MONITORING THE DEVELOPMENT OF ELECTRICITY RETAIL COMPETITION IN SOUTH AUSTRALIA

POSITION PAPER

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1. INTRODUCTION

In April 2003, the Essential Services Commission of SA (ESCOSA) released a paper outlining a Proposed Approach for “Monitoring the Development of Electricity Retail Competition in South Australia” [ESCOSA 2003b].

The aim of this work is to enable an examination as to how effectively the deregulated market for household and small business electricity consumers is operating, since its introduction from 1 January 2003. This work will form an important input into any assessment undertaken of the need for continuing price control.

This work is consistent with the primary objective of ESCOSA under the Essential Services Commission Act 2002, being the protection of the long-term interests of South Australian consumers with respect to the price, quality and reliability of essential services. The underlying tenet of regulation in the retail market is that competition will ultimately provide the best protection for consumers. Consequently, it will be important to monitor the state of this competition.

The Proposed Approach paper developed a series of indicators, which over time should indicate the degree to which a competitive market has emerged. These indicators included:

- ▲ The degree to which consumers are transferring between electricity retailers.
- ▲ The types and prices of retail electricity contracts being offered in the market.
- ▲ The quality of information about electricity contracts available to consumers.

ESCOSA has also previously indicated that it will be closely monitoring whether or not electricity retailers are making competitive offers to South Australia's low-income consumer groups.

As foreshadowed in the Proposed Approach paper, this Position Paper sets out the detailed framework for assessment of competition. This final approach has been informed by the submissions received on the earlier paper, which has led to a refinement of the earlier proposed indicators whilst retaining the basic framework.

2. OVERVIEW

Nine parties made written submissions to the Proposed Approach paper released in April 2003 [ESCOSA 2003b], being the: Minister for Energy, Electricity Industry Ombudsman SA (EIOSA), Conservation Council of SA, AGL SA (AGL), TXU, Origin, Country Energy, NRG Flinders and ETSA Utilities. Copies of these submissions are now on the ESCOSA website.

The submissions received were generally supportive of ESCOSA's proposed approach, with some suggesting a difference in emphasis.

The Minister for Energy (who was also responding on behalf of the Treasurer) was supportive of the broad range of information proposed to be collated and published which would enable an effective assessment to be performed. The Minister expressed particular interest in the data proposed to be gathered regarding the availability of retail contracts to all sectors of the small customer market, including low-income groups and those living in non-metropolitan areas. The Minister restated the Government position that the current protection arrangements (standing and default contracts) are to continue until such time as the Government is satisfied that a fully competitive market is operating.

EIOSA was also in general agreement with the proposed reporting program and indicators. Country Energy was not opposed to the majority of key indicators proposed, but sought alignment with existing reporting arrangements in Victoria and New South Wales.

Origin argued that indicators of barriers to entry should be the core focus of ESCOSA's monitoring exercise, with other indicators playing a secondary or supporting role as far as conclusions drawn about competition are concerned.

The Conservation Council of SA in general supported ESCOSA's approach and the emphasis on low-income customers, and also supported the proposed reporting frequency.

AGL, in its submission, considered that the extent or success of competition would be determined by looking at a range of matters, i.e. churn, products and services which needed to be looked at in totality. AGL supported the removal of safety net regulation at the earliest sensible opportunity.

NRG Flinders, in its submission, suggested that if ESCOSA intends using this work to inform its approach to retail price regulation, then as a means of enhancing transparency and regulatory certainty it may be desirable to establish criteria upfront to define the conditions necessary to enable the relaxation of pricing controls. As a general comment, NRG Flinders suggested that the emphasis of the monitoring effort should be placed on customer surveys in order to obtain the perspective and perceptions of end users.

In terms of defining the relevant market, as a general comment in its submission, TXU stated its belief that an analysis of substitutes is not an appropriate indicator, that oil and LPG are not cheaper than natural gas and there are no full substitutes for electricity.

Consistent with the view expressed by AGL, the Essential Services Commission of Victoria (ESCV) in its Final Report on the effectiveness of electricity retail competition in Victoria [ESCV 2002, p27] stated that the effectiveness of competition cannot be measured against a single set of indicators, but would need to consider a range of indicators covering market structure, conduct and performance all of which potentially impact on each other.

ESCOSA supports the view that it is important for the electricity retail competition indicators to be treated as a set, rather than rely on any one indicator, to demonstrate the level of effective competition existing at a point in time. In many cases, how the value of these indicators change over time (i.e. trends) is as important as the absolute numbers generated at any particular point in time.

ESCOSA considers that it could be difficult to define the conditions necessary to enable the relaxation of pricing controls upfront, given the need to rely on a range of indicators and that given the qualitative nature of some of the indicators there will be the need for some subjective assessment. In any event, as outlined in the Minister's submission, it is the Government that will need to be satisfied that a fully competitive market is operating.

As indicated in the Proposed Approach paper, the main rationale for ESCOSA's work in this area is to inform any future assessment of the need for continuing price control. This suggests that the primary data collection focus should be on obtaining information relating to the small customer market, with small customer defined as having an annual consumption of less than 160MWh. However, given the contestable timetable had large customers moving to contestability ahead of small customers, then developments in the large customer market (defined as an annual consumption of at least 160MWh) might potentially be a "leading indicator", albeit recognising that there are significant differences between the two markets. Consequently, ESCOSA will also monitor developments in the large customer market, but generally rely on its current data collection sources.

In its Proposed Approach paper, ESCOSA [2003b, p8] notes in the context of defining the relevant market that there is the potential for a degree of product substitution between electricity and gas, but that ESCOSA did not intend including switching between the two fuels in the proposed monitoring work in the short-term. ESCOSA intends to develop a separate paper on Gas Market Competition Measures during 2004. For the purposes of this paper, the market will be confined to being the electricity market within South Australia, covering all customers but with the emphasis on small customers.

As a general comment, ESCOSA intends to rely as much as possible on existing data sources drawn from SA retailer performance returns and any relevant data available from NEMMCO. However, at least in the early stages of electricity retail competition, this information will be supplemented with annual surveys of retailers and small customers, with the information to be sought detailed in Section 3. ESCOSA notes that customer surveys can be costly given the importance of achieving suitable sample sizes, and the detail of the surveys will need to be considered strategically. The cost to retailers of engaging in surveys is also an important consideration.

For 2003, ESCOSA proposes to commission a limited survey of small customer awareness of the ability to choose retailers, whether an offer has been received from a retailer, whether switching has occurred and any future switching intentions. ESCOSA also seeks to obtain certain limited information from retailers covering aspects such as categories of small customers that retailers have targeted in 2002-03 and intend to target in 2003-04 and evidence of innovative product offerings. The retailer information would be sought through an ad hoc request under Electricity Industry Guideline No.2 [ESCOSA 2003a]. This would not involve retailers having to engage in extensive data manipulation exercises. The results would be reported in November 2003.

The first detailed customer and retailer surveys of small customers are proposed to be undertaken in 2004, with the results reported in November 2004, to coincide with the release of the annual performance report for that year. The detailed 2004 surveys would have the benefit of electricity retail competition being in operation for at least 18 months, at the time of the surveys being conducted.

The information from these surveys will be presented in a manner that does not disclose confidential information; in the absence of ESCOSA engaging in due process with retailers in relation to retailer surveys.

The Proposed Approach paper suggested bimonthly quantitative reports (ie publishing statistics/data), with qualitative reports (ie reports containing analysis and commentary) six-monthly. Given that a key element of ESCOSA's data needs will come from the quarterly performance reports submitted by retailers selling electricity to small customers pursuant to Guideline No.2 [ESCOSA, 2003a], this suggests a timing of September, November, February and May for the quantitative reports. As ESCOSA's Annual Performance Report is published in November, this suggests that November would also be a good time to provide a qualitative report on the monitoring of electricity retail competition effectiveness, with the second of the six-monthly reports published in May of each year.

3. ELECTRICITY RETAIL COMPETITION INDICATORS

This section outlines the detailed framework for the assessment of electricity retail competition in South Australia, which ESCOSA now proposes to implement.

Each proposed indicator is discussed separately below, addressing the specific comments received in the submissions and outlining the approaches adopted in other jurisdictions in reporting electricity retail competition effectiveness. For a detailed discussion of the proposed indicators, the reader is referred to the April 2003 Proposed Approach paper [ESCOSA 2003b].

3.1 Indicator 1: Number of Electricity Retailers

3.1.1 Issue

The number of retailer participants currently operating in the small customer electricity market and/or intending to operate in the future would be expected to have an important influence on the prevailing level of competition. Accordingly, in its Proposed Approach paper ESCOSA [2003b, p10] indicated that it would report in a matrix format on the number of electricity retailers (not customers for this indicator) who are selling or seeking to sell electricity to the following categories of customers:

- ▲ large (consumption of at least 160MWh p.a.);
- ▲ small business (0-80MWh p.a.) and medium business (80-160MWh p.a.); and
- ▲ low-income residential (both metropolitan and rural & regional) and other residential (both metropolitan and rural & regional).

3.1.2 Submissions received

In general, those submissions making specific comment raised concern with the ability of retailers to disaggregate data into sub-groups of customers, identified confidentiality issues and suggested that the ESCOSA focus should be on monitoring the small customer market. However, as stated, it is the number of active retailers operating in the identified customer categories that is required, not customer details per se.

NRG Flinders' comments included:

- ▲ concerned to ensure that those retailers only serving large customers (annual consumption of at least 160MWh) will only be required to provide information through existing annual reporting;
- ▲ not clear how low-income customers are to be defined and identified;

- ▲ proposed definition of metropolitan, regional & rural customers is not clear; and
- ▲ existing Electricity Industry Guideline No.2 quarterly reporting approach does not appear to tie in with proposed bimonthly reporting schedule.

Origin considered it important to include all retail licence holders, not only those currently participating in the SA electricity market, as current licence holders are best placed to become active once the conditions become favourable.

TXU, in its submission, recommended that segments be confined to business customers with annual electricity usage greater than 160MWh, and residential and business customers with annual electricity usage less than 160MWh. Too many sub-groups may make it difficult to assign customers to correct segment. TXU could not assign business customers to 0-80MWh and 80-160MWh categories. Identification of low-income customers is difficult for retailers as electricity usage is a poor guide.

AGL:

- ▲ was concerned that the level of disaggregation of information sought is not readily available and would cost to provide, including difficulty in identifying a low-income customer;
- ▲ argued that some of the information sought is competitively valuable to AGL and publishing could weaken its commercial position; and
- ▲ believed the large customer market should be excluded, at least from public monitoring and possibly from all of the proposed monitoring and that this would be consistent with other states where the focus is on the small retail customer market. AGL believed that competition was flourishing in the large customer market and that the proposed reporting could in fact damage the competitive position of retailers.

Country Energy, in its submission, encouraged key indicators to be aggregated and limited to the less than 160 MWh customers as greater than 160 MWh would present some confidentiality issues in relation to pricing arrangements.

The Conservation Council of SA suggested inclusion of a further sub-group of ‘grid connected small generation units (SGUs)’ to understand barriers to embedded generation and in assessing the diversity of products offered by retailers.

3.1.3 Other studies

Most of the studies reviewed identify retailers separately or as part of other indicators employed. ESCV [2002, p30] presents a table showing a history of the number of licensed and active retailers in the Victorian electricity retail market.

The NEMMCO [2003] review of overseas websites, reported in more detail in section 3.2.3, shows that in a number of cases active retailers are identified as part of another indicator, such as percentage of customers served by an alternative supplier.

3.1.4 Comment

Indicator 1 will only report retailer activity in terms of the number of retailers operating or intending to operate within a particular customer sub-group. This would be reported in a matrix format, showing electricity participation in identified categories by overall participant numbers rather than by identifying individual electricity retailers. Existing operation and intention to operate will be reported separately so as not to dilute the information provided.

Retailers operating in the small customer market are already providing information through Electricity Industry Guideline No.2 [ESCOSA 2003a] that would enable activity to be reported at the high level of residential customer and small business. It is expected that the marketing branches of retailers would be able to advise on whether they were targeting most of the broad sub-groups proposed by ESCOSA. Accordingly, the intention is to seek information that would enable ESCOSA to determine the number of retailers operating in defined categories through the form of an additional request for information, possibly in the form of an ad hoc request under Electricity Industry Guideline No.2 or an amendment to the Guideline. However, it is accepted that it is likely to be difficult for retailers to identify low-income customers, and hence customer surveys will need to be relied upon for information on this sub-group.

3.1.5 Position

The following table indicates the information that will be reported on the number of electricity retailers.

INDICATOR 1: NUMBER OF ELECTRICITY RETAILERS [1]

Category	Indicator	Source	Reporting
Number of electricity retailers	Current number of SA licensed retailers & history of entry & exit	ESCOSA issued licences	September[2]), November, February & May
	Number of retailers participating in: - ≥160MWh p.a. market[3]	Annual Return[5] & ESCOSA Guideline No.2 Reporting	Annual – November
	- <160MWh p.a. residential[4] - <160MWh p.a. business[4]	ESCOSA Guideline No.2 Reporting	September[2], November, February & May
	Number of retailers participating in &/or intending to target over next 12 months business market sub-groups[6]: - 0-80MWh p.a. - 80-160MWh p.a.	ESCOSA additional limited retailer data request – September 2003[7] ESCOSA survey of retailers[7]	Annual - November[8]
	Number of retailers participating in &/or intending to target over next 12 months residential market sub-groups[6]: - metropolitan - rural & regional	ESCOSA additional limited retailer data request – September 2003 ESCOSA survey of retailers[7]	Annual – November[8]

Note: (1) ESCOSA intends to report this activity in matrix format, demonstrating electricity retailer participation in the identified classes by overall participant numbers & not identify individual electricity retailers.
(2) Timing has regard to availability of June Quarter return, which is linked to Annual return.
(3) Defined as large customers.
(4) Defined as small customers.
(5) Currently only those retailers selling to small customers are required under Electricity Industry Guideline No.2 to report on large customers on a quarterly basis. Consequently, full data for this category will only be available annually.
(6) Information to be sought separately as to whether the retailer was active for the previous financial year and if it intends to be active over next 12 months, so that it is possible to clearly define the number of retailers who were active at some level in the previous financial year.
(7) It is intended that this information would generally be obtained through detailed retailer surveys, but additional limited data requests of retailers would be employed for those years where detailed surveys were not carried out.
(8) The detail of the report will depend on the extent of the information available. Reporting in November would enable a line up of the majority of information for Indicator 1 for one time in the year.

3.2 Indicator 2: Customer Switching

3.2.1 Issue

The extent to which customers are exercising choice in switching from standing contracts to market contracts, either with AGL or other retailers, is an indicator of the competitive effectiveness of electricity retailer activity. The level of customer switching also has a direct impact on retailer market share. Accordingly, in its Proposed Approach paper ESCOSA indicated that it would report on the numbers of customers changing electricity retailer over a given period utilising NEMMCO data [ESCOSA 2003b, p11], and trends in customer numbers and electricity volumes over time for each electricity retailer [ESCOSA 2003b, p12].

3.2.2 Submissions received

In general, submissions were supportive of using churn or customer switching data, with some submissions noting the importance of also considering those customers taking out market contracts with the incumbent retailer, AGL. A number of submissions noted that NEMMCO was yet to commence publishing churn data for South Australia. There was also general support for monitoring market share information.

Origin considered that any monitoring of churn should reflect the shift of customers from regulated tariffs to market offers, whether they occur within a retailer or from one retailer to another. Origin did not dispute actual customer numbers and volume for each retailer (market share) being useful indicators, but maintained that competition can still be present in the absence of any significant change in these indicators.

NRG Flinders, in its submission, agreed that the level of customer churn was a useful indicator of competitive activity, but suggested that it should not be viewed in isolation. NRG Flinders suggested that there was a need to consider both the cumulative number of transfers and trend in transfers. In relation to market share, NRG Flinders agreed with the ESCOSA proposal particularly in relation to volume, suggesting that annual reporting is probably sufficient. Market concentration indices (eg Hirschman-Herfindahl index)[1] may also be a useful adjunct to market share measures.

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[1] A standard measure of the degree of concentration in a market (market power) is the Hirschman-Herfindahl Index (HHI), defined as the sum of the squared market shares (shares based on sales or some other size measure) of the firms within an industry. This index attains a maximum value of 1.0 in the presence of a single (monopoly) firm. The value declines with increases in the number of firms, whilst the value increases with rising inequality of firm sizes among any given number of firms. Ofgem [2003b, p48] adopts a variant were the HHI is calculated by squaring the percentage market share of each firm competing in the market and then summing the resulting numbers. As a result, the HHI ranges in size from 0 to 10,000. According to Ofgem, a market is considered relatively unconcentrated with a HHI below 1,000, moderately concentrated with a HHI between 1,000 & 1,800 and in excess of 1,800 generally considered highly concentrated.

TXU considered it necessary to consider factors that could influence churn, such as perception that changing retailers is 'safe'. The level of standing prices and opening up of the gas market were also factors. TXU suggested that there are potentially a number of reasons why market share of competing retailers may not continually increase. Churn rates will vary over time depending on the nature of periodic campaigns engaged in by the retailer.

AGL, in its submission, considered there was a need to look at a range of measures, of which churn was one. Churn would provide some indication of competition, albeit a lagging indicator. In other jurisdictions the level of customer satisfaction with swapping retailers has varied. AGL argued that for the large customer market churn data was not an accurate indication of effective competition, given delays in contracts taking effect. Due weight must be given to in situ customers accepting a market offer from the incumbent retailer.

AGL believed that the number of customers and the volume of overall sales would be good indicators of the development of competition, albeit a lagging indicator. However, AGL suggested that ESCOSA should also monitor consumption per customer for individual retailers to make sure that no one retailer is left to provide service to the 'high-cost-to-serve' segment of the market.

The Conservation Council of SA supported a market share indicator, as a means of understanding characteristics resulting in churn (eg is it only the big energy users being rewarded).

3.2.3 Other studies

NEMMCO publishes data for New South Wales and Victoria on small customer transfers between retailers, but currently not for South Australia on confidentiality grounds. This data does not show the extent to which the incumbent retailer's customers take out market contracts with the incumbent.

NEMMCO [2003] in Appendix A to its report provides the results of a review of the statistics published on overseas websites. In summary:

- Ofgem has published statistics from September 2002 that show the total number of consumers that have transferred from their old monopoly supplier and the percentage of the market share held by the monopoly suppliers and new suppliers. NEMMCO suggests that it publishes similar information for New South Wales, Victoria and Queensland.
- Ofgem's Annual Report 2001-2002 includes statistics showing the proportion of customers who have switched one or more times (as total percentage and by special needs and social class and by method of payment). NEMMCO does not have access to statistics on customer types and customer payment

methods. NEMMCO can report on the proportion of customers who have switched one or more times, but statistics are not currently collected to enable reporting on the frequency with which consumers switch.

- The Pennsylvania Office of Consumer Advocate publishes customer numbers and load for each alternative supplier. It would be possible to use NEMMCO's MSATS[2] data to achieve similar statistics for customer numbers, but only by small and large customer categories. However, the MSATS statistics process would not enable similar load details to be published.
- The statistics published by the Public Utilities Commission of Ohio show, for each utility's service area, the proportion of market share (based on customer load) that they have held and the proportion they have lost individually to each alternative supplier. The Public Utilities Commission of Texas reports, for each utility, the percentage of its service area other suppliers are servicing. NEMMCO advises that the new MSATS statistical process is collecting sufficient data to be able to produce similar reports based on the number of customers (but not load) won and lost, if such reports are required.

The NSW Ministry of Energy & Utilities [2003] publishes aggregated data which shows the number of gas and electricity customers who have opted to enter into a negotiated contract with their existing retailer or who have switched to another retailer, as well as referring people to the NEMMCO website for NEMMCO's customer churn statistics. The ESCV, in addition to including the NEMMCO data, also reports data from its retailer surveys indicating the number of small customers in Victoria who have entered into market contracts with their existing retailers [ESCV 2002, p58].

Sharam [2003, p8] suggests that the results of her Victorian survey are that around 50% of respondents are not considering entry into the market at this point of time and may not do so in the future. However, this position did not appear to be influenced by the level of income of the respondent.

The Wallis Consulting Group [2002, p16] found in Victoria that the majority of respondents were not motivated to change retailer or sign a contract in the short term. Those most likely to do so would seem to be households and businesses with gas connected and they are likely to choose to deal with a retailer that can provide both fuels. Wallis Consulting Group [2002] also found that:

- residential customers displaying a higher than normal level of interest are more likely to be in households earning <$50,000, spending > $800p.a. on electricity & living outside Melbourne [p29];

[2] Market Settlement and Transfer Solution.

- while around 20% of respondents believe nothing could be done to improve their confidence in choosing an electricity retailer, just over 50% think that more information is required [p31]; and
- residential customers who received an offer were more likely to have gas connected and live in metropolitan areas [p41].

Ofgem [2003a, p23], in a UK review of domestic gas and electricity supply competition, measures customer switching by:

- Net switching (erosion of incumbent retailer customer share) which looks at net effect of customers moving away from the incumbent retailer after deducting customers who have returned to their incumbent;
- Gross switching, which measures the proportion of customers who have ever switched; and
- Multiple switching, which measures proportion of customers who switch several times.

According to Ofgem, evidence from the UK suggests that price competition is a key driver of consumer choice (with savings up to 23% for gas & 20% for electricity customers possible). Other relevant measures employed by Ofgem [2003a] include:

- intentions to switch gas supplier by payment type, region and previous switching experience [p30];
- household net switching in electricity by payment type and income [p35];
- intentions to switch electricity supplier by payment type, region and previous switching experience [p38];
- multiple switching of electricity supplier [p39]; and
- market share for gas & electricity by number of customers (for electricity sourced from distribution network operators) but not volume [pp41 & 43]. Information on dual fuel market shares by customer is also provided [p46].

Ofgem [2003b, p47], in a UK review of competition in the non-domestic gas and electricity supply sectors, provides market concentration indicators such as the aggregated share of the top three suppliers and the HHI[3]. Ofgem notes that changes in indexes such as the HHI (rather than static figure) can offer better insight into the nature of competition in a market [Ofgem 2003b, p48]. In this review, Ofgem also provides market share data for a range of volume bands (eg up to 200MWh) by retailer, in market share bands of: up to 5%, 5% to 10%, 10% to 15% and over 15% [Ofgem 2003b, Appendix 4].

[3] See footnote 1 for definition.

3.2.4 Comment

Some retailers have raised concern over confidentiality of customer transfer and market share information. The NEMMCO churn statistics showing the level of transfers from the incumbent retailer would indicate the change in market share for AGL, an issue unique to South Australia given the monopoly position at commencement of electricity retail competition. It is argued that publication of such data could impact on the commercial position of AGL.

ESCOSA considers that it has an important responsibility to monitor the state of competition in the SA electricity retail market and that part of this responsibility entails publishing certain data to enable consumers to be informed as much as possible.

ESCOSA has nevertheless sought to balance both the public and private interest associated with this matter. It has determined to commence publishing data demonstrating movement from standing contracts to market contracts only: aggregated transfer data that would combine the NEMMCO small customer transfer data (comprising transfers to second tier retailers[4]) with data on the number of small customers transferring to market contracts with AGL. This data would be sought on a monthly basis and published as a component of the proposed ESCOSA quarterly reports of indicators for monitoring electricity retail competition effectiveness. Monthly data would be sought from January 2003, to enable a time series of such data to be published from the date of FRC. However, unlike the NEMMCO data, the AGL data would not be required to be provided to ESCOSA on a daily resolution basis, with a simple aggregated monthly total of small customer transfers from standing contracts to market contracts to be reported.

ESCOSA's intention would be to publish the disaggregated data (including data on market share by customer and volume) at some future date, after gas retail competition had been operating for some time and after further consultation with affected retailers. This would include the publishing of a time series capturing data collected prior to that time, but not previously published.

ESCOSA will work with regulators in other states to develop an approach to publishing market share information, which could include monitoring changes in market concentration indexes over time.

The customer switching statistics to be published will identify those customers that have moved from standing contracts and thus demonstrate the extent to which

[4] If a consumer has moved from their local retailer (retailer responsible for franchise load), then their retailer of choice is termed as second tier retailer [NEMMCO 2002, Appendix 1].

customers are exercising choice. In terms of looking forward, the extent of customer interest in switching will be sought through customer surveys.

3.2.5 Position

The following table indicates the information that will be reported on the degree of customer switching.

INDICATOR 2: DEGREE OF CUSTOMER SWITCHING

Category	Indicator	Source	Reporting
Number of customers switching	Number of small customers taking out market contracts, aggregated across retailers	NEMMCO and ESCOSA Guideline No.2 Reporting	September(1), November, February & May
	Number of small customers switching, by sub-group(2)	ESCOSA limited small customer survey – September 2003(3) ESCOSA survey of small customers	Annual - November(4)
Intentions	The extent to which small customers yet to take out market contracts would consider doing so: - for periods such as within the next 6mths, 12mths, 2 years or never - identifying factors driving such intentions - by sub-group(2)	ESCOSA limited small customer survey – September 2003(3) ESCOSA survey of small customers	Annual - November(4)

Note: (1) Timing has regard to availability of June Quarter return, which is linked to Annual return.
(2) For the detailed surveys the sub-groups would be: Residential – metropolitan low-income, rural & regional low-income, metropolitan other and rural & regional other. Small Business – 0-80MWh p.a. & 80-160MWh p.a.
(3) It is intended that this information would generally be obtained through detailed customer surveys, but limited small customer surveys would be employed for those years where detailed surveys were not carried out. For September 2003, the survey focus would be on whether switching had occurred and intention to switch.
(4) The detail of the report will depend on the extent of the information available. Reporting in November would enable a line up of the majority of information for indicators for one time in the year.

3.3 Indicator 3: Barriers to Entry

3.3.1 Issue

The extent to which barriers to entry exist for retailers will limit the potential for active competition and in turn reduce the potential choice for customers and downward pressure on prices. Accordingly, in its Proposed Approach paper ESCOSA [2003b, p13] indicated that it would survey existing retailers operating in South Australia and, where possible, electricity retailers operating interstate who have not yet entered the South Australian market, to identify the existence of any barriers to entry which either are or might impede new entrant electricity retailers.

3.3.2 Submissions received

Submissions were supportive of the need to monitor barriers to entry and that action be taken to reduce such barriers.

Origin considered barriers to entry to be the single most important determinant of competition. Origin considered that retail price regulation and the headroom it makes available for new entrant competition is a key factor to be explicitly monitored. It was suggested that emphasis be placed on aspects such as the regulatory framework (including regulated retail prices) and the practical operational framework (including NEM interfaces).

NRG Flinders argued that it was important not to underestimate the influence of market imperfections (eg wholesale market liquidity, non-firm network access) and perceptions of investor risk (eg policy uncertainty and political developments). Surveys and anecdotal information were suggested to be the best practical information sources. In the long run any evidence of super-normal profits was the best gauge of the existence of barriers to entry.

TXU, in its submission, argued that the benchmarking of the effectiveness of competition must be based on substantial and robust evidence of any barriers to switching affecting consumer behaviour.

Country Energy stated that the present complexity of administering a diverse number of regulations across jurisdictions added significant costs to a retailer.

AGL encouraged ESCOSA to continue the approach to reducing barriers to entry and saw the main barriers to entry being continued low levels of return for retailers from certain market segments, increasing regulatory compliance obligations and absence of an open gas market. An examination of barriers to entry to retailing electricity in SA was considered the most critical element of establishing the effectiveness of competition. AGL argued that it was unlikely to enjoy the cost advantages suggested in the ESCOSA paper, given the size of companies that have substantial operations in other jurisdictions. It feared being vulnerable to 'cherry picking' by competitors, potentially leaving AGL to serve high cost customers.

ETSA Utilities, in its submission, considered demand profiling using basic accumulation meters a barrier to entry and advocated the rollout of smart meters (together with two-way controls and communication) as essential for retailers to be in a position to provide new products and services.

The Conservation Council of SA suggested considering the extent of any barriers to churn from responses to customer surveys. The Council also suggested an evaluation be undertaken of the relationship between retailers and the distributor and the ways this may encourage or discourage competition (eg metering and transfers).

3.3.3 Other studies

The ESCV [2002] suggests a potential barrier to entry being that, for certain customer groups, retailer margins under standing offer prices might provide inadequate headroom for retailers to make competitive offers. ESCV [2002, p22] lists the following range of market structure indicators:

- number of competing consumers in the market;
- number of competing retailers in the market;
- history of entry and exit of retailers;
- market shares and concentration of the market among retailers;
- existence of economies of scale and scope; and
- existence of barriers to entry (including any related to regulatory arrangements).

ESCV [2002, p35] notes that a number of Victorian retailers see price regulation as a key barrier, although NSW retailer responses it received suggested that it was not a problem for them in Victoria. The ESCV [2002, p36] suggests that, for certain customer segments, competitive offers are restricted where margins are limited. ESCV [2002, p38] argues that regulatory differences have not prevented entry, but compliance costs may have influenced the nature and extent of competitive conduct observed.

3.3.4 Comment

Whilst Origin considers that the regulatory framework is the key component to be monitored, ESCOSA's approach is to monitor a range of indicators to assist in drawing conclusions rather than concentrate on any particular indicator.

In relation to the ESCV list of market structure indicators, it is considered that the majority have been picked up in one form or another by ESCOSA. Whilst ESCOSA may undertake an examination of economies of scale and scope, it is not intended that this be an indicator subject to regular reporting.

Consistent with the approach outlined in its Proposed Approach paper (see section 3.3.1) ESCOSA intends to employ a survey of electricity retailers (currently licensed in SA and those interstate retailers not currently licensed in SA) to identify the existence of any barriers to entry which either are or might impede new entrant electricity retailers. As indicated in section 2, the timing for such surveys will need to be considered strategically, and ESCOSA proposes to conduct the first detailed retailer survey (which would seek data on this indicator) in 2004, to be reported on in November 2004.

3.3.5 Position

The following table indicates the information that will be reported on the existence of barriers to entry.

INDICATOR 3: BARRIERS TO ENTRY

Category	Indicator	Source	Reporting
Barriers to entry	The existence of any barriers to entry which either are or might impede new entrant electricity retailers: - general regulatory requirements (eg complexity & jurisdictional differences) - extent of any insufficient headroom under standing offer prices (& default contract prices) to enable competition - other (eg access to hedging products & incumbency advantages)	ESCOSA survey of retailers(1) ESCOSA survey of interstate electricity retailers not currently licensed in SA(1)	Annual – November [from 2004]

Note: (1) Any retailer information received from the surveys will be suitably masked or presented as percentile information.

3.4 Indicator 4: Information Asymmetries

3.4.1 Issue

The provision of information in a market is crucial to the effective operation of the market. To the extent that consumers are not adequately informed, they are either less likely to consider switching retailers, or be vulnerable to accepting offers that may not be in their best interests. Accordingly, in its Proposed Approach paper ESCOSA [2003b, p14] indicated that it would undertake surveys designed to identify customer awareness of ability to switch, ease of obtaining information and the extent and nature of retail offers.

3.4.2 Submissions received

Submissions were generally supportive of the need to monitor consumer awareness.

Origin suggested that in practice it is difficult to determine what is an appropriate amount of information in the market. However, Origin considered any proposal to monitor misleading and deceptive behaviour as unnecessary and should be left to the Fair Trading Act and Trade Practices Act to deal with.

NRG Flinders agreed with use of customer surveys to determine the degree to which customers are being informed of rights and choices. Surveys need to be focussed on the relevant retailer segment.

TXU suggested there is a need to clearly distinguish between ‘not interested’ and ‘not aware’. There was a need to take care with benchmarking early on in electricity retail competition, as customers would naturally gain experience that will influence their long-term activity.

The Conservation Council of SA suggested that information for this indicator should be obtained for a broad cross section of customer groups.

AGL, in its submission, supported the provision of information to customers that was useful to better helping them to understand the electricity market, but believed this information is better targeted at the small customer market. It supported the use of customer and retailer surveys to monitor information asymmetry, although the potential value of such surveys was argued to be limited to the extent that customer concerns are generally limited to reliability and cost. AGL suggested that a customer survey question should test the level of concern felt by consumers with the degree of competition available.

3.4.3 Other studies

ESCV [2002, p23] lists the following market conduct indicators:

▲ customer awareness of competition of choice;
▲ ease of obtaining and comparing information;
▲ extent and type of marketing activity;
▲ extent of offers being sought and made;
▲ number of customers accepting market offers and/or switching retailers; and
▲ anticompetitive or misleading behaviour.

In respect to the extent and type of marketing activity, ESCV [2002, p51] provides a graph of total advertising expenditure for July 2001 – August 2002. ESCV [2002, p53] suggests that the evidence does not indicate a significant problem with anticompetitive or misleading or deceptive behaviour in Victoria.

Ofgem [2003a, pp19-21] found that, in a recent UK survey, around 50% of customers said they did not know how easy it was to compare prices between suppliers. The proportion of UK customers finding the switching process easy is

78% for gas and 85% for electricity (noting that gas Full Retail Contestability (FRC) preceded electricity FRC in the UK). Further, Ofgem [2003a, p11] has challenged the industry to simplify the transfer process, is tackling misleading conduct by retailers and is reforming the rules governing when suppliers can object to a transfer.

3.4.4 Comment

The proposed ESCOSA indicators pick up the ESCV market conduct indicators, either in this section or other sections. ESCV [2002, p46] lists some of the detailed questions included in its customer survey. This level of detail will be picked up at the time of the ESCOSA survey development.

ESCOSA proposes to confine any customer survey work to small customers, noting the specific role ESCOSA has in the small customer area (eg electricity retail price justification) and the importance of spending available funds to achieve as large a sample size for small customers given the number of potential categories for which information will be sought. This is consistent with the approach adopted by ESCV, in that it targeted small customers.

Consistent with the approach outlined in its Proposed Approach paper (see section 3.4.1) ESCOSA intends to conduct a survey of small customers (awareness of ability to switch and search costs) and a survey of electricity retailers (extent and nature of marketing behaviour). As indicated in section 2, the timing for such surveys will need to be considered strategically, and ESCOSA proposes to conduct the first detailed customer and retailer surveys in 2004 (to be reported on in November 2004), which would be the main source of data for this indicator. However, as an interim measure, ESCOSA will undertake a limited small customer survey in September 2003, which will include a question on customer awareness of the ability to switch retailers, to be reported in November 2003.

In relation to Origin's view that it is unnecessary for ESCOSA to monitor misleading and deceptive behaviour, ESCOSA considers that at least in the early stages of electricity retail competition it is important to determine whether the regulatory structure is performing effectively. ESCOSA proposes to concentrate on customer experiences in this regard covering aspects such as any evidence that retailers might be employing slamming[5] techniques, although it is possible that retailers may also be prepared to venture some views, particularly in relation to the operations of competitors.

[5] The term 'slamming' is defined in Appendix 1 (Glossary) of NEMMCO [2002] as 'the acquisition by a retailer of volume consumers through unethical trade practices'.

3.4.5 Position

The following table indicates the information that will be reported on aspects of customer awareness and transfer costs.

INDICATOR 4: INFORMATION ASYMMETRIES

Category	Indicator	Source	Reporting
Awareness	Small customer awareness of ability to switch retailer & willingness to seek offers: - any gaps or areas of misunderstanding - transfer experience - by sub-group(1)	ESCOSA survey of small customers ESCOSA limited small customer survey – September 2003(2)	Annual - November(3)
Transfer Costs	Costs of transferring (search costs): - ease of obtaining, understanding & comparing information - information on prices, services and terms & conditions & whether sufficient to support informed choices - by sub-group(1)	ESCOSA survey of small customers	Annual – November [from 2004]
Marketing behaviour	Extent and nature of marketing behaviour: - extent & nature of offers being made (see indicator 5) - extent of active marketing (eg level of advertising & associated expenditures) - evidence of any misleading or deceptive behaviour - by sub-group(1)	ESCOSA survey of retailers(4) ESCOSA survey of small customers	Annual – November [from 2004]
Other Aids	Existence & output of third party information intermediaries	ESCOSA monitoring	Annual - November(3)

Note: (1) For the detailed surveys the sub-groups would be: Residential – metropolitan low-income, rural & regional low-income, metropolitan other and rural & regional other. Small Business – 0-80MWh p.a. & 80-160MWh p.a.

(2) It is intended that this information would generally be obtained through detailed customer surveys, but limited small customer surveys would be employed for those years where detailed surveys were not carried out. For September 2003, the survey focus would be on whether there was awareness of the ability to switch retailers.

(3) The detail of the report will depend on the extent of the information available. Reporting in November would enable a line up of the majority of information for indicators for one time in the year.

(4) Any retailer information received from the surveys will be suitably masked or presented as percentile information. Survey only to cover small customers.

3.5 *Indicator 5: Price/Service Mix*

3.5.1 Issue

A key factor in a successful market is the extent to which customers have choice. ESCOSA seeks information on the detail and extent of market offerings made to customers, in order to monitor the extent to which retailers are responding in this area. Accordingly, in its Proposed Approach paper ESCOSA [2003b, p15] indicated that it would seek to undertake surveys to identify the extent and nature of offerings being made to consumers.

3.5.2 Submissions received

There was a somewhat mixed reaction from submissions to the proposed indicator. Origin raised concern that, while both pre-emptive and active rivalry drive efficient long-term prices, only the latter was focussed upon in ESCOSA's Proposed Approach paper. Origin considered that more emphasis needed to be placed on the benefits achieved through competition (or threat) leading to reduced prices for existing contracts (as a mechanism employed by retailers to stop customers churning). Origin did not consider there to be any benefit in monitoring retailers' price/service mix, suggesting that customers are in the best position to demand optimal price/service mix and that such an indicator would appear to demonstrate nothing about the level of competition in the market.

NRG Flinders, in its submission, considered that any market surveys would need to be focussed on the appropriate retail market segment, but that ESCOSA should be able to rely on customer surveys to gauge the level of satisfaction. Retailers concentrating on large customers were likely to be reluctant to disclose the nature of their price offerings. For small customers, ESCOSA might consider the approach of calculating annual energy costs for typical customers under alternative pricing arrangements, for comparison purposes.

The Conservation Council of SA recommended consideration of issues such as hardship policies/customer charters, call centre performance, billing accuracy, ombudsman referrals, energy efficiency advice, GreenPower products and other services as attributes or offerings worth reporting.

TXU, in its submission, was concerned that the analysis of price, service and quality often focuses on reducing the assessment to the level of cost or profit per customer, rather than focus on any improvement of delivery of the price and service mix to consumers. ESCOSA should consider using the level of marketing investment undertaken by retailers to indicate the level of retailer activity, and the level of product differentiation to indicate that retailers are competing on both service and price.

AGL suggested that it would have difficulty in providing information for sub-groups. There was potential for 'would be' entrants to be deterred by price controls. In relation to customers potentially trading off service for price reductions, AGL pointed out that the Electricity Retail Code contains many customer safeguards suggesting that, should ESCOSA approve any changes to contracts, then this would warrant monitoring by ESCOSA.

3.5.3 Other studies

ESCV [2002, p28] suggests that it may be as long as three or more years before competition imposes effective discipline on price and service quality in the Victorian electricity retail market. Such a timeframe is supported by overseas experience (eg UK & NZ) and possibly arises due to the complexity of the new market environment and the time and cost involved in obtaining and assessing information on the available opportunities.

ESCV [2002, p26] reports that it undertook some "mystery shopper" research, to provide some information on the nature and extent of offers being made to customers and whether there appeared to be any level of discrimination against any particular customer group. Information sought from retailers indicated that they would target small and medium enterprises and larger residential market sectors because they perceived these customers to have higher margins. Many retailers stated that they did not pursue smaller residential customers as rigorously as small business customers because they considered that, in certain circumstances, the margin available was not high enough to cover the cost of service [ESCV 2002, p31].

ESCV [2002, p73] refers to research undertaken by IPART[6] suggesting that an annual saving as high as 15% to 20% would be required for a consumer to consider switching. In addition ESCV notes that the absolute size of the bill is also an important determinant of consumer activity.

3.5.4 Comment

In relation to the position put by Origin, ESCOSA recognises the extent to which an incumbent retailer responds by reducing its prices as an important benefit of competition. ESCOSA is keenly interested in the movement of retail prices overall, which is an important factor in its work in areas such as electricity retail price justification. Whilst ESCOSA has access to various sources of information in this area (eg trends in large customer retail electricity contract prices), at this stage it does not intend to publish any more data than that provided in the annual performance reports. Some of the information available to ESCOSA has not been derived from a statistically based sample, but nevertheless it should be possible to report on emerging trends in the proposed six monthly electricity retail competition effectiveness monitoring qualitative reports.

6 IPART is the Independent Pricing and Regulatory Tribunal of New South Wales

The Estimator located on the ESCOSA website is designed to enable customers to compare prices for their individual circumstances. ESCOSA will continue to monitor how it may best be able to assist in improving the level of information available to consumers.

On Origin's point that customers are in the best position to demand an optimal price/service mix, this would be expected to be the case in a fully competitive market. The extent to which this is occurring is therefore seen as a useful indicator of the health of the market.

In its submission, NRG Flinders also suggested an additional indicator be the ability of new customers to obtain competitive supply offers. It is intended that Indicator 5 pick up this point.

In relation to the offerings that the Conservation Council of SA suggests be reported, many relate to requirements under the Retail Code and are reported on in the annual performance report. Some of the hardship policy aspects have been picked up in Indicator 6 (impacts on low-income groups) and products such as GreenPower should be picked up either under this indicator or Indicator 7 (innovation).

Consistent with the approach outlined in its Proposed Approach paper (see section 3.5.1) ESCOSA intends to employ a survey of small customers and a survey of electricity retailers to determine the extent and nature of offers being made. There is some overlap in aspects of Indicator 4 (information asymmetries), Indicator 5 (price/service mix) and Indicator 7 (innovation), as the nature of offers should also indicate the level of innovation occurring. However, given the ESCOSA approach of considering the range of indicators rather than the results of a single indicator, any potential overlap is not considered to be an issue.

As indicated above (section 3.4.5), ESCOSA proposes to conduct the first detailed customer and retailer surveys in 2004 (to be reported on in November 2004), which would be the main source of data for this indicator. However, as an interim measure, ESCOSA will undertake a limited small customer survey in September 2003, which will include a question on whether the customer has received a market offer from a retailer, to be reported in November 2003.

3.5.5 Position

The following table indicates the information that will be reported on aspects of price and service mix.

INDICATOR 5: PRICE/SERVICE MIX

Category	Indicator	Source	Reporting
Nature of Offers	Extent and nature of offers being made: - ability for customer to obtain a competitive offer - customer or retailer initiation of contact - degree customers have understood detail - reasons customers have chosen to accept or decline - by sub-group(1)	ESCOSA survey of retailers(2) ESCOSA limited small customer survey – September 2003(3) ESCOSA survey of small customers	Annual – November(4)

Note: (1) For the detailed surveys the sub-groups would be: Residential – metropolitan low-income, rural & regional low-income, metropolitan other and rural & regional other. Small Business – 0-80MWh p.a. & 80-160MWh p.a.

(2) Any retailer information received from the surveys will be suitably masked or presented as percentile information. Survey only to cover small customers.

(3) It is intended that this information would generally be obtained through detailed customer surveys, but limited small customer surveys would be employed for those years where detailed surveys were not carried out. For September 2003, the survey focus would be on whether a customer had received an offer.

(4) The detail of the report will depend on the extent of information available.

3.6 Indicator 6: Impacts on Low-Income Groups

3.6.1 Issue

ESCOSA has indicated that it will be closely monitoring whether or not electricity retailers are making competitive offers to South Australia's low-income consumer groups. While it is important that all consumers benefit from competition, ESCOSA is concerned that low-income and other socially disadvantaged groups are often overlooked in these processes. ESCOSA does not believe that it will be possible to say that there is effective competition in the South Australian retail electricity market unless it can be shown that these groups are receiving competitive offers alongside other consumers.

3.6.2 Submissions received

The main issues raised in submissions were the difficulty retailers would have in determining low-income customers and the need for ESCOSA to adequately deal with consumer confidentiality and privacy issues.

Origin was not clear on the reason for concentrating on low-income customers and that competition effectiveness should be measured against efficient prices being achieved in the longer term. Whilst supporting the government’s welfare objectives, Origin suggests any lack of activity in certain sectors was more likely to reflect lack of headroom between costs and standing tariff rate. Retailers cannot gauge which customers are low-income and can only be aware of energy use.

EIOSA and the Conservation Council of SA supported a key indicator to determine the extent to which market offers are being made to low-income consumers. However, EIOSA noted that ESCOSA had not detailed how the information was to be obtained and argued that this was a sensitive issue, with consideration of confidentiality and privacy paramount.

AGL, in its submission, indicated that it would have great difficulty in providing information by sub-group and raised concern with the incumbent retailer being left to service high cost customers. If only 'low-cost-to-serve' customers were being made market offers and exercising choice, then this might suggest that competition had been effective to the extent that barriers permitted (and if so, issues would primarily relate to the regulatory framework, ie the extent to which standing contract tariffs enable costs to be recovered for the relevant category).

3.6.3 Other studies

The ESCV [2002] reports that the analysis of market conduct it has undertaken to date has not provided evidence of price or other forms of discrimination against low-income customers. Any differentiation is suggested to be on the basis of supply costs and not income levels, with ESCV further suggesting that pensioner households and those with larger numbers of children tend to be higher energy consumers [ESCV 2002, p48].

Sharam [2003, p5] found in her Victorian survey that customer attitudes varied only slightly by income. Sharam [p10] found what she believed to be sustained customer inertia, but even then found that the low-income group were the most active participants, suggesting that such households are very price sensitive and responsive. However, this group was also four times more likely to think that competition would result in them paying higher prices, versus three times more likely for those with incomes over $20,000 p.a. Some issues of concern included the risk that large cash rebates may entice low-income users, leading to them accepting disadvantageous tariff structures.

The Wallis Consulting Group [2002] who undertook the customer survey research for the ESCV [2002] found:

- ▲ the two segments with least knowledge on ability to switch are residential customers aged >70 and those that receive the Energy Concession Rate [p21];
- ▲ tendency for residential customers to rate the importance of the way their current retailer handles their bill lower as household income increases [p36];

- those least likely to switch are more likely to be households with income <$25k p.a., receiving energy concession rate, spending <$400 p.a. on electricity and aged >55 [p38]; and
- 'switchers' are slightly less likely to pay the Energy Concession Rate, but that, with the exception of gas connected households, retailers did not appear to be targeting any particular group of residential customers [p65].

Ofgem [2003a, p5] found that, in the UK, vulnerable groups are benefiting from competition, eg single parent families are switching faster than average, and while older people are switching less than average, the gap has decreased since 2001. Whether vulnerable groups are more or less likely to have switched than average varies by group, but in all cases substantial proportions have switched.

The recommendations of Consumer Agency Coalition [2002] in its submission to the ESCV [2002] included:

- ESCV should undertake a targeted awareness campaign for low-income and vulnerable consumers [p9];
- Specific consideration should be given to a means for improving outcomes for low-income households (eg quality of housing stock) and for targeted energy conservation advice to be made more readily available to low-income households [p10];
- ESCV should collect information on direct debit dishonours [p13];
- ESCV should undertake an audit that compares termination fees charged by retailers with the actual costs of termination [p14];
- resourcing should be provided to an independent agency(ies) to assist and inform households of the details in energy offers [p16];
- ESCV should monitor off-peak market offers (on the belief that households with off-peak electricity are generally being excluded from competitive pricing offers) [p18]; and
- due to the potential for credit reference tools to be used to exclude low-income and vulnerable customers from market contracts, ESCV & EWOV must monitor closely the way in which electricity retailers use credit database information [p19].

The Consumer Agency Coalition [2002] survey of Financial Counsellors found:

- information was difficult to obtain to make an informed choice [p19];
- that certain pockets of rural Victoria appeared to be missing out on receiving offers [p20]; and
- case studies identified situations where the most vulnerable of consumers have been disconnected, in contravention of the Retail Code, due to incapacity to pay [p20].

The Consumer Agency Coalition [2002]:

- argues consumers are not being provided with adequate information (eg many contracts are not stand alone, relying on references to the Electricity Code etc.) & some contracts are complex [p11];
- suggests low-income and vulnerable consumers are likely to be more unattractive to retailers, based on cost to serve [p28];
- suggests anecdotal evidence that consumers will not do anything in the absence of a catalyst, eg moving properties or when a retailer makes an offer [p32];
- reports survey work undertaken by a member of the coalition that a much lower awareness of FRC exists in practice than was reported in a March 2002 survey undertaken for the ESCV [p42]; and
- believes that it is unlikely that FRC will deliver lower prices or service improvements for low-income and vulnerable consumers, as the margins are too small to enable meaningful reductions to be passed on and unless savings are substantial then consumers are unlikely to take the effort to educate themselves [p114].

3.6.4 Comment

The National Institute of Labour Studies [NILS 2002] has been assisting ESCOSA research the impacts of fuel expenditures for low-income consumers, based on surveys undertaken by the Australian Bureau of Statistics (ABS). The NILS recommendation of establishing a ‘hardship baseline’ has been accepted, as has its strategy for monitoring changes annually (using annual changes in income and prices) between the 5-year updates of the hardship baseline (noting that the source Household Expenditure Survey is only undertaken every 5 years). The results of this work will be published annually. Other data relevant to Indicator 6 will need to derived through customer surveys, the timing for which will need to be considered strategically, with the results of a limited survey to be reported in November 2003 and the results of more detailed surveys to be reported from November 2004.

3.6.5 Position

The following table indicates the information that will be reported on the impacts on low-income groups.

INDICATOR 6: IMPACTS ON LOW-INCOME GROUPS

Category	Indicator	Source	Reporting
Awareness	Awareness of low-income residential customers of ability to switch retailer	Indicator 4	Annual - November(1)
Competitive Offerings	Evidence that low-income residential customers are experiencing competitive offerings	Indicator 5	Annual - November(1)
Switching	Number of low-income residential customers switching & future intentions	Indicator 2	Annual - November(1)
Impacts	Monitor impact changes: - Hardship baseline	NILS	Annual - November
	- Changes in Income & Prices	NILS/ ESCOSA Guideline No.2 Reporting	
	- Supplier Action ∗ no. of residential customers experiencing payment difficulties ∗ no. of residential customer disconnections ∗ no. of residential customers provided with energy efficiency advice	ESCOSA Guideline No.2 Reporting	

Note: (1) The detail of the report will depend on the extent of the information available.

3.7 *Indicator 7: Innovation*

3.7.1 Issue

One of the intended benefits of electricity retail competition is the potential for electricity retailers to offer innovative products. Such innovation could range from billing and payment options through to the bundling of services. Accordingly, in its Proposed Approach paper ESCOSA [2003b, p16] indicated that it would rely on surveys to identify the evidence of innovative product offerings and from electricity retailers providing information to ESCOSA.

3.7.2 Submissions received

The submissions received were generally supportive of this indicator, but with some submissions noting that innovation could be difficult to measure and that it may not develop until the gas market fully opens up.

Origin supported monitoring changes in innovation, but suggested that any absolute level of innovation should not be used as a benchmark as customers were in the best position to demand the optimal level. It raised the concern that any benchmark could risk 'over-innovating' being promoted.

EIOSA, in its submission, agreed that the proposed indicator would be of use, but noted that determining the level of innovation occurring in practice was somewhat of an individual judgement. EIOSA suggested that comparisons should be made with interstate contracts and possibly overseas information from UK, Europe, and USA.

NRG Flinders was also supportive of the proposed indicator, but considered that innovation is difficult to measure or compare and suggested relying on customer surveys to indicate customer level of satisfaction.

The Conservation Council of SA suggested combining self-reporting from retailers with customer perceptions gained by survey to gain a picture of the level of innovation occurring.

TXU considered that innovation could potentially be measured by expertly reviewing public domain material (eg newspapers and direct marketing material). ESCOSA would need to interview retailers on product offerings and survey customers to assess what products were being offered and to see if customers could differentiate.

AGL suggested that innovation was not likely to develop fully until the gas market opens up to competition. AGL would be willing to cooperate with ESCOSA and use best endeavours to provide copies of marketing material at the same time AGL went to market with the 'market offerings', on a strictly confidential basis. It suggested including a question in consumer surveys that covered offerings.

3.7.3 Other studies

The ESCV [2002, p24] suggests the following market performance indicators:

▲ market prices increasingly reflect efficient costs, including a risk adjusted return;

▲ innovative products and value added services that meet consumer preferences are increasingly being offered; and

▲ relevant information on prices, services and terms and conditions is sufficient to support informed choices.

3.7.4 Comment

It is clear that surveys of customers and retailers will form the key source of information on innovation occurring in the electricity retail market, supplemented by ESCOSA monitoring public domain information. As indicated previously, given the costly nature of surveys, their timing must be considered strategically. ESCOSA would intend approaching retailers annually for at least the broad nature of innovative product offerings. For 2003 this would be in the form an ad hoc request under Electricity Industry Guideline No.2 [ESCOSA 2003a]. Further to AGL's offer in its submission, ESCOSA intends liaising with all retailers to see if they would be prepared to provide copies of marketing material to ESCOSA at the same time as they go to market with market offerings. It is intended that Indicator 7 would be reported on at least annually, in the proposed qualitative electricity retail competition effectiveness report for November.

The ESCV [2002] market performance indicators should be addressed by ESCOSA's indicators, except for the one dealing with market prices increasingly reflecting efficient costs. To the extent appropriate, this latter indicator will be addressed through the electricity retail price justification exercise rather than through the regular reporting exercise.

3.7.5 Position

The following table indicates the information that will be reported on the level of innovation occurring in the electricity market.

INDICATOR 7: INNOVATION

Category	Indicator	Source	Reporting
Innovation	Evidence of innovative product offerings	ESCOSA additional limited retailer data request – September 2003(1)(2) ESCOSA survey of retailers(1) ESCOSA survey of small customers	Annual – November(3)

Note: (1) Any retailer information received from the surveys will be suitably masked or presented as percentile information. Survey only to cover small customers.
(2) It is intended that this information would generally be obtained through detailed retailer surveys, but special limited data requests of retailers would be employed for those years where detailed surveys were not carried out.
(3) The detail of the report will depend on the extent of information available.

4. NEXT STEPS

This Position Paper sets out the proposed detailed framework for monitoring the development of electricity retail competition in South Australia. It has attempted to address the issues raised in submissions to the April 2003 Proposed Approach paper [ESCOSA 2003b], including addressing data confidentiality issues.

This final approach incorporates a refinement of the earlier proposed indicators whilst retaining the basic framework. ESCOSA will continue to review the indicators monitored in other jurisdictions and update the set for South Australia as appropriate. Other indicators, such as market share, will be added once the relevant issues have been addressed.

Given this approach, ESCOSA does not intend to engage in another formal round of consultation at this stage and will commence to collect and report on the indicators presented in this Position Paper. However, ESCOSA welcomes receiving comments at any stage especially from consumers, which will be considered in any future modification to the competition indicators.

In relation to some of the indicators, reference has been made in this paper to seeking certain additional information from retailers, possibly formalised through an amendment to the Electricity Industry Guideline No.2 [ESCOSA 2003a]. To underpin the reforms outlined in this paper, ESCOSA intends to undertake a further review of Guideline No.2, which would be expected to result in only minor amendments to the information required and to clarify some of the existing information requirements.

The following table provides a summarised reporting program for this project for the period to 31 December 2004.

REPORTING PROGRAM FOR MONITORING THE DEVELOPMENT OF COMPETITION

Reporting Date	Indicator(s) Addressed	Category/Detail	Nature of Report	Source
September 2003 February 2004 May 2004 September 2004	1	No. of SA licensed retailers and history of entry & exit, up to reporting date	September & February: Quantitative(1) May: Quantitative& Qualitative	ESCOSA
	1	No. of retailers participating in the small business and residential markets, for either previous financial year (Sept.) or previous 3 months (Feb. & May)	September. & February: Quantitative May: Quantitative& Qualitative	ESCOSA Guideline No.2

Reporting Date	Indicator(s) Addressed	Category/Detail	Nature of Report	Source
	2	No. of small customers switching, by month, from Jan. 2003 to reporting date	September & February: Quantitative May: Quantitative& Qualitative	NEMMCO and ESCOSA Guideline No.2
November 2003	1	No. of SA licensed retailers and history of entry & exit, up to reporting date	Quantitative & Qualitative(1)	ESCOSA
	1	No. of retailers participating in the large customer market for previous financial year	Quantitative & Qualitative	Annual Return & ESCOSA Guideline No.2
	1	No. of retailers participating in the small business and residential markets for previous financial year & Sept. Qtr	Quantitative & Qualitative	ESCOSA Guideline No.2
	1	No. of retailers participating in the small business customer categories of 0-80MWh p.a. & 80-160MWh p.a. for previous financial year &/or intending to over next 12 months	Quantitative & Qualitative	ESCOSA additional limited retailer data request – September 2003
	1	No. of retailers participating in the residential customer categories of metropolitan and rural & regional for previous financial year &/or intending to over next 12 months	Quantitative & Qualitative	ESCOSA additional limited retailer data request – September 2003)
	2	No. of small customers switching, by month, from Jan. 2003 to reporting date	Quantitative & Qualitative	NEMMCO and ESCOSA Guideline No.2
	2, 6	No. of small business and residential customers switching	Quantitative & Qualitative	ESCOSA limited small customer survey – September 2003
	2, 6	Future intentions of small customers to take out market contracts	Quantitative & Qualitative	ESCOSA limited small customer survey – September 2003
	4, 6	Small customer awareness of ability to switch	Quantitative & Qualitative	ESCOSA limited small customer survey – September 2003
	4	Existence & output of third party information intermediaries	Quantitative & Qualitative	ESCOSA monitoring

Reporting Date	Indicator(s) Addressed	Category/Detail	Nature of Report	Source
	5, 6	Extent to which small customers have received an offer	Quantitative & Qualitative	ESCOSA limited small customer survey – September 2003
	6	Impacts on low-income groups, updated annually	Quantitative & Qualitative	NILS and ESCOSA Guideline No.2
	7	Evidence of innovative product offerings	Quantitative& Qualitative	ESCOSA additional limited retailer data request – September 2003
November 2004	1	No. of SA licensed retailers and history of entry & exit, up to reporting date	Quantitative & Qualitative(1)	ESCOSA
	1	No. of retailers participating in the large customer market for previous financial year	Quantitative & Qualitative	Annual Return & ESCOSA Guideline No.2
	1	No. of retailers participating in the small business and residential markets for previous financial year & Sept. Qtr	Quantitative & Qualitative	ESCOSA Guideline No.2
	1	No. of retailers participating in the small business customer categories of 0-80MWh p.a. & 80-160MWh p.a. for previous financial year &/or intending to over next 12 months	Quantitative & Qualitative	ESCOSA survey of retailers
	1	No. of retailers participating in the residential customer categories of metropolitan and rural & regional for previous financial year &/or intending to over next 12 months	Quantitative & Qualitative	ESCOSA survey of retailers
	2	No. of small customers switching, by month, from Jan. 2003 to reporting date	Quantitative & Qualitative	NEMMCO and ESCOSA Guideline No.2
	2, 6	No. of small business and residential customers switching, by sub-group(2)	Quantitative & Qualitative	ESCOSA survey of small customers
	2, 6	Future intentions of customers to take out market contracts, by sub-group(2)	Quantitative & Qualitative	ESCOSA survey of small customers
	3	Barriers to entry	Quantitative & Qualitative	ESCOSA survey of retailers (SA licensed and those interstate retailers not licensed in SA)

Reporting Date	Indicator(s) Addressed	Category/Detail	Nature of Report	Source
	4, 6	Customer awareness and transfer costs, by sub-group(2)	Quantitative & Qualitative	ESCOSA survey of small customers
	4, 6	Marketing behaviour, by sub-group(2)	Quantitative & Qualitative	ESCOSA survey of small customers & survey of retailers
	4	Existence & output of third party information intermediaries	Quantitative & Qualitative	ESCOSA monitoring
	5, 6	Extent & nature of offers being made, by sub-group(2)	Quantitative & Qualitative	ESCOSA survey of small customers & survey of retailers
	6	Impacts on low-income groups, updated annually	Quantitative & Qualitative	NILS and ESCOSA Guideline No.2
	7	Evidence of innovative product offerings	Quantitative & Qualitative	ESCOSA survey of small customers & survey of retailers

Note: (1) Quantitative refers to the publishing of data/statistics, whereas Qualitative means a report incorporating analysis and commentary would be published.

(2) For the detailed surveys the sub-groups would be: Residential – metropolitan low-income, rural & regional low-income, metropolitan other and rural & regional other. Small Business – 0-80MWh p.a. & 80-160MWh p.a.

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