



29 May 2015

Mike Philipson
Essential Services Commission of South Australia
GPO Box 2605
Adelaide SA 5001

Lodged by email: escosa@escosa.sa.gov.au

Dear Mr Philipson,

RE: Review of the Operation of the National Energy Customer Framework in South Australia – Issues Paper

Origin welcomes the opportunity to respond to the Essential Services Commission of South Australia (the Commission) issues paper on the operation of the National Energy Customer Framework (NECF) in South Australia.

Origin supports the continued application of the NECF in South Australia. The NECF represents an important phase in the consolidation of the National Energy Market; the standardisation of retailer laws and regulations across jurisdictions has reduced retailer operating costs, encouraged new entrants and helped to create even more competitive markets. Consumers particularly benefit from the introduction of competition in markets; the increase in retailer entrance in South Australia has seen 83% of customers on market offers and 28% of small customers changing their electricity retailer in 2013.¹ Consumer interests are therefore furthered through the more efficient operation of the energy retail market.

Competition

According to the AEMC, competition is effective in the South Australian electricity market, which is second only to Victoria in terms of its maturity as a deregulated market.² Retail competition has continued to increase since the introduction of the NECF, largely due to the deregulation of energy prices in early 2013. In Origin's view, the NECF has also supported retail competition by standardising the cost of doing business across a number of jurisdictions; it lowers the barrier to entry in multiple markets and enables retailers to focus on delivering better products and services. The impact of the NECF has therefore been to complement, rather than impede, the benefits of deregulation in South Australia by lowering barriers to entry for new competitors. With respect to undertaking further competition analysis, Origin agrees that the Commission should leverage off the AEMC's Competition Review. Origin would not encourage another round of competition analysis that otherwise duplicates the AEMC's work.

Customer protection and vulnerable customers

In Origin's experience, the introduction of the NECF has not diminished customer protections, nor has it driven an increase in customer complaints that might indicate dissatisfaction with the scheme. In Origin's case, Ombudsman complaint numbers has declined over the period from an average of 10.1 per 1000 customers in December 2011 (prior to the commencement of the NECF) to 6.45 per 1000 customers in April 2015. Of these ombudsman complaints, high bill and non-payment complaints tended to be the highest since NECF was introduced; we would attribute these complaints to the cost of living and rising network costs more generally rather than the NECF in particular.

¹ AEMC, 2014 Retail Competition Review, Final Report, 22 August 2014, Sydney, p. Xvi.

² Ibid.

Vulnerable customers have not been adversely impacted as a consequence of the introduction of the NECF. Prior to the commencement of the NECF, Origin provided our customers with hardship assistance that exceeded baseline regulatory obligations, and we continue to do this through our hardship policy (“Power On”). Recently, Origin has taken steps to refine Power On to provide it with additional scope to more effectively assist customers experiencing payment difficulties in managing their energy costs. In doing so, the introduction of the NECF has not acted as a barrier to Origin refining its Power On policy. To the extent that customer numbers under Power On has increased, this is largely a consequence of general affordability and cost of living issues rather than any requirements under the NECF. However, as Origin’s experience with its Power On program has demonstrated, the NECF’s value for vulnerable customers is that it is flexible enough to accommodate improvements to retailer hardship programs.

There is also no evidence that the commencement of the NECF has reduced Origin’s ability to offer vulnerable customers competitive energy offers. Increased competition in a deregulated market, rather than the NECF, is a greater determinant of customer choice. Under our internal hardship processes, at the point of entry into Power On we offer our customers the most cost effective product we have available..

Derogations

Origin would like to see South Australia transition away from its derogations to the NECF, particularly minimum retailer service standards and the 160MWh small business consumption threshold. Jurisdictional derogations undermine the efficiency gains of the NECF, increasing the costs of compliance, and reducing the benefit of a national scheme. Whilst jurisdictions might believe that derogations are necessary for reasons unique to their state or territory, in practice they only add to administrative complexity and additional costs to retailers with little practical benefit. This is particularly the case with the 160MWh small business derogation, which is a notably higher threshold in South Australia than in other states. Retailers require different contracts, billing and pricing arrangements to operate in the South Australian small business market, diminishing the benefit of common systems that the NECF provides. In Origin’s view it would be beneficial to lower the threshold to 100MWh per annum make it consistent with other NECF states.


Origin aspires to lead the market in the delivery of customer service because it helps to retain loyalty and win customers in highly competitive retail markets. In South Australia, this means Origin endeavours to deliver above the regulated customer service standards. In our view, the best way of improving customer service delivery is through market competition rather than regulation. These minimum service standards can add to the cost of doing business in South Australia and assume which service standards customers value the most. In contrast, a competitive market allows retailers to determine and respond to customer service needs, and in turn allows customers to choose the retailer that provides the service that they most value. Markets are also more effective at signally changing customer service preferences; in contrast, regulation tends to freeze these expectations and might act to diminish the incentive for retailers to improve service levels.

Retailers are increasingly responsive to customers as price competition becomes more intense and retaining customers encourages investment in customer service. Rivalry builds between retailers as they strive to create brands that are associated with desirable product offerings and efficient customer service. Improving customer experience and responsiveness is one of the best ways to hold onto existing customers in South Australia and promote a brand reputation that leads to new acquisitions. In Origin’s view, the minimum customer service standard is unnecessary in a competitive market and, given advances in platforms for customer communication, is becoming less relevant from a regulatory point of view. Whilst telephoning the call centre is still a common contact method, email and social media (such as Facebook and Twitter) are increasingly more common methods of customers contacting their retailer.

Closing

Origin would be pleased to discuss any matters raised within this response with the Commission. Please contact Timothy Wilson (Retail Regulatory Analyst) in the first instance on (03) 8665 7155.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Hannah Heath', written in a cursive style.

Hannah Heath

Manager, Retail Regulatory Policy

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