

# NEWS

## Review of NEM Retail Markets

### Energy consumers saving money by shopping around

**The first national review of competition in retail electricity and gas markets has found people are saving money on their energy bills, but more can be done to make it even easier for consumers to shop and save.**

The Australian Energy Market Commission (AEMC) today released its report on competition in retail electricity and gas markets for small customers in the National Electricity Market (NEM), along with new research on consumer experiences.

The level of competition ranges from effective in South East Queensland, New South Wales, Victoria, and South Australia, to less effective in the Australian Capital Territory and is yet to emerge in Tasmania and regional Queensland.

Competition in retail gas markets is at different stages of development between and within states and territories.

AEMC Chairman, John Pierce, said the review survey found 90 per cent of all consumers were aware they could choose their energy company, up to 40 per cent had actively investigated options, and up to 28 per cent had actually switched during 2013.

“Consumers are shopping around for better deals for electricity and gas more often than they are switching insurance companies, or phone and internet providers,” Mr Pierce said.

“New retailers are entering markets and winning customers with discounts and other incentives, with conservative estimates of savings ranging from \$60 to \$240 or more a year, depending on where they live and how much electricity they use,” Mr Pierce said.

“Previous AEMC research has found that consumers who shopped around in 2012-2013 were able to save around 5-16%.”

The review has involved extensive consumer research, stakeholder consultation and the analysis of data from the Australian Energy Regulator, ombudsmen in each jurisdiction, the Australian Energy Market Operator, regulators and retailers to develop a picture of energy competition in each jurisdiction.

The research found that many customers will shop around for a better deal if they believe the savings will justify the time and effort involved.

“The biggest barriers to consumers confidently shopping around and saving money is a lack of clear information,” Mr Pierce said.

To overcome these barriers, the AEMC has recommended:

- Simplifying the switching process to make it easier for consumers to shop around.
- Considering options for raising awareness of the tools available for comparing offers, especially independent, trusted comparison websites and telephone services to improve consumer confidence in the market.
- Reviewing concession schemes to target financial assistance to those most in need. These consumers should also be encouraged and assisted to review their energy plans to ensure they don't miss out on the benefits of competition.
- Continuing to harmonise regulatory arrangements across jurisdictions, including implementing NECF and removing price regulation.

**Consumers are shopping around and saving money on their energy bills.**

The AEMC has considered competition in South East Queensland in light of the Queensland Government's plan to remove retail price regulation on 1 July 2015. This plan is subject to a number of criteria being met, including that competition is effective.

Mr Pierce said that conditions in the South East Queensland electricity market are right for the removal of price regulation, with increased competition set to benefit customers when that occurs.

The review details the state of competition in each state and territory in the NEM, including the structural, regulatory and market characteristics that impact the level of competition in each jurisdiction.

It is the first review under a revised approach agreed by the Council of Australian Governments, for the AEMC to assess competition in NEM jurisdictions each year. These reviews support the commitment made by jurisdictions in 2004 under the Australian Energy Market Agreement to deregulate retail energy prices where effective competition can be demonstrated.

### **About the Review**

The 2014 Retail Competition Review is an assessment of both customer and retailer activity as indicators of competition. It measures customer activity and outcomes, including the barriers and drivers for customers to shop around; and retailer activity and outcomes including industry feedback on plans to enter or expand in specific markets. The consumer research involved deliberative forums with 162 participants and a quantitative survey of 2,213 residential and small business consumers across NSW, ACT, SA, VIC, and SEQ. For more details and to read the full report go to our [project page](#).

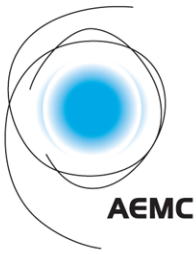
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## South Australia's energy retail markets

### AEMC review of competition in electricity and gas retail markets

**The AEMC has found that competition is effective in South Australia's electricity and gas markets, although less so for gas customers in regional areas. Retailers are competing for residential and small business customers by offering a wide range of energy deals and discounts, and many customers in South Australia are already taking advantage of these.**

#### A range of energy choices are available in South Australia

Around 83 per cent of electricity customers and 81 per cent of gas customers have chosen a market offer, which is the highest proportion of customers of all states and territories in the National Electricity Market (NEM).

Customers can choose between at least thirteen electricity retailers and at least 40 different electricity plans. This choice means that different types of customers can choose an electricity plan that suits their specific needs and wants.

A further three smaller retailers have said they are considering entering this market over the next five years, while four existing retailers were planning to expand. This is consistent with our finding that it is relatively easy for new retailers to enter this market and provide further options for customers.

#### Customers can save money by shopping around

With a range of energy plans available, it can pay to shop around. Last year, 20 per cent of residential and small business electricity customers and 15 per cent of gas customers changed their retailer in search of a better deal. Others found a better deal with their existing retailer.

Conservative estimates show that customers could save around \$160 a year or more if they had changed their electricity plan in 2012-13. This does not include the additional savings if a customer switched to the best advertised offer or negotiated a lower price than advertised. Possible savings may be even higher now, with new offers available.

#### Many customers find it difficult to compare "apples with apples"

The energy plans available differ in a number of ways. This includes differences in prices, discounts, fees and charges, sign up bonuses, fixed price and variable contracts, the level of GreenPower, and the payments offered to customers with solar panels.

Our research shows that customers want choices, but they find it difficult to compare their options. They are seeking more transparent and meaningful information from retailers and governments to help them shop around with confidence.

#### A government-run website is available to simplify comparing energy plans

Many customers say they want a trusted tool that makes it easier to compare offers and find possible savings. Just one per cent of customers surveyed were aware that the Australian Energy Regulator offers such a tool. *Energy Made Easy* enables customers to compare electricity and gas prices across energy retailers in South Australia, online or over the phone.

Greater awareness of these tools could increase customer confidence in shopping around for a better energy deal. However, some customers may require additional support as set out in the AEMC's customer engagement blueprint published in 2013.

**Second tier retailers are becoming increasingly active in the South Australian electricity retail market, attracting customers away from the large three retailers.**

## The outlook for competition in South Australia

Competition is expected to further evolve as the South Australian energy markets mature, following the removal of price regulation in February 2013.

Some retailers have identified the ability to access competitively priced wholesale hedging instruments as an issue affecting their ability to compete, with expansion in the electricity market considered more difficult for retailers that do not have generation interests. Planned upgrades to the Heywood interconnector may improve hedging options and lower risks for retailers.

Retailers told us that competition in the natural gas retail market is less likely to develop over the next few years given technological limitations on innovation, less engaged consumers compared to the electricity market and prevailing conditions in the wholesale gas market.

## Recommendations to all governments

The AEMC has made a number of recommendations to all governments. Of relevance to South Australia, we recommended that the Government: consider options to increase awareness of the tools available for comparing offers to increase customer confidence; ensure concession schemes are working properly; and continue to harmonise regulations across jurisdictions to reduce costs.

## About the review

This is the AEMC's first National Electricity Market-wide competition review under a revised annual approach agreed by the COAG Energy Council (formerly the Standing Council on Energy and Resources) and the Council of Australian Governments.

The Review is an assessment of customer and retailer activity and outcomes as indicators of competition. The AEMC has assessed competition against five competitive market indicators. It is important to consider all five indicators together to provide a comprehensive assessment: each only provides one part of the picture.

We have interviewed customers and retailers, consulted with stakeholders, and analysed data from the Australian Energy Regulator, Ombudsmen, regulators, the Australian Energy Market Operator and retailers to understand what is happening in each market.

Additional details of our customer research and retailer interviews are available in consultant reports on our website.

Later this year we will be consulting publicly on the approach for future retail competition reviews.

## About the AEMC

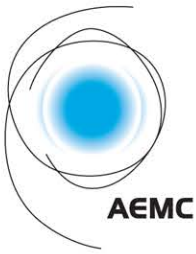
The Australian Energy Market Commission is the independent body responsible since 2005 for providing policy advice to Australian governments on the electricity and gas sector. It makes energy market rules which are applied and enforced by the Australian Energy Regulator.

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## Fact sheet: Research into the experiences of small consumers in energy retail markets

**The AEMC commissioned Newgate Research to conduct research into consumer experiences, opinions and expectations regarding the energy retail markets in five jurisdictions of the national electricity market (NEM).**

### Why did we undertake this research?

This research was undertaken to inform the AEMC's 2014 Retail Competition Review. The purpose of the review is to assess the state of competition in the small customer electricity and natural gas retail markets in the National Electricity Market (NEM).

### How was this research undertaken?

Newgate Research conducted consumer research in South East Queensland, New South Wales, the Australian Capital Territory, Victoria and South Australia.

Quantitative research was undertaken through a customer survey and qualitative research was conducted through a series of forums.

The participants represented a cross-section of the demographics of each region, and included both residential and small business consumers. They were recruited by a specialist recruiter, subject to a number of criteria. There were 162 participants in the forums and a further 2,213 respondents to the quantitative survey.

Research was not carried out in Tasmania or regional Queensland. This is because the vast majority of small electricity customers were not able to access market offers at the time the survey was undertaken and therefore had limited experiences of a competitive market.

### Key findings

The key findings identified through the research were that:

- most consumers surveyed were satisfied with their electricity and gas retailers;
- the main driver for consumers to switch retailer or energy plan was the potential to save money, while the main reasons consumers didn't switch were satisfaction with their current retailer, inertia, and disengagement;
- the proportion of participants who reported switching and being approached by retailers varied across jurisdictions; and
- many consumers wanted it to be easier for them to compare different energy offers, but had low awareness of existing independent price comparator websites.

Satisfaction with the level of choice was mixed across customers surveyed in different jurisdictions.

### There was a high level of interest in energy market issues

Half of the residential consumers (51%) and significantly more small business consumers (58%) surveyed across all NEM jurisdictions were quite interested in energy issues, giving a rating of 7 or more out of 10 (where 10 meant they were extremely interested).

### Most consumers were satisfied with their current electricity and gas retailer

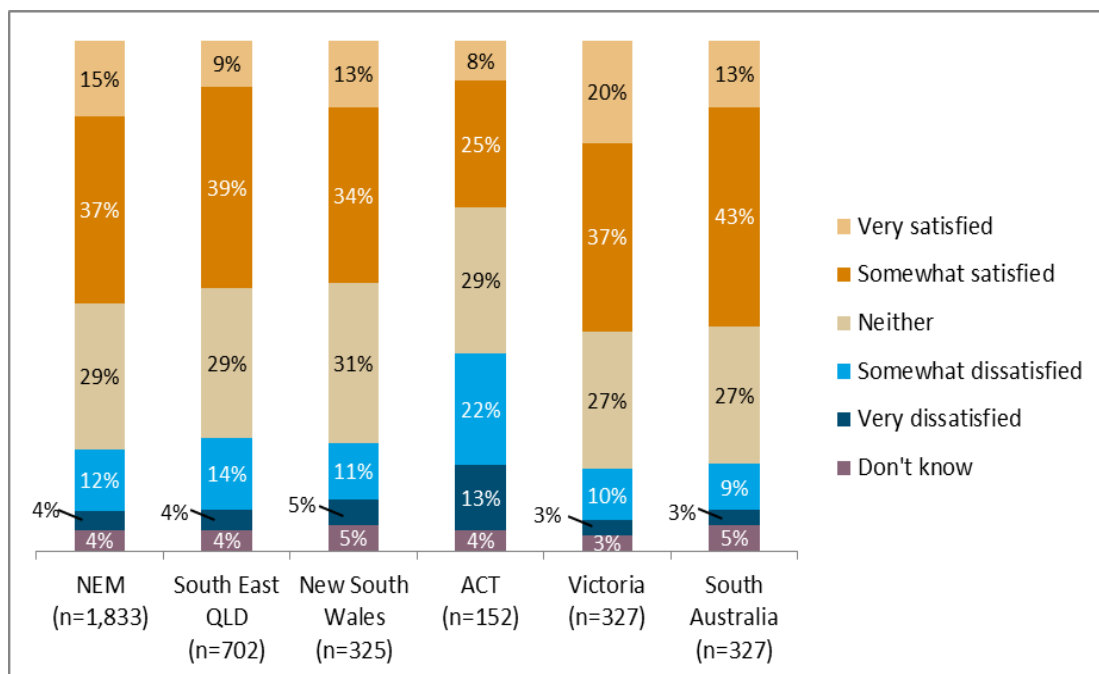
Two thirds of residential and small business consumers (66%) were satisfied with their electricity retailer.

Similarly for gas, consumers were generally satisfied with their current retailer (71% of residential and 68% of small business consumers).

### Most consumers were moderately satisfied with the level of choice available

In the quantitative survey satisfaction with the choices available was highest in Victoria (57% very or somewhat satisfied) and South Australia (56%). Satisfaction levels were moderate in South East Queensland (48%) and New South Wales (47%) and the lowest in the ACT (33%). This is shown in the chart below.

**Figure 1: Satisfaction with level of market choice (residential)**



### Levels of interest in looking for a better deal were high

Even though the research showed that most consumers were satisfied with their current electricity and gas retailer, around one in ten consumers were currently looking for a better deal, and around half were interested in switching but not currently looking.

The likelihood of switching energy provider or plan in the next 12 months varied between jurisdictions, with 24% in Victoria saying they were quite or very likely (7-10 on scale) compared to 19% in South East Queensland, 17% in the Australian Capital Territory, 15% in New South Wales and 12% in South Australia.

Consumers in the Australian Capital Territory were least likely to consider switching with 59% saying they were not likely to switch in the next 12 months.

### Saving money was the key driver behind customers switching retailer

Around two thirds of consumers (63% residential, 66% businesses) who switched their electricity retailer or plan did so because they wanted a cheaper price or because they were offered a discount or better price. Around six in ten consumers (59% residential customers, 56% businesses) changed their gas retailer or plan for this same reason.

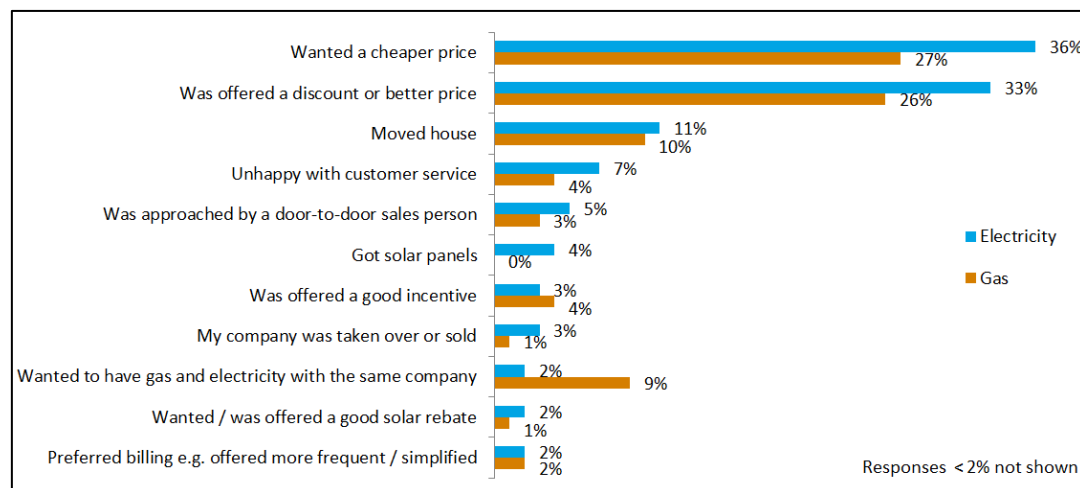


Only 1% of customers surveyed could name a government comparator website without prompting.

The main reason customers did not investigate their options or switch was because they were happy with their current energy plan. Other reasons for not switching relate to inertia and disengagement. Many consumers said that all energy retailers offer virtually the same price and that comparing options is too confusing or time consuming. The reasons were generally consistent for electricity and gas.

The below chart shows the reasons provided by consumers for switching gas and electricity retailer, averaged across jurisdictions.

**Figure 2: Main reason for switching company or plan (residential)**



### The majority of consumers were aware that they could choose their retailer

Around 91% of consumers were aware that they could choose their energy retailer and around 81% were aware that they could choose their energy plan. Awareness was considerably lower in the Australian Capital Territory (57% of residential customers were aware they could choose their electricity retailer or that there were different plans to choose from, 36% were aware they could choose their gas retailer).

The qualitative results suggested that levels of awareness and understanding of energy issues varied by jurisdiction and were higher in Victoria and South Australia. Most consumers were only able to name a handful of retailers that could sell them energy. Most were also unsure about the prices available. This confusion was also evident in the quantitative survey responses.

### Consumers want easier ways to compare offers, but many are unaware of the government price comparator websites available to them

Around 30% of both residential and business consumers used an online source to help them switch their electricity retailer or plan. Around 10% had looked at a price comparison website, retailer website or had telephoned their retailer.

Some also mentioned door-to-door sales people visiting their home and telephone calls from their retailer. Word of mouth from friends or a family member was also an important information source.

When it came to preferred information sources, the internet was the most widely used and the number one preference. Those who had switched electricity retailer or plan were most likely to have used Google or a general internet search, with around 20% of consumers specifically saying they would prefer to visit a comparison website when they are investigating offers they could potentially switch to. Of those that had been to comparison websites, many could not remember the name with around 1% typically naming their jurisdiction's independent comparison website unprompted. A greater proportion recognised the name of a comparison site when prompted, particularly the YourChoice website in Victoria (29%).

## Summary of general themes

The below diagram shows the general themes considered in the research and the overall rating for each jurisdiction surveyed.

**Figure 3: General themes**

Key Measures	Victoria	South Australia	New South Wales	Southeast Queensland	Australian Capital Territory
Satisfaction with retailer	High	High	High	High	Very high
Awareness of choice of retailer	Very high	High	High	High	Low
Switched company or plan	High	Moderate	Moderate	Moderate	Low
Approached by a retailer	High	High	Moderate	Low	Very low
Proactively searched for offers	Moderate	Moderate	Moderate	Moderate	Low
Satisfaction with level of choice	Moderate	Moderate	Moderate	Moderate	Low

The full Newgate Research report is available on the AEMC's website on the project page for the 2014 Retail Competition Review (project code: RPR0002).

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**Most consumers surveyed were satisfied with their retailer, but half were interested in switching if they could get a better deal.**