https://www.accc.gov.au/media-release/accc-releases-comparator-website-guidance 3 August 2015

[91] The full text of the Australian Consumer Law is set out in Schedule 2 of the *Competition and Consumer Act 2010* (Cth)

5.4 Convergence with retailing of related products and services

A significant development over the past year was for some energy retailers to begin offering related products and services based on solar PV and battery storage technologies. Other emerging new products and services include competitive provision of smart meters and metering services by retailers, and the provision of 'behind the meter' home energy services.[92]

Nearly all participants in 2016 highlighted the potential for bundling of such products and services together with standard electricity and gas products. Some retailers raised concerns that authorised energy retailers face greater regulatory barriers than their competitors (see section 5.4.2 below) when providing additional products and services. As this development has only been very recent, the discussions were only exploratory.

A related development was Telstra's recent announcement[93] that it planned to accelerate the rollout of solar and battery storage technologies, and to look to offer home energy services. Telstra reportedly is also considering partnerships with energy and technology companies. The full implications of this move for the competitive market are not clear at this stage, but energy retailers indicated they would be closely monitoring these developments.

5.4.1 Product bundling and perceived customer 'lock in'[94]

A retailer could make a bundled offer that includes a retailer branded product or service (such as PV solar and battery storage) and electricity and/or gas supply; and offer discounts conditional upon continuing electricity and/or gas supply.

Views were sought on whether such bundled offers might give rise to consumer protection concerns. Specific issues discussed were whether such bundled services and products may give rise to a risk of 'lock in', meaning a customer:

- cannot (or will choose not to) switch energy retailer, because of significant associated costs or lost discounts on electricity (or gas or electricity and gas) products, or
- is concerned with the risk of physical service disruption associated with removal of assets (such as a solar PV system, or smart meter) or a reduced level of ongoing servicing.

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[92] This refers to energy management tools installed on the customer's side of the energy meter, or 'behind the meter'.

[93] Telstra media release, 5 February 2016

[94] This topic was also raised in the context of electricity marketing and retention strategies in section 3.5.1.

There were varying views on whether general consumer disclosure laws will be adequate to address such concerns in the future.

Some retailers considered that existing energy laws provided appropriate consumer protections. Other retailers identified the following potential concerns:

- long term financing arrangements (such as hire purchase, leasing or PPA arrangements) for provision of solar panels - one retailer suggested that such bundled offers could 'effectively become a large default exit fee'
- provision of smart meters – one retailer noted that if a smart meter is branded by the current retailer, a customer could assume it is either unable to change retailers, or that switching retailer may result in a meter changeover with associated physical service disruption
- provision of an energy portal (as one part of home energy services) that provides energy information services - there could be actual (or perceived) barriers to switching if a customer were required to transfer to a competing energy portal.

It should be noted that the retailers that raised these issues were posing hypothetical future concerns in a context where such bundled offers had not yet developed to any extent.

Retailers' suggested strategies to address these concerns, if they emerged, were for governments or regulators to sponsor consumer education programmes and/or take steps to ensure appropriate disclosure by retailers of consumers' rights.

5.4.2 Do electricity retailers face greater regulatory barriers than competitors?

As noted, some retailers have begun to offer related products and services (such as solar PV and battery storage) and others are considering doing so. A common concern was that competitors (exempt sellers[95] and distribution network service providers (DNSPs)) face different and less onerous regulatory oversight than energy retailers.

The number of exempt sellers is significant. As at November 2015, the AER reported that there were 57 businesses which held authorisations to retail electricity and 90 businesses held individual exemptions to sell electricity, mainly covering the sale of energy through solar power purchase agreements.[96]

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[95] Under the National Energy Retail Law, a person usually must hold a retailer authorisation issued by the AER in order to sell energy. However, a person may be exempt from this requirement if selling energy incidentally (i.e. the sale is not the seller's core business), or where the cost of having an authorisation outweighs the benefits to customers, or where an insignificant amount of energy is being sold. Details of the AER's retail exemption policy and guidelines are available at https://www.aer.gov.au/retail-markets/retail-exemptions .

[96] AER *State of the Energy Market 2015*, December 2015, at p.124

The area of greatest concern to retailers in 2016 was different regulations that apply to the retailers compared with others who sell PV solar products and services. Specific concerns included requirements imposed on retailers around the form, content and timing of communications with customers; debt recovery steps; and mandatory participation in ombudsman schemes.

Retailers also compete with DNSPs which are not subject to the same regulatory obligations as authorised energy retailers. Many respondents noted the importance of the proposed AER national guideline for electricity distribution ring-fencing that is currently being developed; that guideline is expected to separate the competitive and regulated parts of network businesses.[97] The content of that guideline will be particularly important to retailers competing with DNSPs to provide competitive metering and other energy services to customer.

[97] Details of this project are available at https://www.aer.gov.au/networks-pipelines/guidelines-schemes-models-reviews/electricity-ring-fencing-guideline-2016

6. Hardship and vulnerable customers

6.1 Background

Under the National Energy Retail Law, energy retailers must develop, implement and maintain a customer hardship policy.[98] The purpose of the policy is to identify residential customers experiencing payment difficulties due to hardship and to assist those customers to better manage their energy bills on an ongoing basis.[99] This matter is the subject of extensive recent consultation and reviews:

- The AER has reviewed energy retailers' customer hardship policies and practices[100] and made accessible on its website information to assist customers experiencing trouble paying energy bills.[101] It has also undertaken work around capacity to pay and early identification of financial distress.
- The ESC has undertaken a year-long inquiry into best practice financial hardship programs of energy retailers.[102] A final report[103] was released on 22 March 2016, (which was after the completion of this 2016 energy retailer survey).

In this 2016 survey, the AEMC sought to improve its understanding about retailer programs for engaging with vulnerable customers (that is, in addition to compliance with hardship program regulatory requirements); and retailer activity to attract and compete for vulnerable or hardship customers.

6.2 Retailer observations

The surveys sought data and insights from energy retailers, however many retailers did not respond (or did not respond fully) to the relevant questions. We therefore consider that the data collected does not provide a valid representative sample on which to draw clear conclusions. We note that there is extensive data collected by the AER which we consider to be more reliable.[104] However, some interesting observations can be drawn

[98] Section 43(2) National Energy Retail Law

[99] Section 43(1) National Energy Retail Law.

[100] AER, *Review of Energy Retailers Customer Hardship Policies and Practices*, January 2015, available at https://www.aer.gov.au/system/files/AER%20Review%20of%20energy%20retailers'%20customer%20hardship%20policies%20and%20practices%202015_0.pdf

[101] See fact sheets available at https://www.aer.gov.au/consumers/aer-resources

[102] The Victorian Government issued Terms of Reference - ESC Inquiry into the Financial Hardship programmes of Retailers, on 4February 2015. Full details of this inquiry are copies of the draft and final reports are available at http://www.esc.vic.gov.au/Energy/Energy-Hardship-Review.

[103] ESC, 2016 *Supporting Customers, Avoiding Labels. Energy Hardship Inquiry, Final Report*, February 2016

[104] See AER website at https://www.aer.gov.au/retail-markets/retail-statistics

from retailers' survey comments and interviews about challenges encountered in suppling vulnerable and hardship customers.

Retailers operating in multiple jurisdictions

Respondents described 'volatile and inconsistent regulatory frameworks across states' and were concerned at their reduced discretion to tailor retail offerings in line with their broader strategies. A common criticism of hardship arrangements was that differences across jurisdictions are administratively inefficient, are costly to comply with, and impede good customer outcomes for those experiencing hardship.

Concerns with the effect and content of hardship schemes

Some retailers considered that inflexible process prescription impedes innovation in this area; stifles and discourages compassionate responses, and does not contribute to good customer outcomes. Examples provided referred to mandatory steps such as 'hard-wired' forms of communication between the retailer and customer, strict points of contact and time parameters, and so forth. Some expressed frustration that a retailer's failure to follow such requirements faced penalties for regulatory non-compliance, even though the retailer had applied initiative and compassion to achieve a better outcome for the customer.

Retailers referred to difficult interactions between hardship regulatory arrangements and state-based concession schemes.[105]

There was uncertainty about the future hardship framework in Victoria, given the ESC review of hardship arrangements that was underway at the time of the survey.[106]

Limited offers to vulnerable and hardship customers

Retailers offered anecdotes of strategies purportedly adopted by retailers to avoid supplying this sector of the market, such as not allowing these customers access to favourable market offers, based on credit checks undertaken.

Different supporting systems in different areas

One retailer noted effective customer referral mechanisms available in the Australian Capital Territory, which did not exist in New South Wales. It stated that Australian Capital Territory retailers can refer customers who have been unable to commit to payment arrangements through a retailer's hardship program, or whose consumption exceeds the amount they can afford to pay, to the Australian Capital Territory Civil and Administrative Tribunal Hardship Program for assistance. In New South Wales, this retailer observed that there is no such 'next step'. Customers who miss multiple

[105] All states and territory governments in Australia offer energy concession payments to eligible customers, but there are many material differences in the scope and design of those concession schemes (e.g. eligibility, levels of assistance), with significantly different outcomes for consumers across different jurisdictions.

[106] See ESC, 2016 *Supporting Customers, Avoiding Labels. Energy Hardship Inquiry, Final Report*, February 2016

payments or are not in a position to increase payments, find their debt continues to grow, leading to higher bad debt and churn levels in New South Wales.

Another retailer noted that there were particular challenges and additional costs associated with assisting hardship and vulnerable customers in rural and regional areas.

Hardship protections open to abuse

Some retailers were concerned that measures designed to protect customer genuinely experiencing difficulty are manipulated by 'skippers', described as people who frequently switch retailers in a calculated move to avoid engaging with hardship programs, or paying their debts.

6.3 Retailers' suggested solutions

Survey participants suggested some strategies to address the problems outlined above.

At a high level, they advocated for a national review and establishment of a consistent national concession framework; less prescriptive regulation, to allow innovation and focus on outcomes for customers affected; and education, to improve energy literacy among customers.

At a more detailed level, some retailer suggestions were:

- Utilise modern, digitally enabled prepayment solutions with clear protections for vulnerable and financially-challenged customers, to enable consumers to better manage payment and consumption.
- Preclude customers switching retailer until a debt is fully paid.
- Adopt proactive approaches to detecting and addressing financial distress, and debt collection.
- Establish an AER-retailer-consumer project to look at a voluntary good practice framework relating to sustainable payment plans.

Appendix A – survey questions

2016 Retail Competition Review – Retailer Survey – Electricity Survey Questions

Table 1 contains background questions and more detailed questions on the ability of electricity retailers to enter and expand in a market, retailer rivalry, marketing and retention strategies, prices and the exercise of choice by small electricity customers across each jurisdiction.

Instructions for completing this survey

- Please respond based on your own experience. Where questions call for evaluation against a rating scale, we are interested in your subjective response – there is no right or wrong answer.
- Unless otherwise directed, where questions are jurisdictional specific, please provide responses for those jurisdictions in which you currently operate, have previously operated, or have considered operating.
- Please set out your responses using the instructions set out in the purple shaded column.
- If you would like to provide any additional detail on your responses to these questions, additional space has been provided at the end of the table.

Insert company name:		**Insert name of person completing the survey:**	
Reviewed by regulatory manager or equivalent? (✓ or ✗)			

Table 1: Electricity Retailer Survey Questions

Questions			Guidance for response	ACT	New South Wales	Queensland		South Australia	Tasmania	Victoria
						South East Qld	Remainder			
Background Questions										
1.	(a)	In which jurisdictions are you *actively retailing* electricity to small customers?	✓ or ✗							
	(b)	What year did you start actively retailing in these jurisdictions?	Year							
2.		If there are geographic (distribution) areas within a jurisdiction where you are **not** retailing, please identify these in general terms and explain why you have chosen not to retail in these areas.	Free text							
3.		To which customer segments do you market?								
	(a)	Residential	✓ or ✗							
	(b)	Small business	✓ or ✗							
	(c)	Both residential and small business	✓ or ✗							
	(d)	Other (e.g. a group within one of these segments). Please describe this group.	Free text							
4.	(a)	Please identify any upstream interests your company (or a related entity) has in electricity generation or electricity networks in the jurisdiction.	Free text							
	(b)	Have these interests changed in the last year, and if so, how?								
5.		Please identify any other brands that your parent company (or a related entity) is using to retail electricity.	Free text							

Questions			Guidance for response	ACT	New South Wales	Queensland: South East Qld	Queensland: Remainder	South Australia	Tasmania	Victoria
6.	(a)	Have you wound back operations in any jurisdiction in the last year?	✓ or ✗							
	(b)	If so, please explain what prompted this decision.	Free text							
7.		Is your company considering entry, expansion or exit from any jurisdiction over the next 1-2 years?	State whether considering entry, expansion, exit or unchanged							
Ability to enter or expand										
8.		When answering the next three questions ((a)-(c)) please use the following rating scale, or mark as N/A if you have no opinion: *[These questions may be answered even if you have not operated in a jurisdiction]*		1 Very Difficult	2 Difficult	3 Neither Difficult Nor Easy		4 Easy		5 Very Easy
	(a)	On a scale of 1 to 5, how would you rate the ease with which **entry** can occur in each jurisdiction?	Rating: 1 to 5							
	(b)	On a scale of 1 to 5, how would you rate the ease with which **expansion** can occur in each jurisdiction?	Rating: 1 to 5							
	(c)	On a scale of 1 to 5, how would you rate the ease with which **exit** can occur in each jurisdiction?	Rating: 1 to 5							
9.	(a)	To what extent do you think the following factors act as a **barrier to entry** in each jurisdiction? *[This question may be answered even if you have not operated in a jurisdiction]*								
		▪ Access to competitively priced hedging products	✓ or ✗							
		▪ Retail price regulation	✓ or ✗							
		▪ Prudential and credit support arrangements	✓ or ✗							
		▪ Environmental policies/energy efficiency schemes	✓ or ✗							
		▪ Political and/or regulatory risk.	✓ or ✗							
		▪ Other (please specify).	Free text							

Questions			Guidance for response	ACT	New South Wales	Queensland		South Australia	Tasmania	Victoria
						South East Qld	Remainder			
	(b)	If you identified any barriers to entry, please explain which are the most important and why:	Free text							
	(c)	In the last year, has the ease with which entry can occur changed? If so, please describe the change and its drivers.	Free text							
10.	(a)	To the extent you think there are any **barriers to expansion** in a jurisdiction, please identify them. *[Please restrict your responses to the jurisdictions in which you have operated]*	Free text							
	(b)	If you identified any barriers to expansion, please explain which are the most important and why:	Free text							
	(c)	In the last year, has the ease with which expansion can occur changed? If so, please describe the change and its drivers.	Free text							
11.	(a)	Are there any significant barriers to entering and/or expanding across multiple jurisdictions?	✓ or ✗							
	(b)	If so, can you briefly describe the main factors affecting entry or expansion across multiple jurisdictions?	Free text							
12.	(a)	Are there additional barriers to entering or expanding as a retailer in rural or regional areas? *[Please note, this question is interested in barriers to retailers entering or expanding, rather than customer access]*	✓ or ✗							
	(b)	If so, please explain what they are and how significant you think they are.	Free text							

Questions			Guidance for response	ACT	New South Wales	Queensland		South Australia	Tasmania	Victoria
						South East Qld	Remainder			
13.	When answering the next three questions ((a)-(c)) please use the following rating scale, or mark as N/A if you have no opinion: *[Please restrict your responses to the jurisdictions in which you have operated]*			1 Irrelevant		2 Slightly Important	3 Important		4 Very Important	5 Critical
	(a)	On a scale of 1 to 5, how important are **economies of scale**[107] in terms of being able to compete effectively in each jurisdiction?	Rating: 1 to 5							
	(b)	On a scale of 1 to 5, how important are **economies of scope**[108] (e.g. selling both electricity and gas, or electricity and other services) in terms of being able to compete effectively in each jurisdiction?	Rating: 1 to 5							
	(c)	On a scale of 1 to 5, how important is **having an interest in electricity generation** in terms of being able to compete effectively in each jurisdiction?	Rating: 1 to 5							
	(d)	Has the importance of any of these factors changed in the last year? If so, please explain what the change has been and what has prompted the change.	Free text							
14.	Over the next 1-2 years, do you expect to see:									
	(a)	▪ any change in the ease with which retailers can enter or expand in any jurisdiction? If so, why?	Free text							
	(b)	▪ new retailers enter the market, retailers exit the market or further consolidation?	New entry likely, exit likely or consolidation likely							
	(c)	▪ any change in the market share held by incumbents or first tier retailers in these jurisdictions? If so, why?	Free text							

[107] The term 'economies of scale' refers to a situation where a retailer's long run average cost declines as the size of its customer base increases. This may occur if a retailer has significant fixed or sunk costs and may mean retailers have to attract a minimum number of customers to compete effectively.

[108] The term 'economies of scope' refers to a situation where the unit cost of a retailer supplying two or more products or services (e.g. gas and electricity) is lower for a given level of output than if those products or services were supplied by two separate retailers.

Questions	Guidance for response	ACT	New South Wales	Queensland		South Australia	Tasmania	Victoria
				South East Qld	Remainder			
Retailer rivalry								
15. When answering the next three questions ((a)-(c)) please use the following rating scale, or mark as N/A if you have no opinion: *[Please restrict your responses to those jurisdictions in which you have operated in the last year]*		1 Non-existent	2 Minimal	3 Moderate		4 High		5 Very High
(a) On a scale of 1 to 5, how would you rate the degree of **price** rivalry[109] in each jurisdiction?	Rating: 1 to 5							
(b) On a scale of 1 to 5, how would you rate the degree of **non-price** rivalry in each jurisdiction?	Rating: 1 to 5							
(c) On a scale of 1 to 5, how would you rate the **overall** degree of rivalry amongst retailers in each jurisdiction?	Rating: 1 to 5							
16. In the last year, has there been any change in:								
(a) ▪ the relative importance of price vs non-price rivalry in any jurisdiction?	✓ or ✗							
(b) ▪ the degree of rivalry in regional or rural areas in any jurisdiction?	✓ or ✗							
(c) ▪ the overall degree of rivalry in any jurisdiction in the last year?	✓ or ✗							
If there has been a change in any of the matters listed in (a)-(c), please explain what the change has been and to what you attribute the change	Free text							
17. Over the next 1-2 years, do you expect to see any change in the degree of rivalry in any jurisdiction? If so, please explain what you expect to observe and what will prompt the change.	Free text							

109 Price rivalry can take a number of forms including discounts, rebates and alternative tariff structures, while non-price rivalry can take the form of customer service, incentives, bundling products, non-price contract terms.

Questions			Guidance for response	ACT	New South Wales	Queensland		South Australia	Tasmania	Victoria
						South East Qld	Remainder			
Prices										
18.		Please rate the following factors in terms of their influence on your pricing decisions on a scale of 1 to 5, using the scale to the right:		1 Irrelevant	2 Slightly Important	3 Important		4 Very Important		5 Critical
	(a)	▪ Wholesale energy and/or hedging costs	Rating 1 to 5							
		▪ Network charges	Rating 1 to 5							
		▪ Competitors' prices	Rating 1 to 5							
		▪ Environmental policy costs	Rating 1 to 5							
		▪ Operating costs of retailing energy (e.g. costs to attract, retain and service customers)	Rating 1 to 5							
		▪ Other (please specify).	Rating 1 to 5 and Free text							
	(b)	Does the importance of these factors differ across jurisdictions? If so, please explain how and why.	Free text							
Marketing and retention strategies										
19.	(a)	Has the level of your marketing efforts changed in the past year in any jurisdiction, and if so, why? (For example, have they ceased, increased or are they unchanged, are any new marketing channels being used)?	Free text							
	(b)	Have you introduced new products and services in the past 12 months? If so, do these products and services reflect or include:	✓ or ×							
		▪ Innovation in retail pricing structures (e.g. reflecting availability of smart meter data)	✓ or ×							
		▪ Innovation in retail pricing structures reflecting changes in network tariffs								
		▪ Trends in customer management models (including digital (web based) customer service models)	✓ or ×							
		▪ Bundling of electricity and gas products	✓ or ×							
		▪ Bundling of electricity products with other services	✓ or ×							
		▪ Retailing of related energy services (such as distributed generation technologies or demand management services)	✓ or ×							

Questions			Guidance for response	ACT	New South Wales	Queensland		South Australia	Tasmania	Victoria
						South East Qld	Remainder			
		▪ Financing options (e.g. power purchase agreements or solar equipment leases)	✓ or ✗							
		▪ Provision of home battery storage and related products	✓ or ✗							
		▪ Other products and services (please describe these briefly).	Free text							
	(c)	Do you plan to introduce new products and services in the in the next two years?	✓ or ✗							
		If yes, please describe these briefly	Free text							
20.	(a)	Have you identified any trends or behaviour by your competitors (or their agents) that could undermine good customer outcomes (e.g. consumer protections, competition, and industry reputation)?	✓ or ✗							
	(b)	If yes, can you describe these behaviours briefly? *[Please do NOT identify particular competitors in responding to this question.]*	Free text							
21.	We are interested in retailers' perceptions of how the competitive market is working in relation to vulnerable customers. [110]									
	(a)	What percentage of your customers:								
		▪ Is on a hardship program?	%							
		▪ Receives concessions?	%							
		▪ Is on a payment plan?	%							
	(b)	Have you encountered any significant problems in supplying this sector of the market, or observed perverse outcomes?	✓ or ✗							
		If so, can you describe them?	Free text							
	(c)	Can you suggest any improvements to address your concerns?	Free text							

[110] Though some relevant information can be drawn from past AER and other regulators' reports, we would appreciate retailers' views and recent data in this area.

Questions			Guidance for response	ACT	New South Wales	Queensland: South East Qld	Queensland: Remainder	South Australia	Tasmania	Victoria
Exercise of choice by customers										
22.		When answering the next two questions ((a)-(b)) please use the following rating scale, or mark as N/A if you have no opinion: *[Please restrict your responses to those jurisdictions in which you have operated in the last year]*		1 Non-existent	2 Minimal		3 Moderate	4 High		5 Very High
	(a)	On a scale of 1 to 5, how would you rate the level of switching by small customers **between retailers** in each jurisdiction?	Rating: 1 to 5							
	(b)	On a scale of 1 to 5, how would you rate the level of switching by small customers **between your market offers** in each jurisdiction?	Rating: 1 to 5							
Overall degree of competition										
23.		When answering the next question ((a)) please use the following rating scale, or mark as N/A if you have no opinion: *[Please restrict your responses to those jurisdictions in which you have operated in the last year]*		1 Non-existent	2 Minimal		3 Moderate	4 High		5 Very High
	(a)	On a scale of 1 to 5, how would you rate the **overall level of competition** in each jurisdiction?	Rating: 1 to 5							
24.		What distinguishes the jurisdictions to which you ascribe a high rating from those you assign a low rating?	Free text							
25.		In the last year, have you observed a substantive change in the degree of competition in each jurisdiction? If so, what are the indicators of this change and what has prompted it?	Free text							
26.	(a)	Over the next 1-2 years, do you expect to see any change in the degree of competition in any jurisdiction?	✓ or ✗							
	(b)	If so, what changes do you expect and what will prompt them to occur?	Free text							
Future developments										
27.	(a)	Looking forward over the next **5 years:** ▪ What single factor do you think will have the greatest influence on retail competition either	Free text							

Questions			Guidance for response	ACT	New South Wales	Queensland		South Australia	Tasmania	Victoria
						South East Qld	Remainder			
		within individual jurisdictions or across the NEM?[111]								
	(b)	▪ What other factors do you think will influence retail competition outcomes?	Free text							

Please use the space below if you wish to provide any additional detail on your responses to the questions above, or would like to outline any other factors that you think are affecting competition in any retail markets.

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[111] In 2015, retailers identified the removal of retail price regulation; further consolidation and vertical integration in wholesale markets; increasing competition from off-grid sources (e.g. solar panels and storage systems); contestability in metering; product innovation; changes in the number of active electricity retailers; and political and regulatory uncertainty

2016 Retail Competition Review – Retailer Survey – Gas Survey Questions

Table 2 contains background questions and more detailed questions on the ability of gas retailers to enter and expand, retailer rivalry, prices and the exercise of choice by small gas customers across each jurisdiction.

Instructions for completing this survey

- Please respond based on your own experience. Where questions call for evaluation against a rating scale, we are interested in your subjective response – there is no right or wrong answer.
- Unless otherwise directed, where questions are jurisdictional specific, please provide responses for those jurisdictions in which you currently operate, have previously operated, or have considered operating.
- Please set out your responses using the instructions set out in the green shaded column.
- If you would like to provide any additional detail on your responses to these questions, additional space has been provided at the end of the table.

Where prompted, a response may be required for specific areas within rural and regional New South Wales. We consider the following areas where gas offers are made to residential customers as being rural or regional: Albury/Murray Valley; Queanbeyan; Cooma/Bombala; Temora/Culcairn/Henty/Walla Walla; Gundagai/Tumut; Wagga Wagga/Uranquinty; Tamworth; and Nowra (Shoalhaven).

Insert company name:		**Insert name of person completing the survey:**	
Reviewed by regulatory manager or equivalent? (✔ or ✖)			

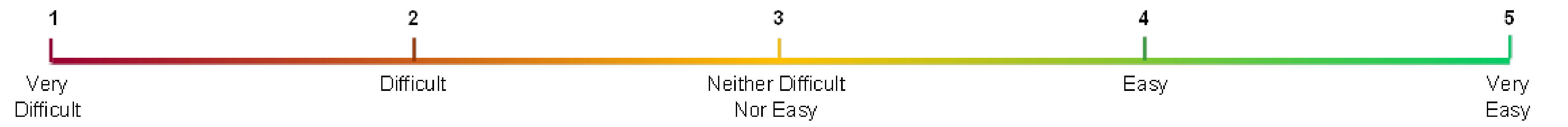
Table 2: Gas Retailer Survey Questions

Questions			Guidance for response	ACT	New South Wales		Queensland		South Australia	Tasmania	Victoria
					Urban	Rural and Regional	South East Qld	Remainder			
Background Questions											
1.	(a)	In which jurisdictions are you *actively retailing* gas to small customers?	✓ or ✖								
	(b)	What year did you start actively retailing gas in these jurisdictions?	Year								
2.	(a)	If there are geographic (distribution) areas within NSW where you are **not** retailing gas, please identify these and explain why you have chosen not to retail in these areas. *[For example, Albury/Murray Valley; Queanbeyan; Cooma/Bombala; Temora/Culcairn/Henty/Walla Walla; Gundagai/Tumut; Wagga Wagga/Uranquinty; Tamworth; and Nowra (Shoalhaven].*	Free text								
	(b)	If there are geographic (distribution) areas within any other jurisdiction where you are **not** retailing gas, please identify these and explain why you have chosen not to retail in these areas.	Free text								
3.	To which customer segments do you market?										
	(a)	Residential	✓ or ✖								
	(b)	Small business	✓ or ✖								
	(c)	Both residential and small business	✓ or ✖								
	(d)	Other (e.g. a group within one of these segments). Please describe this group.	Free text								

Questions			Guidance for response	ACT	New South Wales		Queensland		South Australia	Tasmania	Victoria
					Urban	Rural and Regional	South East Qld	Remainder			
4.		Please identify any upstream interests your company (or a related entity) has in gas production (or exploration), gas storage, or gas networks in the jurisdiction.	Free text								
5.		Please identify any other brands that your parent company (or a related entity) is using to retail gas.	Free text								
6.	(a)	Have you wound back operations in any jurisdiction in the last year?	✓ or ✗								
	(b)	If so, please explain what prompted this decision.	Free text								
7.		Is your company considering entry, expansion or exit from any jurisdiction over the next 1-2 years?	State whether considering entry, expansion or exit or unchanged								

Ability to enter or expand

8.		When answering the next three questions ((a)-(c)) please use the following rating scale, or mark as N/A if you have no opinion: *[These questions may be answered even if you have not operated in a jurisdiction]*									
	(a)	On a scale of 1 to 5, how would you rate the ease with which **entry** can occur in each jurisdiction?	Rating: 1 to 5								
	(b)	On a scale of 1 to 5, how would you rate the ease with which **expansion** can occur in each jurisdiction?									
	(c)	On a scale of 1 to 5, how would you rate the ease with which **exit** can occur in each jurisdiction?									
9.	(a)	To what extent do you think the following factors act as a **barrier to entry** in each jurisdiction (or geographic region within a jurisdiction)? *[This question may be answered even if you have not operated in a jurisdiction. If you identify barriers to entry in regional NSW, please identify the relevant region[112].]*									
		▪ Access to gas	✓ or ✗								
		▪ Price of gas	✓ or ✗								



[112] In addition to Sydney and Newcastle, the Energy Made Easy website identifies the following areas where gas offers are made to residential customers: Albury/Murray Valley; Queanbeyan; Cooma/Bombala; Temora/Culcairn/Henty/Walla Walla; Gundagai/Tumut; Wagga Wagga/Uranquinty; Tamworth; and Nowra (Shoalhaven).

Questions			Guidance for response	ACT	New South Wales		Queensland		South Australia	Tasmania	Victoria
					Urban	Rural and Regional	South East Qld	Remainder			
		▪ Access to transmission capacity	✓ or ✗								
		▪ Price of transmission capacity	✓ or ✗								
		▪ Small size of the demand base	✓ or ✗								
		▪ Higher customer acquisition costs	✓ or ✗								
		▪ Inadequate customer transfer arrangements[113]	✓ or ✗								
		▪ Requirement to participate in STTM or DWGM	✓ or ✗								
		▪ Prudential requirements of the STTM or DWGM	✓ or ✗								
		▪ State or territory licencing requirements	✓ or ✗								
		▪ Political and/or regulatory risk.	✓ or ✗								
		▪ Other (please specify)	Free text								
	(b)	If you identified any barriers to entry, please explain which are the most important and why.	Free text								
	(c)	In the last year, has the ease with which entry can occur changed? If so, please describe the change and its drivers.	Free text								
10.	(a)	To the extent you think there are any **barriers to expansion** in a jurisdiction, please identify them. *[Please restrict your responses to the jurisdictions in which you have operated]*	Free text								
	(b)	If you identified any barriers to expansion, please explain which are the most important and why.	Free text								
	(c)	In the last year, has the ease with which expansion can occur changed? If so, please describe the change and its drivers.	Free text								
11.	(a)	Are there additional barriers to entering or expanding as a retailer in rural or regional areas?[114] *[We note that the AEMC is particularly interested this year in activities in rural and regional NSW].*	✓ or ✗								
	(b)	If so, please explain what they are, in which specific region they arise, and how significant you think they are. Please also identify whether these barriers are higher than they are in electricity.	Free text								

[113] IPART, *Review of regulated retail prices and charges for gas from 1 July 2016: Energy Issues Paper*, November 2015, at p.17 refers to this issue in the Shoalhaven area.

[114] The 2015 review identified the relatively small size of the customer base, higher customer acquisition costs and limited geographic pipeline coverage. See AEMC, *2015 Retail Competition review, Final Report*, June 2015, pp. 112-114.

Questions			Guidance for response	ACT	New South Wales		Queensland		South Australia	Tasmania	Victoria
					Urban	Rural and Regional	South East Qld	Remainder			
12.	When answering the next three questions ((a)-(c)) please use the following rating scale, or mark as N/A if you have no opinion: *[Please restrict your responses to the jurisdictions in which you have operated]*			1 Irrelevant		2 Slightly Important		3 Important	4 Very Important		5 Critical
	(a)	On a scale of 1 to 5, how important are **economies of scale** in terms of being able to compete effectively in each jurisdiction?	Rating: 1 to 5								
	(b)	On a scale of 1 to 5, how important are **economies of scope** in terms of being able to compete effectively in each jurisdiction?	Rating: 1 to 5								
	(c)	On a scale of 1 to 5, how important is **having an interest in upstream gas production** in terms of being able to compete effectively in each jurisdiction?	Rating: 1 to 5								
	(d)	Are economies of scale more important in gas than they are in electricity?	Free text								
	(e)	Has the importance of any of these factors changed in the last year? If so, please explain what the change has been and what has prompted the change.	Free text								
13.	Over the next 1-2 years, do you expect to see:										
	(a)	▪ any change in the ease with which retailers can enter or expand in any jurisdiction? If so, why?	Free text								
	(b)	▪ new retailers enter the market, retailers exit the market or further consolidation?	New entry likely, exit likely or consolidation likely								
	(c)	▪ any change in the market share held by incumbents or first tier retailers in these jurisdictions? If so, why?	Free text								

Questions			Guidance for response	ACT	New South Wales		Queensland		South Australia	Tasmania	Victoria
					Urban	Rural and Regional	South East Qld	Remainder			
Retailer rivalry											
14.	When answering the next three questions ((a)-(c)) please use the following rating scale, or mark as N/A if you have no opinion: *[Please restrict your responses to those jurisdictions in which you have operated in the last year]*			1 Non-existent		2 Minimal		3 Moderate	4 High		5 Very High
	(a)	On a scale of 1 to 5, how would you rate the degree of **price** rivalry in each jurisdiction?	Rating: 1 to 5								
	(b)	On a scale of 1 to 5, how would you rate the degree of **non-price** rivalry in each jurisdiction?	Rating: 1 to 5								
	(c)	On a scale of 1 to 5, how would you rate the **overall** degree of rivalry amongst retailers in each jurisdiction?	Rating: 1 to 5								
15.	In the last year, has there been any change in:										
	(a)	▪ the relative importance of price vs non-price rivalry in any jurisdiction?	✓ or ✗								
	(b)	▪ the degree of rivalry in regional or rural areas in any jurisdiction? *[We note that the AEMC is particularly interested this year in activities in rural and regional NSW]*	✓ or ✗								
	(c)	▪ the overall degree of rivalry in any jurisdiction in the last year?	✓ or ✗								
	If there has been a change in any of the matters listed in (a)-(c) in the past 5 years, please explain what the change has been and to what you attribute the change.		Free text								
16.	Over the next 1-2 years, do you expect to see any change in the degree of rivalry in any jurisdiction? If so, please explain the change you expect to observe and what will prompt the change.		Free text								
Prices											
17.	(a)	Please rate the following factors in terms of their influence on your pricing decisions on a scale of 1 to 5, using the scale to the right:		1 Irrelevant		2 Slightly Important		3 Important	4 Very Important		5 Critical
		▪ Wholesale gas prices	Rating 1 to 5								

Questions			Guidance for response	ACT	New South Wales		Queensland		South Australia	Tasmania	Victoria
					Urban	Rural and Regional	South East Qld	Remainder			
		▪ Transmission and distribution pipeline charges	Rating 1 to 5								
		▪ Competitors' prices	Rating 1 to 5								
		▪ Operational costs of retailing (e.g. costs to attract, retain and service customers)	Rating 1 to 5								
		▪ Other (please specify).	Rating 1 to 5 and Free text								
	(b)	Does the importance of these factors differ across jurisdictions? If so, please explain why.	Free text								
Marketing and retention strategies											
18.	(a)	Has the level of your marketing efforts changed in the past year in any jurisdiction, and if so, why? (For example, have they ceased, increased or are they unchanged, are any new marketing channels being used)?	Free text			N/A					
	(b)	Have you introduced new products and services in the past 12 months?	✓ or ✗			N/A					
		If so, please describe briefly describe these products and services.	Free text			N/A					
	(c)	Do you plan to introduce new products and services in the in the next two years?	✓ or ✗								
		If yes, please briefly describe these products and services.	Free text								
19.	(a)	Have you identified any trends in behaviour by your competitors (or their agents) that could undermine good customer outcomes (e.g. consumer protections, competition, and industry reputation)?	✓ or ✗			N/A					
	(b)	If yes, can you describe these behaviours briefly? *[Please do NOT identify particular competitors in responding to this question.]*	Free text			N/A					
20.		We are interested in retailers' perceptions of how the competitive market is working in relation to vulnerable customers.									
	(a)	What percentage of your customers;									
		▪ Is on a hardship program?	%			N/A					
		▪ Receives concessions?	%			N/A					
		▪ Is on a payment plan?	%			N/A					

Questions			Guidance for response	ACT	New South Wales		Queensland		South Australia	Tasmania	Victoria
					Urban	Rural and Regional	South East Qld	Remainder			
	(b)	Have you encountered any significant problems in supplying this sector of the market, or observed perverse outcomes?	✓ or ✗			N/A					
		If so, can you describe them?	Free text			N/A					
	(c)	Can you suggest any improvements to address your concerns?	Free text			N/A					
Exercise of choice by customers											
21.		When answering the next two questions ((a)-(b)) please use the following rating scale, or mark as N/A if you have no opinion: *[Please restrict your responses to those jurisdictions in which you have operated in the last year]*	1 Non-existent		2 Minimal		3 Moderate		4 High		5 Very High
	(a)	On a scale of 1 to 5, how would you rate the level of switching by small gas customers **between retailers** in each jurisdiction?	Rating: 1 to 5								
	(b)	On a scale of 1 to 5, how would you rate the level of switching by small gas customers **between your market offers** in each jurisdiction?	Rating: 1 to 5								
Overall degree of competition											
22.		When answering the next question ((a)) please use the following rating scale, or mark as N/A if you have no opinion: *[Please restrict your responses to those jurisdictions in which you have operated in the last year]*	1 Non-existent	2 Minimal		3 Moderate		4 High		5 Very High	
	(a)	On a scale of 1 to 5, how would you rate the **overall degree of competition** in each jurisdiction?	Rating: 1 to 5								
23.		What distinguishes the jurisdictions to which you ascribe a high rating from those you assign a low rating?	Free text								
24.		In the last year, have you observed a substantive change in the degree of competition in each jurisdiction? If so, what are the indicators of this change and what has prompted it?	Free text								
25.	(a)	Over the next 1-2 years, do you expect to see any change in the degree of competition in any jurisdiction?	✓ or ✗								

Questions			Guidance for response	ACT	New South Wales		Queensland		South Australia	Tasmania	Victoria
					Urban	Rural and Regional	South East Qld	Remainder			
	(b)	If so, what changes do you expect and what will prompt them to occur?	Free text								
Future developments											
26.	(a)	Looking forward over the next **5 years**, what single factor do you think will have the greatest influence on retail competition either within individual jurisdictions or across the national gas market?[115]	Free text								
	(b)	What other factors do you think will influence retail competition outcomes?	Free text								

Please use the space below if you wish to provide any additional detail on your responses to the questions set out above, or would like to outline any other factors that you think are affecting competition in any retail gas markets.

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This marks the end of the survey.
Thank you for taking the time to complete the survey.

115 In the 2015 surveys, respondents identified the tightening wholesale market conditions, deterioration in the competitiveness of gas, and political and regulatory risk.