

REVIEW

Australian Energy Market Commission

APPROACH PAPER

2015 Retail Competition Review

18 December 2014

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About the AEMC

The AEMC reports to the Council of Australian Governments (COAG) through the COAG Energy Council. We have two functions. We make and amend the national electricity, gas and energy retail rules and conduct independent reviews for the COAG Energy Council.

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Executive Summary

The Australian Energy Market Commission (AEMC) undertakes competition reviews on an annual basis for the Council of Australian Governments' (COAG) Energy Council. The purpose of these reviews is to assess the state of competition for small customers in retail energy markets in all National Electricity Market (NEM) jurisdictions. This includes retail electricity and gas markets in the Australian Capital Territory, New South Wales, Queensland, South Australia, Tasmania and Victoria.

The AEMC completed its first NEM-wide retail competition review in August 2014 and is required to complete the second review by 30 June 2015. This second NEM-wide competition review provides an opportunity to assess whether there have been any significant changes in the competitiveness of energy retail markets since the 2014 review.

This approach paper calls for stakeholder submissions to inform our assessment of the state of competition in each jurisdiction. Submissions are requested by Thursday 19 February 2015.

This paper also confirms how the AEMC will conduct the 2015 Retail Competition Review and discusses the evidence we intend to gather for our assessment. This follows feedback from stakeholders on the AEMC's proposed assessment framework set out in our consultation paper, which was published on 31 October 2014. The AEMC received 12 submissions, which were largely supportive of the proposed assessment framework, however stakeholders suggested refinements or additions to the information we collect and areas for further analysis.

The AEMC plans to take an approach similar to our last competition review, with some minor changes following our consideration of stakeholder suggestions and our experience in undertaking the first review.

In this second round of consultation, the AEMC is seeking submissions from stakeholders to inform our assessment of competition against five competitive market indicators:

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

The AEMC is particularly interested in stakeholder responses to the series of questions set out in Attachment A.

Contents

1	Introduction	1
1.1	Purpose of this Approach Paper	1
1.2	Scope of this review	1
1.3	Process for this review.....	2
1.4	Submissions sought on the state of competition.....	3
2	Background to this review.....	4
2.1	Retail energy market competition in NEM jurisdictions.....	4
3	Assessment framework.....	5
3.1	Data and time frames	5
3.2	Market definition	5
3.3	Competitive market indicators.....	7
A	Questions for stakeholder submissions	13
B	Summary of submissions	15

1 Introduction

The Australian Energy Market Commission (AEMC) is assessing the state of competition in electricity and natural gas retail markets at the request of the Council of Australian Governments' (COAG) Energy Council and in accordance with the Australian Energy Market Agreement.

In December 2012, the COAG Energy Council agreed the AEMC's future competition reviews should assess the state of retail competition across all jurisdictions within the National Electricity Market (NEM). This includes Queensland, New South Wales, the Australian Capital Territory, Victoria, South Australia and Tasmania. The NEM-wide reviews are to be conducted on an annual basis.

The AEMC completed its first NEM-wide retail competition review in August 2014 and is required to complete the second review by 30 June 2015. All future reviews must be completed by 30 June each year.

1.1 Purpose of this Approach Paper

The AEMC is seeking stakeholder views on the current state of competition in each jurisdiction. This document provides information on how to make a submission in section 1.4 and key questions for submissions to address are set out in Appendix A.

This document also confirms how the AEMC will conduct the 2015 Retail Competition Review, following feedback from stakeholders on the AEMC's proposed assessment framework set out in our Consultation Paper.

The Consultation Paper was published on 31 October 2014 and submissions were due on 28 November 2014. Chapter 3 of this paper discusses the submissions received and the AEMC's considerations in finalising our assessment framework for the review. A summary of the submissions received is set out in Appendix B.

1.2 Scope of this review

The scope of this review is set out in the standing terms of reference provided by the COAG Energy Council. Under the terms of reference, the AEMC's annual reviews are to comment on issues affecting competition in retail electricity and gas markets across NEM jurisdictions.¹

We are required to focus on the small customer end of retail energy markets, which includes residential and small business customers and excludes large industrial and commercial energy users.

¹ The terms of reference are available on the AEMC website: www.aemc.gov.au (project code: RPR0003).

The terms of reference require the AEMC to consider a set of criteria in assessing the effectiveness of competition across and within NEM jurisdictions. This is subject to practicality, data availability and resource constraints. Consistent with the AEMC’s approach for the 2014 Retail Competition Review, we will use these criteria as a framework for our assessment of whether retail markets are competitive. This framework is discussed further in Chapter 3.

The terms of reference also require the AEMC to advise Energy Ministers on whether we could usefully provide further advice to any jurisdictions on possible ways to transition to price deregulation.

We may also consider other issues that are raised during the course of this review that are of relevance to retail energy market competition in NEM jurisdictions.

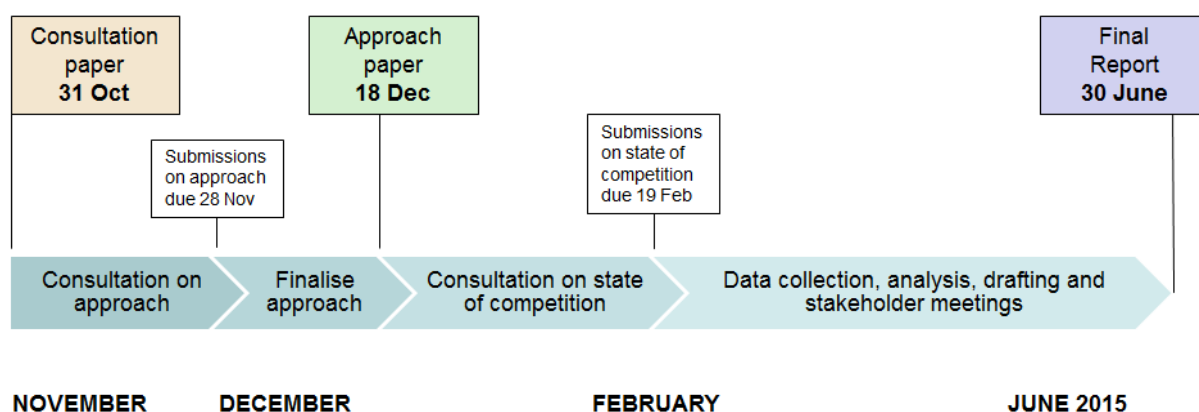
1.3 Process for this review

The standing terms of reference for annual competition reviews require the AEMC to publish a final report by 30 June each year.

The AEMC is required to consult with jurisdictions during the preparation of our report. The terms of reference state that the AEMC may also consider consultation with key stakeholders where practicable.

Stakeholder consultation will form a key component in the development of our findings and we are consulting in two stages, as set out in Figure 1.2 below.

Figure 1.1 Process for the 2015 Retail Competition Review



The consultation paper published on 31 October 2014 started the first stage of consultation, where we asked for stakeholder views on our assessment framework for the 2015 review. Submissions were requested by 28 November 2014 and 12 were received.

The AEMC's second stage of consultation begins with the publication of this Approach Paper. This paper confirms our assessment framework for the 2015 review and asks for

stakeholder submissions on the state of competition in NEM jurisdictions. Second round submissions are requested by **19 February 2015**.

In addition to these two formal consultation processes, we have been holding discussions with stakeholders during 2014 and plan to meet with other stakeholder in the first half of 2015 to seek comments and request information. This will likely involve consumer groups, retailers, the Australian Energy Market Operator, the Australian Energy Regulator, jurisdictional regulators, Ombudsmen and jurisdictional governments.

We invite any stakeholders to contact the AEMC as soon as possible if interested in discussing any aspect of this review. Please contact Skye d'Almeida to arrange a discussion on (02) 8296 7800 or skye.dalmeida@aemc.gov.au.

1.4 Submissions sought on the state of competition

For this second stage of consultation, the AEMC is requesting submissions on the state of competition in each NEM jurisdiction. The AEMC is particularly interested in stakeholder responses to the series of questions set out in Attachment A. Stakeholders are invited to provide written submissions by **19 February 2015**.

In providing submissions to the review, stakeholders are encouraged to give evidence, data and any other information (such as case studies) to support issues raised. We recognise that this material might contain information that is confidential in nature. All information will be treated in accordance with the AEMC's submissions guidelines which can be viewed at www.aemc.gov.au.

Submissions should refer to AEMC project number "RPR0003" and be sent electronically through the AEMC's online lodgement facility at www.aemc.gov.au. All submissions received during the course of the review will be published on the AEMC's website, subject to any claims of confidentiality.

In order for the review to be completed within the time frame provided the AEMC must adhere to strict deadlines. While we will have full regard to all submissions lodged within the specified time period, late submissions may not be afforded the same level of consideration. To ensure the AEMC is able to fully consider all submissions, we request that stakeholders lodge their submissions by no later than 19 February 2015.

2 Background to this review

The AEMC is required to undertake competition reviews to provide advice to governments to support their commitment under the Australian Energy Market Agreement (AEMA). Under the AEMA, all jurisdictions have committed to remove retail energy price regulation where effective competition can be demonstrated. This recognises the importance of effective competition to promote the long-term interests of energy customers.

2.1 Retail energy market competition in NEM jurisdictions

This is the second NEM-wide review of retail market competition to be undertaken by the AEMC. The first review was completed in August 2014 and found that the state of competition in energy markets for small customers varies across the NEM reflecting the different pace of market reforms across jurisdictions. The state of competition also varies between electricity and gas markets due to differences in size, structural and market design features.

In electricity, competition has led to greater choice of retailers and energy supply offers in Victoria, South Australia, New South Wales and South East Queensland. At the time of the review, effective competition was yet to emerge in electricity markets in the Australian Capital Territory, Tasmania and regional Queensland.

In gas, competition has been more tempered as gas is a secondary consideration for most customers and a less attractive value proposition for some retailers. Structural and market design features have led to significant differences in market outcomes between and within states.

Based on the findings of our 2014 review, the AEMC recommended that jurisdictions:

- consider options for raising awareness of the tools available for comparing energy offers to improve customer confidence in the market;
- ensure concession schemes are delivering on their intended purpose in an efficient and targeted way;
- continue to harmonise regulatory arrangements across jurisdictions to minimise costs, including implementing the National Energy Customer Framework; and
- remove energy retail price regulation where competition is effective.

The 2015 Retail Competition Review provides an opportunity to check whether there have been any significant changes in the competitiveness of the energy retail markets since the last review. It also provides an opportunity to incorporate into our assessment framework issues of relevance raised by stakeholders in submissions to the Consultation Paper.

As set out in section 1.4, we are now seeking submissions on the state of competition in NEM jurisdictions to provide evidence to inform our assessment.

3 Assessment framework

This section confirms how we plan to conduct our assessment of competition in each NEM jurisdiction for the 2015 review. The framework is broadly consistent with that adopted for the 2014 review but with some changes to the information we plan to collect for our assessment.

Stakeholder submissions were generally supportive of the proposed assessment framework set out in our Consultation Paper, including our proposed changes to the consumer and retailer research. Stakeholders suggested refinements and additions to the information we collect and areas for further analysis. This is discussed in more detail in the relevant sections below and in Appendix B.

3.1 Data and time frames

The AEMC will look at a range of competitive indicators across the 2014 calendar year and will take historical data into account where possible. Where data is not available for the calendar year, we will consider the most recent financial year for which data is available.

The AEMC will also consider whether current conditions are likely to prevail in the future and whether there are likely to be any major changes in market conditions.

Our analysis of competition across the NEM will be subject to data availability. Much of the data we require will need to be sourced from the Australian Energy Regulator, jurisdictional regulators, Ombudsmen and the Australian Energy Market Operator. We will also be collecting primary data through our consumer survey and retailer survey.

3.2 Market definition

The first stage in assessing the level of competition is to define the relevant markets. The terms of reference require the AEMC to focus on small electricity and natural gas customers in NEM jurisdictions. To provide a framework for analysis, we need to know whether the supply of electricity and gas to small customers in each jurisdiction involves a single market, is part of a larger market, or involves multiple markets.

We plan to adopt the same market definition for this review as for the 2014 review, which was supported by the available data. This involves considering each jurisdiction as a single geographic market with two product markets: an electricity retail market and a gas retail market. A key exception to this approach applies to Queensland, where we will look at two geographic markets; South East Queensland, where customers can choose their retailer, and the rest of Queensland, where retail competition is currently permitted but there is presently only one retailer.

We will analyse regional areas separately in each state to determine whether there are any material differences from urban areas. This approach was taken for the

2014 review and was supported by the Independent Pricing and Regulatory Tribunal (IPART) in its submission to the Consultation Paper.²

We plan to consider small business and residential customers as part of the same market, but we will identify where specific findings differ between these two types of customers. For example, our assessment of retailer rivalry and our consumer research results will highlight any materially different outcomes.

Retailer submissions suggested the AEMC broaden the market definition to include all parties who are authorised retailers or who receive an individual exemption, including solar energy suppliers and other embedded non-network suppliers.³ Submissions suggested that electricity provided by these businesses is acting as a substitute for electricity sourced from a licenced retailer. Some submissions also noted that the barriers to entry for these businesses were lower than for traditional retailers.

The AEMC has been tasked to assess the current state of retail competition in electricity and gas markets. While the alternative energy sellers referred to in retailer submissions sell energy in these markets, they have been exempted by the Australian Energy Regulator (AER) from the full range of obligations on retailers operating in such markets. The AER currently grants these exemptions where it considers such sellers have a 'lesser' involvement in the market.⁴

We do not intend for this review to duplicate the AER's work on the regulation of innovative energy selling business models under the National Energy Retail Law, which they are currently consulting on.⁵ Nor do we intend to duplicate the relevant work of the COAG Energy Council's Energy Market Reform Working Group (EMRWG). The EMRWG has released a consultation paper for public comment examining the regulatory implications of new products and services in the electricity market.⁶ This includes the businesses referred to in retailer submissions to the AEMC.

The AEMC considers the current market definition appropriate for this review. We may, however, consider some issues associated with these 'exempted sellers' as part of our review where relevant to our competitive market indicators and where evidence is available to support the assessment. The AEMC may consider expanding the market definition for future competition reviews, subject to developments in the market.

² IPART, submission to the *AEMC 2015 Retail Competition Review*, Consultation Paper, 24 November 2014, p2.

³ AGL, Energy Retailers Association of Australia (ERAA), Lumo, Red Energy, Simply Energy and Origin Energy.

⁴ AER Statement of Approach: Regulation of alternative energy sellers under the National Energy Retail Law, June 2014

⁵ Further information is available at: <http://www.aer.gov.au/node/28414>.

⁶ The EMRWG published a consultation paper on 17 December 2014: <http://www.scer.gov.au/workstreams/energy-market-reform/demand-side-participation/new-products-and-services-in-the-electricity-market/>

3.3 Competitive market indicators

The AEMC has drawn on the criteria in the terms of reference and refined them to focus our assessment of whether outcomes in retail markets in NEM jurisdictions are consistent with effective competition. The competitive market indicators to be used for our assessment in this review are consistent with those that were used for the 2014 review and were supported in submissions to the Consultation Paper.⁷ The competitive market indicators we will use for our assessment are:

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

Analysis of the first three indicators will help to provide a picture of the market structure and market conduct for each jurisdiction. The last two indicators should provide information on the performance of the market.

The methods we plan to use to analyse these indicators are outlined below. This is not exhaustive and we may take other information into consideration during the course of the review.

3.3.1 Customer activity in the market

A desirable outcome of a competitive market is that customers are aware of the choices available to them and are able to act on those choices. By shopping around to receive lower prices or better service, customers play an important role in maintaining downward pressure on prices and driving retailers to provide the quality of service customers demand. Customer activity is an important indicator of whether competition is effective. Our analysis of this market indicator will consider:

- *customer engagement in choosing energy offers* obtained through AER data and customer surveys to explore whether customers are shopping around for better energy deals and what kind of information customers use to make their decisions;
- *customer attitudes* obtained through surveys to understand the key drivers for consumers to shop around and whether there are any issues inhibiting their ability to do so; and

⁷ IPART, AGL, Simply Energy, Origin Energy, Red Energy, Essential Services Commission of South Australia, ERAA.

- *customer switching* data showing the number of people switching from one retailer to another. This data will be carefully interpreted in conjunction with other evidence on customer activity, as well as other competitive indicators, as we note that high or low switching rates are not necessarily a sign of a well-functioning market.

To gather information on customer engagement and attitudes, a consumer research firm will conduct a survey of customers across NEM jurisdictions. The survey and the associated methodology will be similar to that conducted for the 2014 review.⁸

The Consumer Action Law Centre's submission to the Consultation Paper supported a focus on consumer engagement and recommended a headline indicator be adopted on consumer engagement, education and trust.⁹ The AEMC intends to use the 2015 customer survey to explore related issues and build on the work undertaken in 2014 in assessing the level of customer engagement. This will include exploring levels of satisfaction with retailers, drivers of disengagement and customers' ability to find and understand information in shopping around for energy deals.

For the 2015 customer survey, we will seek to segment the data to identify any differences in trends for small business and residential customers, urban and rural customers, younger and older customers, low income and high income customers and customers with or without solar panels. This type of segmentation was supported by the Essential Services Commission of South Australia (ESCOSA) in its submission to the Consultation Paper.¹⁰

IPART's submission noted it would like to understand whether having solar panels affects a customer's ability to take up a better offer.¹¹ The AEMC considered perceived and actual barriers to switching for solar customers in the 2014 review and we plan to consider this issue again in the 2015 review in light of any market developments.

IPART also suggested in its submission to the Consultation Paper that the 2015 survey is used to identify the characteristics of market offers that are most important to consumers. This is to help simplify the information provided to consumers when trying to compare energy deals - for instance, when using comparator websites. IPART suggested that, other than prices, these features may include the amount of an early termination fee, any upfront inducement and other fees and charges.

⁸ Details on the survey and methodology are available in Newgate Research's report on the 2014 review project page at www.aemc.gov.au (project code: RPR0002).

⁹ Consumer Action Law Centre, submission to the *AEMC 2015 Retail Competition Review*, Consultation Paper, 24 November 2014, pp2-3.

¹⁰ ESCOSA, submission to the *AEMC 2015 Retail Competition Review*, Consultation Paper, 26 November 2014, p2.

¹¹ IPART, submission to the *AEMC 2015 Retail Competition Review*, Consultation Paper, 24 November 2014, p2.

Previous work by the AEMC identified challenges for consumers in comparing energy deals and suggested improving the information presented to consumers.¹² For the 2015 Retail Competition Review, we may explore this issue further subject to time and resources. This could include IPART's suggestion to identify whether there are ways to improve the information provided to consumers when they are investigating energy offers.¹³

The Consumer Action Law Centre suggested the review explicitly assess the role of limited product standardisation in enhancing competition through providing simple and fair choices for consumers. Product standardisation that acts to reduce choice may have negative impacts on competition and consumers. The 2014 consumer research found that consumers want choices, but that better information and tools could be provided to assist them in making their choices between energy deals. We may further explore this issue in our 2015 consumer research.

The Public Interest Advocacy Centre (PIAC) recommended in its submission that the AEMC examine the rate at which customers are moving contracts without leaving their retailer. That is, some customers may actively investigate their options in the market and decide on a better plan with their current retailer. ESCOSA also raised this form of customer switching. It suggested reporting on the extent to which customers changing plans are actively choosing from amongst a range of products offered by their existing retailer when existing contracts expire, rather than being simply rolled over to a default or standard contract.

The AEMC agrees that information on this type of customer switching could provide useful additional evidence on customer activity and is not captured by the data collected by the Australian Energy Market Operator on customer switching. For the 2014 review, we asked retailers for data on the number of their customers who had switched plans in 2013 ('internal switching rates') and were advised that data systems of most retailers were unable to extract this kind of information.

The limited data that was provided primarily involved estimates and we therefore do not plan to request this information from retailers for the 2015 review. We also recognise that this type of data would not sufficiently address the issue raised by ESCOSA. We plan to consider ways to gather information on this type of switching behaviour through the 2015 customer survey.

¹² The AEMC's 2014 Retail Competition Review found that many customers had trouble comparing 'apples with apples' when shopping around for an energy deal. The AEMC's 2013 Consumer Engagement Blueprint also identified a range of issues for consumers in comparing energy deals. The blueprint was prepared for the New South Wales Government following the AEMC's review of retail energy market competition in New South Wales. The blueprint and other associated reports for the NSW competition review are available at www.aemc.gov.au (project reference: RPR0001).

¹³ IPART, submission to the *AEMC 2015 Retail Competition Review*, Consultation Paper, 24 November 2014, p2.

3.3.2 Barriers to entry, exit or expansion

Identifying any significant barriers to entry, expansion and exit is an important element of a competition assessment. This involves analysing whether new retailers can freely enter the market and whether incumbent retailers can expand or exit. Under these conditions, there are competitive pressures on existing retailers to charge prices commensurate with efficient costs and improve their offers. An effectively competitive market will generally have no significant barriers to entry, exit or expansion. Our analysis of this market indicator will consider:

- *evidence of entry, exit or expansion* of retailers and other significant energy providers and whether this is indicative of low barriers to entry, exit or expansion for that market. This includes identifying which retailers have entered or exited a market since the 2014 review and whether retailers have expanded their market share;
- *retailer surveys* to understand the difficulties that retailers may encounter in entering or expanding in a market. This could include economies of scope or scale, accessing and transporting gas, and regulatory barriers such as prudential requirements and state-based regulatory costs and obligations; and
- *measures of contract market liquidity* as a test of whether new entrant retailers are able to obtain hedging products to manage their risk exposure.

Submissions from AGL and Simply Energy supported the AEMC's plans to use a retailer survey to gather information on this competitive market indicator rather than a series of interviews. AGL noted that the use of a rating scale in a survey is non-specific and not normalised, and the use of such data should be considered carefully. The AEMC will consider ways to improve the survey design to provide objective measures of this competitive market indicator.

Origin submitted that the AEMC should consider whether regulation of mandated minimum solar feed-in tariffs is a barrier to entry for new retailers.¹⁴ The AEMC will examine evidence on a range of potential barriers to entry and consider their impact. This could include consideration of Origin's suggestion if evidence suggests it is a material issue for competition.

3.3.3 Independent rivalry

Independent rivalry reflects the extent to which retailers are competing to attract or retain customers. Rivalry between retailers helps to drive discounting and product innovation. An effectively competitive market will generally have a high level of independent rivalry.

¹⁴ Origin, submission to the AEMC 2015 Retail Competition Review, Consultation Paper, 28 November 2014, pp1-2.

Our analysis of this market indicator will consider:

- *market share and concentration* and how these have changed over time. AGL submitted that the AEMC should present market shares by retailer for all NEM jurisdictions in our report. The AER publishes this information in its annual State of the Energy Market report and we will discuss including this in our report with the AER;
- *switching between retailers*, including switching between the big three retailers¹⁵ and switching between the big three and smaller retailers. This is to test whether retailers are actively attracting new customers and whether smaller retailers are able to gain or maintain market share; and
- *product differentiation and the number of market offers available* to test whether retailers are competing by offering different products and services that meet the needs of their customers. This may include differences in price and service delivery, in recognition of the range of ways retailers differentiate their energy products and services. Changes to service delivery were raised by Origin Energy in its submission to the Consultation Paper as an important indicator of retailer rivalry.¹⁶

PIAC also asked that we examine the extent of product innovation in New South Wales and whether there are currently any barriers to innovation following price deregulation.¹⁷ We plan to consider this for each NEM jurisdiction and will report on any evidence of barriers to innovation.

3.3.4 Customer satisfaction

High levels of customer awareness and high switching rates by themselves do not provide a full picture of whether there is competition in a market. In effectively competitive markets, customers are generally satisfied with the range of products available to them and the choices that they make. Our analysis of this market indicator will consider:

- *customer complaints* to both retailers and ombudsman to test customer satisfaction with market outcomes; and
- *customer surveys* to test views on retailer services and value for money as well as the ease and speed with which they can switch.

¹⁵ The “big three retailers” refers to the three energy retailers with the highest market shares across the NEM jurisdictions, which are AGL, EnergyAustralia and Origin Energy.

¹⁶ Origin, submission to the *AEMC 2015 Retail Competition Review*, Consultation Paper, 28 November 2014, p2.

¹⁷ PIAC, submission to the *AEMC 2015 Retail Competition Review*, Consultation Paper, 28 November 2014, p3.

As discussed in section 3.3.1, the AEMC will engage a consumer research consultant to undertake a customer survey in NEM jurisdictions. The AEMC will use this survey to gather information on customer outcomes and we plan to segment the result by different customer characteristics to better understand customer satisfaction with the retail energy market.

IPART suggested the AEMC investigate any differences in satisfaction between groups of solar customers - for example, customers receiving subsidised feed-in tariffs under the NSW Solar Bonus Scheme and those receiving voluntary tariffs.¹⁸ The AEMC intends to discuss this option with our consumer research consultants to determine the feasibility of this addition to the customer survey.

3.3.5 Competitive retail prices

Retail prices can be expected to fluctuate with changes in underlying costs, changes in the behaviour of competitors and in response to customer behaviour. Trends in retail prices over time can provide an indication of the level of competition in a market. Our analysis of this market indicator will consider:

- *prices offered by retailers in NEM jurisdictions;*
- *the composition of these prices; and*
- any evidence to evaluate the effectiveness of competition in the market with respect to price.

The AEMC supports Origin's view put forward in its submission that the costs underlying electricity prices are not constant and comparisons of prices over time need to be made with reference to these shifts in costs.¹⁹ The AEMC's 2014 Residential Electricity Price Trends report highlights that price shifts can be driven by changes in environmental policies and network regulator arrangements. Any discussion of the impact of retail market competition on electricity prices needs to take these other factors into consideration.

We plan to draw from a range of information to assess this competitive market indicator, including the work of consumer representatives, regulators and other government bodies.

¹⁸ IPART, submission to the AEMC 2015 Retail Competition Review, Consultation Paper, 24 November 2014, p2.

¹⁹ Origin, submission to the AEMC 2015 Retail Competition Review, Consultation Paper, 28 November 2014, p2.

A Questions for stakeholder submissions

The AEMC is seeking stakeholder views on the state of competition in each NEM jurisdiction. Below is a list of questions highlighting the issues we are particularly interested in for stakeholder submissions. Details on how to provide a submission are in section 1.4.

A number of the questions below can be answered in terms of common issues across all NEM regions or issues applying solely to specific NEM regions. We are particularly interested in evidence of any trends over time (eg data over multiple years).

The level of customer activity in the market

1. Are small customers able to access information that is easy to understand, relevant and up to date to support their investigation and choice of energy offers?
2. What information or activities would improve consumer awareness, engagement and understanding of the choices available? Are tailored measures needed to encourage consumer engagement in certain areas or demographics?
3. Do the issues above differ for customers with solar panels?

Barriers to retailers entering, expanding or exiting the market

4. Are there any current or expected barriers to entry, exit or expansion for electricity and natural gas retailers? If so, are these barriers likely to persist or abate in the future?
5. Are some jurisdictions easier for retailers to operate in than others?
6. Do mandated minimum feed-in tariffs create a barrier to entry or expansion for retailers?
7. Do alternative energy sellers face lower barriers to entry than traditional retailers? If so, is there evidence that this has an impact on competition for small electricity customers?

The degree of independent rivalry

8. To what extent do energy retailers compete on price, product and service differentiation to acquire new, and retain existing, small customers?
9. What sort of product and/or service improvements have retailers delivered to small customers in electricity and natural gas retail markets?
10. Has retail price regulation encouraged, or impeded, tariff, product and service innovation in small customer electricity and natural gas retail markets?

11. Where retail price regulation has been removed, are there other barriers to tariff, product and service innovation?

Customer satisfaction with market outcomes

12. Is there evidence that customers are satisfied with the service quality they receive from their energy retailer(s) and the value for money?
13. Is there evidence that customers are satisfied with the level of choice available in the market?
14. Are customers satisfied with the ease and speed with which they can switch retailers?
15. Do the number and nature of customer complaints to retailers or Ombudsmen provide evidence of any trends in the quality of customer outcomes?

Competitive retail energy prices

16. Are energy retailers engaging in price-based competition to attract and/or retain customers?
17. Are energy retailers able to recover their efficient costs and an appropriate return at current standing (or regulated) offer contract tariffs or at current market offer contract tariffs?
18. Is there evidence of a material divergence in the level of competitive market costs between any of the jurisdictions where market offers are available? If so, is there evidence to explain the underlying cause(s) of these differences in costs?
19. What is driving the spread between high and low price market offers within and across jurisdictions? For example, quality issues such as product differentiation and customer service, different costs faced by different retailers, or groups of customers who have not investigated and switched to lower priced energy offers.

B Summary of submissions

The AEMC received 12 submissions to the Consultation Paper, which were due by 28 November 2014. The table below summarises the key points raised in submissions and the AEMC's response.

Stakeholder	Issues and recommendations	AEMC response
AGL, Energy Retailers Association of Australia, Lumo Energy, Origin Energy, Red Energy and Simply Energy	Consider the implications for competition of the increasing entry of entities that are exempt from the requirement to hold a retail license (e.g. solar energy, solar panels purchased under Power Purchasing Agreement for no upfront cost, energy storage methods and other non-network supplies). Origin and Lumo recommended broadening our market definition to take into account the increased penetration of solar energy.	We do not intend to duplicate the work of the AER or the COAG Energy Council's Energy Market Reform Working Group (EMRWG). We may, however, consider issues associated with solar energy customers and exempted businesses in the context of our competitive market indicators where relevant to our analysis of the state of competition and where evidence is available to support the assessment. See section 3.2.
AGL	Supports discontinuing retailer interviews and recommends greater reliance on data rather than opinions and views.	Analysis of data is central to our assessment. Qualitative information can also be useful in providing context to quantitative findings. The AEMC will consider ways to improve the survey design to provide objective measures that can be tracked over time. See section 3.3.2.
AGL	Report market shares of retailers in each jurisdiction.	This information is published by the AER and we will consider its inclusion in the AEMC's report. See section 3.3.3.
Consumer Action Law Centre (CALC)	Adopt a new headline indicator on consumer engagement, education and trust.	The AEMC believes the issues raised can be incorporated within the five competitive market indicators and may be tested through the 2015 consumer research. See sections 3.3.1 and 3.3.4.

Stakeholder	Issues and recommendations	AEMC response
CALC	Consider the potential benefits of limited forms of product standardisation for enhanced competition.	The review will examine the level of product differentiation in the market under the independent rivalry indicator. Product standardisation that acts to reduce choice may have negative impacts on competition and consumers. The 2014 consumer research found that consumers want choices, but that better information and tools could be provided to assist them in making their choices between energy deals. We may further explore this issue in our 2015 consumer research.
CALC	Investigate the causes of high retailer margins in Victoria and assess what this means for efficient service delivery and effective competition.	The 2014 review did not conclude that retailer margins were higher in Victoria than other jurisdictions. Gross retail margins appear higher, however as the 2014 review notes these must be interpreted with caution as margins are expected to fluctuate over time and are prone to error. Additionally, any assessment of competition should involve a range of indicators. The 2014 findings drew together evidence on customer activity, customer outcomes, retailer rivalry, retailer barriers to entry, exit or expansion and retailer outcomes. The review found competition was effective, but there are ways to further improve competition and consumer outcomes. This includes providing the information and tools customers need to shop around and find a better deal. The AEMC will continue to monitor these issues and consider a range of evidence in assessing the state of competition in all NEM jurisdictions. This will include any evidence on whether retail prices appear competitive in Victoria.
Essential Services Commission of South Australia (ESCOSA)	Include South Australia in any analysis of retail margins to track data over time.	The AEMC's assessment of competitive retail prices referred to above will be undertaken for all NEM jurisdictions.

Stakeholder	Issues and recommendations	AEMC response
ESCOSA, Public Interest Advocacy Centre (PIAC)	Report on the extent customers switching are choosing from a range of plans offered by existing retailers when their contracts expire, rather than being rolled over to a default or standard contract.	The AEMC agrees that information on this type of customer switching could provide useful additional evidence on customer activity and is not captured by the data collected by the AEMO on customer switching. For the 2014 review, we asked retailers for data on the number of their customers who had switched plans in 2013 ('internal switching rates') and were advised that data systems of most retailers were unable to extract this kind of information. The limited data that was provided primarily involved estimates and we therefore do not plan to request this information from retailers for the 2015 retail review. We also recognise that this type of data would not sufficiently address the issue raised by ESCOSA. We plan to consider ways to gather information on this type of switching behaviour through the 2015 customer survey.
ESCOSA	Include a focus on the impacts on low-income groups and report survey data for different customer groups.	For the 2015 customer survey, we will seek to segment the data to identify any differences in trends for different customer types. See sections 3.3.1 and 3.3.4.
Independent Pricing and Regulatory Tribunal (IPART)	Examine how customer satisfaction is influenced by being on different levels of feed-in tariffs and whether having solar panels affects the ability to take up a better offer.	We plan to examine perceived and actual barriers to switching for solar customers again in the 2015 review. See section 3.3.1.
IPART	Identify the characteristics of market offers most important to consumers.	The AEMC will consider options to explore this issue further, including through the consumer survey. See section 3.3.1.
Jemena	Consider how the policy and regulatory framework can balance customer participation and functioning of the gas retail market with facilitation of innovation in energy services,	As part of the review, the AEMC will consider evidence on barriers to customer participation or product innovation. This could include consideration of the role of intermediaries. We are not, however, planning to duplicate other work underway in this area. This includes

Stakeholder	Issues and recommendations	AEMC response
	given the increasing role of intermediaries in providing metering and retailer choice.	the AEMC's work on the COAG Energy Council's rule change request: Expanding competition in metering and related services.
Origin Energy	Consider the barriers to entry created by regulation of natural gas prices in NSW and regulated mandatory minimum feed-in tariffs in Victorian and South Australia.	The AEMC will consider these issues where data and evidence is available.
Origin Energy	Consider rivalry based on customer service delivery.	The AEMC will consider any evidence on different forms of retailer rivalry in NEM jurisdictions, which could include rivalry based on customer service quality.
Origin Energy	Consider underlying reasons for shifts in prices.	The AEMC will consider these issues, drawing on information from the AEMC's Retail Price Trends reports. See section 3.3.5.
Origin Energy	Suggests the AEMC recommends to the COAG Energy Council that competition reviews happen every two-to-three years rather than annually.	Noted.
Origin Energy, South Australian Council of Social Services (SACOSS)	Consider the impact of transitional pricing arrangements on prices, for example in South Australia.	The AEMC will consider these issues.
PIAC	Examine other market and price monitoring being undertaken by other bodies and summarise where the AEMC agrees and disagrees. Also consider St Vincent de Paul's	The AEMC will work with other organisations to limit duplication and consider the findings of other relevant studies, including St Vincent de Paul's energy tariff tracker project.

Stakeholder	Issues and recommendations	AEMC response
	energy tariff tracker project.	
PIAC	Examine whether there are any hurdles to product innovation in NSW following price deregulation.	The AEMC will examine product innovation and differentiation in each NEM jurisdiction by collecting information on different energy offers and through retailer surveys. See sections 3.3.1 and 3.3.3.
PIAC	Examine whether competitive markets have reduced electricity prices.	The AEMC will examine prices in NEM jurisdictions, however the impact of competition is difficult to isolate from other factors that influence prices. See section 3.3.5.
SACOSS	SACOSS does not agree with the 2014 review finding that there is strong rivalry and considers further examination of market shares and vertical integration is needed.	We will consider the issues raised by SACOSS in our 2015 assessment. The AEMC's 2014 assessment of competition in South Australia found competition effective based on a range of indicators, including the level of customer activity and satisfaction, low barriers to entry, and retailer rivalry where switching between the 'big three' retailers accounted for less than 50 per cent of switches, compared to 70 per cent in 2009.
Simply Energy	Work more closely with industry participants in estimating the components of consumer bills.	The 2015 review will rely on data from AEMC's 2014 Price Trends Report. Stakeholder consultation will be considered further for the 2015 Price Trends Report.