



30 July 2004

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

Monitoring the Development of Energy Retail Competition

Thank you for the opportunity to comment upon ESCOSA's *Monitoring the Development of Energy Retail Competition in South Australia - Discussion Paper*.

Origin supports the submission of the Energy Retailers Association of Australia (ERAA) that competition in the retail energy market should be assessed as it is in other Australian markets, via the Trade Practices Act. Establishing a set of competition indicators is likely to be reduced to a highly subjective and arbitrary exercise as, in reality, a contestable market structure will give rise to the appropriate level of active rivalry (ie transfer rates, product differentiation, innovation, information etc).

With regard to the indicators proposed by ESCOSA, our view is that barriers to entry are the single most important determinant of competition, as the threat of entry imposes a rigour on participating retailers to make competitive offerings. Consistent with the findings of the Victorian Essential Services Commission (ESC), the complexity of consumer protection arrangements and differences in regulatory requirements across jurisdictions should be monitored as key potential impediments to competition.

Origin does not support the proposal to include marketing and advertising expenditure in the retailer survey. There is no direct correlation between such expenditure and competitive activity, as, for example, high cost brand awareness television advertising is likely to generate less competitive activity than a low cost telemarketing campaign. Furthermore, the resources required to source the information will need to be diverted from competitive activity, and hence diverted from enhancing the development of competition which ESCOSA is seeking to monitor. It is noted that the ESC dropped marketing and advertising expenditure as an indicator of competition in their most recent FRC Effectiveness Review after it was discovered that the information provided no value.

Origin agrees that the current ESCOSA reporting frequency is excessive, but does not support the proposal for a monthly report on transfer statistics. Monthly reporting is simply unnecessary, as no assessment can be reasonably made on the basis of one month's data, and no regulatory decisions will be made from month to the next. It is noted that the Victorian ESC has only regarded it as necessary to publish transfer data on two occasions in the 30 months since the commencement of electricity FRC. There is no customer benefit in providing the information more frequently. Indeed the more resources devoted by marketing departments to acquiring and retaining customers, and the less devoted to complying with information provision requirements, the further the development of competition, and the benefits which flow to consumers, will be enhanced.

Finally, whilst proposed additional questions in the customer survey may be of interest to ESCOSA, they are not relevant to the development of competition. For example, questions on the awareness of alternative retailers are interesting from a brand recognition perspective, but provide no information on whether the market is competitive. The Adelaide market for electricians is highly competitive, however few consumers would be able to name a single electrician. For most questions it is unclear how results will be interpreted, or what level of response is perceived to be consistent with a competitive market. It is standard research methodology, and in this case reasonable to request the Commission, to address these issues prior to commencing the research. Specific concerns are detailed in the ERAA submission, which Origin endorses.

Please contact me on (03) 9652 5701 should you require any additional information.

Yours sincerely

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