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Mr Lew Owens
Chairman
Essential Services Commission of SA
GPO Box 2605
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Dear Mr Owens

Monitoring the Development of Energy Retail Competition in South Australia

AGL SA welcomes the opportunity to comment on the discussion paper concerning monitoring development of competition in the energy retail market in South Australia.

AGL SA supports competition in the market place and strongly supports a level playing field for all participants. We consider that the removal of barriers to entry is a critical element in establishing effectiveness in competition and support the Commission's efforts to identify and remove barriers to entry. It is ultimately a competitive market which will best serve and protect the interests of customers. If a particular retailer is not providing an acceptable service in terms of price and/or quality the customer will seek out another retailer which better meets their needs.

We note the Commission's reasoning for why it is important for the Commission to monitor the state of competition in the South Australian energy retail market. We are, however, concerned with the extent of reporting contemplated by the Commission which is significantly more than that of any other jurisdiction and believe that monitoring is only necessary in the early stages of full retail contestability.

It needs to be recognised that collection and reporting of data adds to the cost of business and diverts resources away from the business of further developing a competitive market. With this in mind we believe the Commission should limit its information requirements so that only necessary information is gathered.

We believe that in determining the extent of monitoring to be conducted that the Commission should seek to maintain consistency with the monitoring conducted in other jurisdictions. Requirements in NSW and Victoria are more limited and less frequent when compared to the South Australian requirements.

In adopting the above approach the Commission would focus on broader indicators rather than the detailed ones proposed in the Discussion Paper. An example of such broad indicators would be customer transfers and transfers in progress as these provide, as recognised the Victorian Essential Services Commission, one of the few objective indicators of effective competition. Such an approach would allow the Commission to continue to meet its objective to protect the long-term interests of SA customers and minimise costs to the industry.



We acknowledge that it may be appropriate in the early stages of competition to monitor performance but we do not see that it is necessary to carry this beyond the stage where competition has been established. Customer transfers to market contracts in the electricity market have increased markedly in the past three to six months and there has been significant activity in the gas market even at this early stage. It is therefore AGL's view that competition is showing all the signs of becoming well established. Consequently, consideration should therefore also be given to permitting the energy market to be monitored under the Fair Trading Act and Trade Practices Act as are all other businesses rather than the extensive monitoring by the Commission.

Specific comments on the issues raised in the paper are attached. AGL SA will be pleased to meet with ESCOSA to discuss the issues raised in this submission. Please contact Robert Shannahan on 8299 5542 if you wish to discuss this submission further.

Yours sincerely

Sean Kelly
General Manager, Retail Regulation

Submission on Monitoring the Development of Retail Competition in South Australia

Issue 2

The Commission seeks general comment on the suitability of applying the current electricity FRC monitoring framework to monitoring the development of the gas retail market in South Australia.

AGL SA supports consistency in reporting between electricity and gas but does question the extent of reporting required. The number of indicators required to be reported against for competition monitoring in South Australia are significantly more than those in any other jurisdiction and thus add to the cost of retailers operating in the SA market.

Issue 5

The Commission seeks comment on the appropriateness of the set of indicators proposed to be monitored and reported for Indicator 2. Have any important indicators been omitted?

AGL SA supports REMCo's concern with the provision of MIRN Responsibility data with respect to confidentiality and has concerns with the benefit of this information if it is to be used mainly for cross checking data. We would expect the Commission to consult widely with retailers before any decision was made to publish this information.

Issue 11

The Commission seeks comment on the appropriateness of the small customer survey questions. Have any important questions been omitted?

AGL SA notes, and supports from our own experience, the Commission's comments concerning the ability to retain the attention of the customer during a survey. We therefore question the wisdom of the Commission's intention to extend the number of questions asked of customers from 10 to 24. We would encourage the Commission to seek expert advice in the design of the questionnaire to ensure it is able to fully elicit information it seeks from customers.

Market Behaviour:

This is a difficult area of the Law and it is AGL's view that the average customer will find it difficult to provide an informed reply. Retailers are required by the Energy Marketing Code, the Fair Trading Act and the Trade Practices Act to not be misleading and deceptive with respect to their product offerings. Regulators already have monitoring procedures in place to gauge performance by retailers and thus it seems unnecessary to also ask customers for their opinion.

Innovation:

This question appears to be ambitious. It is most unlikely that customers will be able to remember the details of what offers were in the market 12 months ago and to assess how innovative they were compared with offerings today.

Issue 12

The Commission seeks comment on the appropriateness of the retailer survey questions. Have any important questions been omitted?

AGL SA notes and strongly supports the Commission's comments with respect to efforts to minimise cost. Considering the extent of monitoring proposed by the Commission is significantly more than those of any other jurisdiction we are concerned that SA retailers may be required to incur more costs than is necessary.

Marketing Behaviour:

We consider the level of advertising and associated expenditure to be a strategic commercial decision of a confidential nature. We are reluctant to provide such information especially if it is to be made publicly available.

Aside from the above comment it is difficult to see how this indicator could be easily linked to competition. Does more expenditure mean more competition? Advertising can take many forms and a company's strategy will determine which form it adopts. Direct marketing is a cost effective and efficient form clearly aimed at making a sale while brand advertising on television can be expensive and difficult to match to a sale. We believe this question should be deleted.

Issue 13

The Commission seeks any comment on the expected performance of the gas retail market, both initially and over time. Is the Commission's initial performance target seen as appropriate? Is it appropriate to set such performance targets? Are there any other performance targets that could be set?

AGL SA does not support the introduction of targets for expected performance as a means of encouraging competition. We do not believe that meaningful targets to measure the level of competition in the market can be established. For example, competition in a market can be effective and robust without high levels of churn or changes to market share. In our view the focus when assessing the effectiveness of competition should be on whether or not there are barriers to entry to a market.

The Commission can assess whether competition is effective with reference to performance of other similar markets taking into account the ease of entry and exit from the market.

Issue 14

The Commission seeks comment on the appropriateness of the proposed revised reporting approach. Is a combined energy (electricity and gas) report considered appropriate, or is there some benefit in separate reports?

AGL SA supports the reduction in the number of reports but is concerned about the monthly reporting of electricity transfer statistics. We believe that monitoring competition at longer intervals rather than monthly will be more efficient as trends in market performance are more likely to emerge over longer periods. In Victoria, for example, the ESC undertakes periodic reviews to assess the effectiveness of competition. These reviews which have been around 18 months apart.

Further, retailers are unlikely to be able to provide the required data until the third week of each month. To do so earlier would require changes to retailers internal reporting systems.