



## 2017 Retail Energy Competition review – South Australia

Consumers are experiencing increases in retail electricity prices. These price increases are a consequence of higher wholesale energy market costs.

Increasing wholesale energy market costs are being driven by a range of factors, including the increasing costs of hedging contracts which is a result of the lack of an emissions reduction policy that is properly integrated with the energy market, generator retirements and higher gas prices.

In the context of retail energy markets, consumers are exercising their choices, looking to take up new technology options and there is increasing diversity of retailers and energy service providers entering the market. These suppliers are providing products and services that are aligning with consumer preferences to manage their energy use and bills.

### Key findings – state of competition for South Australia

The Australian Energy Market Commission (AEMC) retail energy competition reviews are undertaken at the request of the Council of Australian Governments Energy Council. This year's review assesses how competition is evolving and the outcomes it is delivering for residential and small business gas and electricity consumers across the National Electricity Market (NEM).

Based on analysis of key measures and indicators considered for the review, competition continues to be effective in the South Australian retail electricity market. Competition also continues to be effective in the retail gas market, although competition is less intense in the retail gas market than it is in the retail electricity market.

### Summary of key measures: 2016-2017

	Measure	Trend (electricity)	Trend (gas)
Structure	Barriers to entry, expansion & exit	Stable	Stable
	Market concentration/share	Stable	Stable
Market conduct	Consumer activity	Increasing	Stable
	Retail pricing strategy	Improving	Slight improvements
	Retail energy prices	Increases	Increasing
	Product and service innovation	Improving	N/A
Market outcomes /performance	Consumer outcomes: - satisfaction	Decreasing	Decreasing
	- complaints	Increases to retailers but decreases to the Ombudsman	Increases to retailers but decreases to the Ombudsman
	Retailer margins	Increasing between 2014-15 and 2015-16	N/A

Consumers are experiencing price increases as a result of high wholesale market energy costs.

## **Retail electricity market**

### ***Market structure improved overall, though there are entry barriers.***

- As at December 2016, there were 16 retailers businesses actively retailing electricity in the jurisdiction after the entry of Click Energy.
- Retailers as part of the AEMC retailer survey identified that the lack of liquidity in the South Australian market continued to be a barrier to entry and expansion. They also highlighted the potential benefits of vertical integration in the absence of a liquid hedge contract market.
- Market concentration as measured by the Herfindahl-Hirschman index (HHI) improved by nearly 6 per cent as second tier retailers increased their market share to 22 per cent in 2016 from 21 per cent in 2015.

### ***Residential consumer engagement and activity has improved slightly since 2016, but small business switching activity has decreased.***

- For this year's review the consumer research was undertaken in January-February 2017 by Newgate Research. Unless otherwise noted, all results are based on the research findings for this time period.
- Around 79 per cent of residential consumers and 73 per cent of small business consumers said they actively chose the plan they are currently on. However, around 39 per cent of residential consumers did not know whether they were on a market or standing offer contract.
- Around 30 per cent of residential consumers and 47 per cent of small business consumers actively investigated their options in the last 12 months and based on data from AEMO and the AER in 2015-16, residential and small business consumer switching remained stable at 16 per cent.
- Over the past five years, around 53 per cent of residential consumers changed their retailer or plan, a slight increase from 49 per cent in 2016. Around, 70 per cent of residential consumers' said that the reason for switching was price related. In contrast, only 43 per cent of small business consumers changed their retailer or plan over the last five years, a decrease from 57 per cent in 2016.
- Awareness of the AER's Energy Made Easy comparator website is at 11 per cent for residential consumers and 10 per cent for small business consumers.
- Residential consumers that are currently looking for a better deal is around 10 per cent, up from 8 per cent in 2016.

### ***Increasing diversity of products and services, and service options***

- There is a range of new energy service providers that have entered the national electricity market offering innovative services to consumers. For example, there is Powershop, Mojo and Simply all offering services. Powershop also in conjunction with Reposit offer services that are designed for consumers with solar PV and batteries. The Reposit software enables consumers to optimise the value of the electricity they generate either by using it or exporting it to the grid at optimum times.
- A growing number of retailers have digital interfaces, such as online portals or mobile apps that allow consumers to track and manage their usage and monitor their bills on an on-going basis.

### ***Larger discounts and savings can be had from shopping around.***

- Consumers who shop around can save approximately 25 per cent or \$481 per annum on their electricity bills when moving from the median standing offer to the cheapest market offer.<sup>1</sup>
- The median annual bill across standing offers is \$1,910 whereas the median annual bill across market offers is \$1,702, and the cheapest annual bill from a market offer is \$1,429.

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<sup>1</sup> Based on a representative consumer in SA Power Networks distribution area with annual consumption of 5000kWh, as at 5 January 2017.

**There is increasing diversity in retail offers and new retailers and service providers entering the retail energy market.**

- Price dispersion is higher for market offers than standing offers. The spread of bills under market offers in the SA Power Networks supply area is \$1,209 (\$1,429–\$2,638) compared to a spread of \$1,324 for standing offers (\$1,702–\$3,026).
- Data provided from the Big 3 retailers shows from 2014-15 and 2015-16, the average prices for New South Wales and Victoria is closer to the best available market offer than the standing offer.
- There are an increasing number of innovative pricing plans being offered in the market. For example, Mojo in NSW offers a subscription pricing model that will suit users with specific usage profiles, and Powershop in NSW and Victoria sells electricity in a variety of power-packs to suit different consumer requirements. Additionally, Origin and Sumo offer a fixed annual bill for consumers wanting billing certainty, while options for shorter payment periods are also being offered to help consumers with budgeting.

#### ***Residential consumer satisfaction has remained stable with small business satisfaction has decreasing***

- 70 per cent of residential consumers said they were very or somewhat satisfied with their current retailer, a decrease from 75 per cent in 2016. Meanwhile, 64 per cent of small business consumers said they were very or somewhat satisfied with their current retailer, a substantial decrease from the 2016 survey's 74 per cent.
- There was a two per cent decrease in the proportion of residential consumers who rated the value for money from their electricity company as good to excellent to 59 per cent.
- Residential consumers rating the quality of customer service provided by their retailer as good to excellent fell slightly by two per cent from 2016 to 71 per cent.
- There was a decrease in the proportion of small business consumers who rated the value for money from their electricity company as good to excellent to 50 per cent in 2017 from 55 per cent in 2016.
- The proportion of small business consumers rating the quality of customer service provided by their retailer as good to excellent decreased to 60 per cent from 66 per cent in 2016.

#### ***Electricity retail margins***

- For this year's review, information was provided voluntarily by the Big 3 retailers and some smaller second tier retailers. This made it possible to assess gross margins of these retailers.
- The gross margins of the Big 3 retailers:
  - were larger across New South Wales and Victoria than gross margins of smaller second tier retailers in 2014-15, but similar to the gross margins of smaller second tier retailers in 2015-16
  - decreased between 2014-15 and 2015-16, in overall terms across all relevant jurisdictions. This was due solely to the decrease in gross margins in South East Queensland. Retail prices were deregulated in South East Queensland from 1 July 2016
  - remained higher in Victoria than in the other jurisdictions. As part of its inquiry into retail electricity supply and pricing, we have suggested that the ACCC may consider investigating the reasons for differences in gross margins between jurisdictions, in particular Victoria.

#### **Retail gas market**

##### ***Barriers to entry remain and levels of market concentration remain unchanged.***

- There were no changes to market concentration in South Australia. The market remains highly concentrated with the Big 3 continuing to hold 88 per cent of the market.
- Retailers commented that the level of gas retail competition in the coming years is likely to reflect the availability of, and retail access to, competitively priced gas.

There are discounts and savings available to consumers by shopping around.

### ***Consumer engagement and activity increased slightly.***

- Awareness of residential and small business consumers' ability to choose their energy company or plan remained stable at around 92 and 93 per cent, respectively.
- Based on data from AEMO and the AER data, consumer switching among small gas consumers over 12 months remained steady at 11 per cent.
- Over the past five years, 41 per cent of residential and 31 per cent of small business consumers changed their gas retailer or plan. For residential consumers this is a slight increase from 38 per cent in 2016. For small business consumers this is a substantial increase from 17 per cent in 2016.

### ***Consumers can save by switching gas offers.***

- Consumers who shop around can save approximately 12 per cent (or \$124) on their gas bills in moving to the cheapest offer.<sup>2</sup> The level of possible savings differs with energy consumption, discount eligibility and type of contract.

### ***Consumer satisfaction is decreasing***

- 70 per cent of residential consumers said they were satisfied with their current retailer, a decrease from 73 per cent in 2016. 72 per cent of small business consumers also said they were satisfied with their current retailer, a substantial decrease from 87 per cent in 2016.
- There was an eight per cent decrease in the proportion of residential consumers who rated the value for money from their gas company as good to excellent to 57 per cent. There also was a decrease in the proportion of small business consumers who rated the value for money provided by their retailer as good to excellent from 65 per cent to 61 per cent in 2017.
- Residential consumers satisfied with the quality of customer service provided by their retailer remained stable at around 69 per cent. Small business consumers' satisfaction with the quality of customer service provided by their retailer decreased by 5 per cent to 69 per cent in 2017.

## **Recommendations**

The report makes a number of recommendations that relate to enhancing competition in NEM retail energy markets and improving consumer outcomes. These include:

**Recommendation 1:** A broad information program is developed by Energy Consumers Australia (ECA) in partnership with the jurisdictions that would support consumer awareness and confidence in the options that are available to manage energy bills. This information program would be developed as soon as practicable given recent and significant price increases. This work would apply the AEMC consumer blueprint that highlights and identifies the various channels needed to effectively communicate across and within consumer segments and also the broader community.

**Recommendation 2:** The AER is resourced to run an effective awareness campaign of their Energy Made Easy website and are resourced to maintain and develop the site.

**Recommendation 3:** The AER consider opportunities to improve the:

- Information provided by retailers to consumers related to the comparison of retail market offers.
- Transparency of information provided to consumers in relation to expiring fixed benefit periods in market offers.

The AER may need to consider whether amendments to its retail pricing guidelines are required or whether rule change requests need to be made to the AEMC.

**Recommendation 4:** As a priority, retailers and distributors make it easier and limit delays for consumers (and their agents) to access their consumption data. In particular, retailers and distribution network businesses develop streamlined arrangements for obtaining informed consent from consumers to the provision of metering data to their authorised

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<sup>2</sup> This is for a representative consumer, and based on consumption of 24,000 MJ as at 27 January 2017.

**The 2017 retail competition review makes a number of recommendations to enhance competition in retail electricity and gas markets and improve consumer outcomes.**

representatives. The work by ECA and electricity distribution network businesses on streamlining information requirements from consumers and their agents should continue. In the absence of any industry progress, the ECA may consider if changes should be requested to the National Electricity Rules and National Energy Retail Rules.

**Recommendation 5:** Retailers, consumer advocates and jurisdictions assist in transitioning vulnerable consumers, particularly those on hardship plans or experiencing payment difficulties, away from higher priced standing offers or market offers with expired fixed benefit periods.

**Recommendation 6:** COAG Energy Council write to COAG and the relevant jurisdictions to review the application of their energy concession schemes with a strategy on improving awareness of energy concession schemes among different consumer segments.

**Recommendation 7:** Jurisdictions to harmonise their energy customer protection arrangements so that barriers and costs for traditional and new retailers who operate across the NEM are minimised. To facilitate this work, COAG Energy Council request the AEMC to provide advice on the existing suite of modifications that have been made by jurisdictions to the National Energy Customer Framework (NECF) and the differences between NECF jurisdictions and Victoria. This program of work should be completed within two years.

**Recommendation 8:** Noting the progress made to date, COAG Energy Council should continue to consider how the NECF can be reformed given the diversity of new retailers, service providers and product and service offering available in the competitive retail energy market.

**Recommendation 9:** Industry develops a credible survey to address the lack of data for electricity trading hedging products. In the absence of industry action, the AEMC will consider, as part of its G20 over the counter derivatives review, whether electricity OTC products should continue to be exempt from derivative trade reporting requirements.

## Background

The AEMC retail competition reviews were initially undertaken to support the commitment made by jurisdictions in 2004 to deregulate retail energy prices where effective competition could be demonstrated. Since our last annual review, most major NEM jurisdictions now have deregulated retail energy markets. Given the extent of deregulation, this year's review focuses on how competition is evolving and the outcomes it is delivering for residential consumers and small business consumers, excluding large industrial and commercial users.

To consider the overall effectiveness of competition in retail energy markets, the review applies a range of market measures and indicators against a structure-conduct-performance framework. The market measures and indicators are not considered in isolation, as no single measure or indicator captures all the information about the effectiveness of competition in the retail energy services market. Instead, the review assesses evidence provided by a range of indicators and measures and their trends over time. The analysis of measures and indicators uses market and retailer data, quantitative consumer research, a retailer survey and stakeholder feedback.

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