



# Q&A

## ACT electricity retail competition review – stage 1 final report

### Overview

#### What is the Review of the Effectiveness of Competition in the Electricity Retail Market – ACT?

The review of competition in electricity retail market in the Australian Capital Territory is part of the AEMC's broad review of competition in the national energy market.

#### Who is the proponent of this review?

The AEMC's review of competition in retail gas and electricity markets was initiated by an agreement of the Council of Australian Governments (COAG) and a direction of the Ministerial Council on Energy (MCE) according to the Australian Energy Market Agreement (AEMA).

#### What is the Australian Energy Market Agreement (AEMA)?

The AEMA is a formal COAG agreement to implement key elements of the national energy market reform agenda. It includes an agreement by the heads of Australian governments (COAG) directing the AEMC to review the effectiveness of retail competition in electricity and gas retail markets in each jurisdiction (except Western Australia) for the purpose of retaining, removing, or reintroducing retail price regulation.

#### Where is the review up to?

The ACT is the third review to be undertaken.

South Australia was completed in December 2008. Victoria was completed in February 2008.

The ACT review will be followed by similar reviews in other states and territories.

Following consultation with the AEMC the MCE has so far agreed that the Commission is to conduct its next reviews in the following order – NSW 2011, QLD 2012 and TAS 2013 (if full retail contestability (FRC) has commenced).

#### Why is the review conducted in two parts?

Under the terms of the AEMA, the Commission is required to conduct its gas and electricity retail competition reviews in two stages.

Stage 1 considers whether competition is effective in the jurisdiction. Stage 2 then considers issues around retail price regulation.

#### What did the MCE want us to do in relation to this review?

The MCE asked the Commission to respond to the following criteria in relation to its assessment of competition:

##### Market structure

- independent rivalry, and
- ability of suppliers to enter the market

##### Market conduct

- exercise of market choice by customers, and
- customer switching behaviour.

##### Market performance

- prices and profit margins
- differentiated products and services

### The ACT review

#### When did the ACT electricity retail competition review start and what process will it follow?

19 December 2009 – AEMC received request for advice from the MCE.

4 March 2010 – review started with publication of issues paper.

24 November 2010 – stage 1 final report published by the AEMC in conjunction with the stage 2 draft report. The stage 2 final report is due for completion by the end of February 2011.

### Stage 1 final report - ACT

#### What is the ACT retail review's stage 1 final report?

The ACT retail review's stage 1 final report was released on 24 November 2010 and contains the AEMC's assessment of the effectiveness of competition in ACT electricity retail market.

#### What is the finding?

The finding is that competition is not effective for small customers in the ACT electricity retail market. This is due to:

- A general customer lack of awareness, meaning that customers can be sticky and more difficult to attract;
- the relatively small size of the market (approximately 150 000 customers) means that there are fewer customers over which to spread the fixed costs incurred to enter the ACT market; and

The performance of the ACT electricity market indicates that it is not exhibiting characteristics that would be expected to exist in competitive market. Overall however, customers appear to be satisfied with the retail service provided to them.

- the corporate structure of ActewAGL Retail and its economies of scale and scope are likely to provide it with cost advantages over a single fuel supply efficient new entrant.

### Details of findings

#### What are the findings in relation to market structure?

The unique characteristics of the market may make it difficult for second tier retailers to profitably enter into and expand within the market.

This is evidenced by the fact that while there are 19 retailers licensed in the ACT, only four licensees have small customers, of which only two retailers are accepting new customers. The ACT market is dominated by the incumbent retailer, which has maintained a total share of the market greater than 90 per cent.

#### What are the findings in relation to market conduct?

The conduct of market participants and consumer switching patterns are not consistent with a market that has effective competition.

Retailer rivalry has been limited, as evidenced by limited marketing, product offerings and price rivalry.

Given the low level of retail activity, there has been limited product innovation and differentiation in the ACT retail electricity market.

Consequently, there has been little customer switching away from the incumbent to other retailers.

#### What are the findings in relation to market performance?

Overall, however, customers appear to be satisfied with the retail services provided to them.

The overwhelming majority of consumers surveyed in the ACT did not express dissatisfaction with their current supplier of electricity.

#### What is the finding in relation to compliance with social welfare and equity objectives?

The AEMC has found that the social welfare and equity objectives relating to the supply of electricity in the ACT are clearly specified and are transparently funded. The various community service obligations operate in a manner that should not materially impede the effectiveness of competition in the retail supply of electricity to small customers in the ACT.

### Consultation and research

#### What consultation and research was done in preparation of the Stage 1 final report?

- submissions in response to Issues Paper;
- submissions in response to the Stage 1 draft report;
- survey of 1002 residential and 464 small business customers in the ACT;
- interviews with most licensed energy retailers in the ACT; and
- data and reports provided by the ICRC, ACAT and AEMO.

#### For more information

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