Initial views on the effectiveness of competition

NEIL HOWES
SENIOR ADVISER
AUSTRALIAN ENERGY MARKET COMMISSION

Outline of discussion

- Market definition
- How active are customers
- Evidence of entry into the market by retailers
- Independent retailer rivalry
- Customer satisfaction
- Information requirements

Market definition - geography

- Is it a NEM-wide market for electricity and an East Coast gas market?
  - Not all electricity retailers in the NEM are active in all states. Conditions differ e.g. price regulation, different non-price regulations.
  - Similarly not all gas retailers on the East Coast are active in all states.
- Are there separate urban and rural markets in NSW for electricity?
  - Retailers in NSW have customers across the state.
  - There is not a significant difference in awareness of ability to choose retailer or switching rates across NSW.
  - In addition the majority of active retailers have market offers in rural areas as well as urban areas.

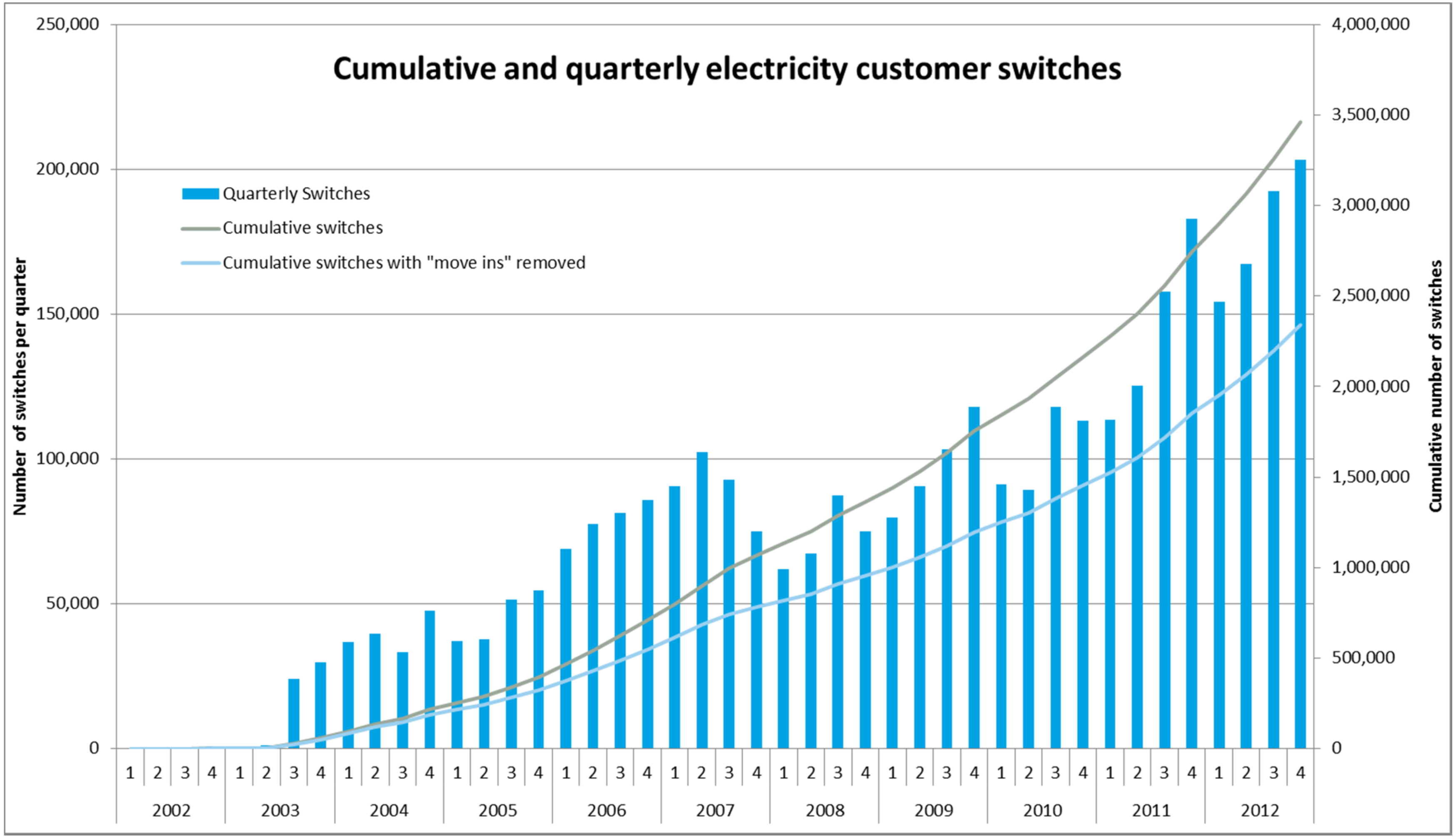
Market definition - product

- Electricity appears to be a separate market.
  - It is a separate product from gas and is not entirely substitutable.
- Is gas a separate market or part of a dual fuel market?
  - All gas customers are also electricity customers.
  - Most gas customers are on dual fuel contracts.
  - Retailers do not appear to market gas as a standalone product.
  - There are no gas-only retailers.

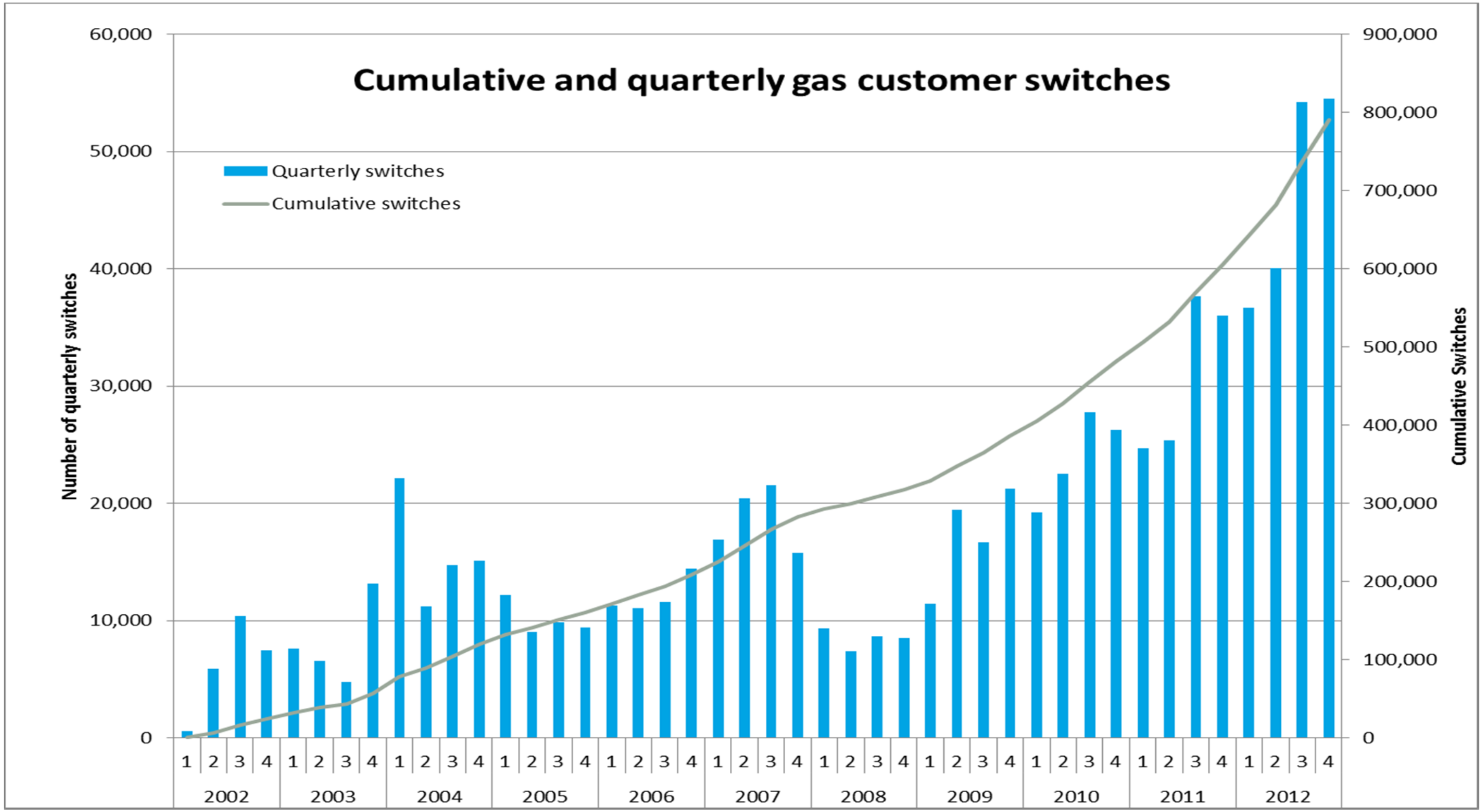
How active are customers?

- Approximately 90 per cent of electricity and gas customers are aware of their ability to switch retailer.
- 20 per cent of electricity customers and 14 per cent of gas customers in NSW had switched retailer in the twelve month period preceding 31 December 2012.
  - This switching rate is high compared to other jurisdictions and to other industries.
- The majority of electricity and gas customers are on market offers.

Trend in switching - electricity



Trend in switching - gas



Market structure and evidence of retailer entry into the market

	Market share of big three retailers	Number of active retailers	Barriers to entry identified by retailers in submissions
Electricity	95%	11	Not insurmountable
Gas	96%	5	Access to wholesale gas and haulage

Market shares are as at 30 June 2012 sourced from IPART publications

Independent retailer rivalry

- Sapere reports that retailers are primarily competing on price, discounts and cash rebates.
- In their interviews with Sapere retailers suggest most popular marketing channels are door to door sales and telephone sales.
  - Retailers are raising web-based marketing as an alternative sales channel.
- Proportion of customers in Roy Morgan survey that had been approached by a retailer with an offer (no time period specified in survey question)
  - 65 per cent of electricity customers.
  - 32 per cent of gas customers.

Customer satisfaction

- Of those customers that have switched, the majority are satisfied with their new retailer.
- Similarly, the majority found the switching process easy, smooth and it took as long or less time than expected.
- Of those that haven't switched the most common reason is that they are satisfied with their existing arrangements.
- Only 13% of customers surveyed had ever complained about or to an energy retailer.
- There were 5 electricity complaints per 1,000 customers to EWON in 2011/12 FY. There were 2.5 gas complaints per 1,000 gas customers.

Information requirements

- Most customers who were provided information through a sales encounter thought it difficult to understand
- Customers that *sought* information found it easier to understand and to compare offers, but there was still a degree of confusion
- 30% of electricity customers and 18% of gas customers have looked for information relating to switching their energy arrangements
- Customers in the Roy Morgan focus groups were generally not satisfied with information they received from energy retailers and were keen to share ideas for making information better.
  - Telstra was discussed as a model for utilities.

Discussion points

1. Where every customer that has gas also has electricity is it appropriate to define a gas only market, or should it be defined as a dual fuel market?

2. What evidence is there to suggest that competition is not effective in rural areas?

3. How are barriers to entry in gas more significant than in electricity?

4. What evidence is there of retailers actively competing to acquire and retain customers given that the market is highly concentrated and that a few of the larger retailers have recently ceased door-to-door sales?

AEMC