



**MONITORING THE
DEVELOPMENT OF
ELECTRICITY RETAIL
COMPETITION IN SOUTH
AUSTRALIA**

STATISTICAL REPORT

November 2003

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ELECTRICITY

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1. INTRODUCTION

This November 2003 report is the second in a regular series of reports to be published on the development of Full Retail Contestability (FRC) in the South Australian electricity market.

On 1 January 2003, the South Australian electricity retail market became fully contestable. This means that there are no longer any direct legal or regulatory impediments in place that prevent a licensed electricity retailer seeking to sell electricity to a South Australian customer.

The Essential Services Commission of South Australia (ESCOSA) has released a Position Paper "Monitoring the Development of Electricity Retail Competition in South Australia – August 2003"¹, which details the approach that ESCOSA will take in monitoring and reporting progress of the development of electricity retail competition. This report, along with all other ESCOSA reports, is available on the ESCOSA website at <http://www.escosa.sa.gov.au/>.

The first ESCOSA report in this series was published in September 2003, with the title of "Monitoring the Development of Electricity Retail Competition in South Australia – Statistical Report – September 2003"². The September 2003 report focused on publishing up-to-date statistics and provided data on the number of South Australian licensed retailers, the number of retailers operating in the South Australian small customer³ retail market, and the number of small customers switching from standing contracts⁴ to market contracts⁵.

This report provides a more detailed analysis of the development of retail competition in South Australia. The report is divided into the following sections.

Section 2 provides an update of the regular published indicators, as presented in the September 2003 report. In addition, this section reports the results of an additional retailer data request undertaken during September 2003, to obtain data on which groups

¹ Report located at: <http://www.escosa.sa.gov.au/resources/documents/030807-R-MonitorEffectiveERC-PositionPaper.pdf>.

² Report Located at: <http://www.escosa.sa.gov.au/resources/documents/030919-R-MonitorERCompStatRpt.pdf>.

³ Small Customer refers to all residential customers and those business customers with an annual consumption of less than 160MWh.

⁴ Standing Contracts: from 1 January 2003 all small customers were effectively deemed to have entered into standing contracts with the incumbent retailer (ie AGL SA), which required the retailer to agree to sell electricity to the customer at the retailer's standing contract price and subject to the retailer's standing contract terms and conditions. Refer to Section 36AA of the *Electricity Act 1996*.

⁵ Market Contract refers to contracts (other than standing contracts) on terms and conditions agreed or negotiated with the customer. They are expected to contain different prices and pricing arrangements to those available under standing contracts (or default contracts).



of small customers retailers are targeting and the existence of innovative product offerings.

Section 3 presents the results of some survey work undertaken of South Australian small (electricity) customers. During September 2003, ESCOSA commissioned a survey of small customer awareness of the ability to choose retailers, whether an offer had been received from a retailer, whether switching of retailers had occurred and any future switching intentions.

Section 4 looks at potential impacts of electricity retail competition on low-income consumers and reports in more detail the component of the survey work outlined in Section 3 that is relevant to low-income customers. This section also reports on baseline indicators of hardship developed by the National Institute of Labour Studies (NILS) for ESCOSA.

Section 5 provides some electricity price comparisons for residential customers, comparing various AGL SA, Origin and TXU offers against the AGL SA standing contract tariffs.

Section 6 examines the development of FRC interstate and overseas, with the aim of placing South Australia's current experience in some context.

Finally, section 7 provides an overall summary of this report's findings, along with some commentary on the development of FRC in South Australia to date.

2. INDICATORS OF COMPETITION

2.1 Number of Retailers Operating in the South Australian Electricity Market

Since 11 October 1999, ESCOSA (formerly the SAIIR⁶) has been responsible for administering the licensing regime that applies to electricity entities, pursuant to Part 3 of the *Electricity Act 1996*.

Table 1 provides the number of electricity retailers licensed to operate in South Australia as at 1 November 2003, together with the history of entry and exit since October 1999. This statistic indicates the current available pool of licensed retailers in South Australia.

TABLE 1: NUMBER OF LICENSED SA RETAILERS

AS AT DATE	RETAILERS ⁽ⁱ⁾	NUMBER
October 1999	Actew Energy (ActewAGL Retail), Advance Energy, AGL Electricity (AGL South Australia), Boral Energy Electricity (Origin Energy Electricity), CitiPower, Eastern Energy (TXU Electricity), Energex Retail, EnergyAustralia, Ergon Energy, ETSA Power (AGL South Australia), Flinders Power (NRG Flinders), National Power Australia, North Power (Country Energy), Optima Energy (TXU Electricity) and Yallourn Energy ⁽ⁱⁱ⁾	15
October 2000	ACTEW Retail (ActewAGL Retail), Advance Energy, AGL Electricity (AGL South Australia), AGL South Australia, CitiPower, Energex Retail, National Power Australia, North Power (Country Energy), NRG Flinders, Origin Energy Electricity, TXU Electricity and Yallourn Energy ⁽ⁱⁱ⁾	12
November 2001	ActewAGL Retail, AGL South Australia, CitiPower, Country Energy, Energex Retail, NRG Flinders, Origin Energy Electricity, Tarong Energy, TXU Electricity and Yallourn Energy ⁽ⁱⁱ⁾	10
November 2002	ActewAGL Retail, AGL South Australia, CitiPower, Country Energy, Energex Retail, NRG Flinders, Origin Energy Electricity, Tarong Energy, TXU Electricity and Yallourn Energy ⁽ⁱⁱ⁾	10
November 2003	ActewAGL Retail ^(iv) , AGL South Australia, Australian Energy Services ⁽ⁱⁱⁱ⁾ , Country Energy, Energex Retail, EnergyAustralia, NRG Flinders, Origin Energy Electricity, Tarong Energy, TXU Electricity and Yallourn Energy ⁽ⁱⁱ⁾	11

Note: (i) Prior to 1 January 2003 only AGL was licensed to sell electricity to non-contestable customers. From 1 January 2003 there were no restrictions, as all customers became contestable with the commencement of electricity FRC. The companies identified in brackets indicate either the current trading name or a related company.

(ii) Yallourn Energy Pty Ltd trading as AusPower.

(iii) Australian Energy Services Pty Ltd trading as Powerdirect.

(iv) ActewAGL Retail advised ESCOSA late October 2003 that it was seeking to surrender its SA retail licence.

⁶ ESCOSA commenced operation in September 2002 replacing the SA Independent Industry Regulator (SAIIR). ESCOSA is the same body corporate as the SAIIR.



On 10 October 2003 ESCOSA granted a retail licence to Australian Energy Services Pty Ltd (trading as Powerdirect), authorising operation in South Australia. ESCOSA understands that Powerdirect intends to offer contracts to small customers. In addition, EnergyAustralia was recently reported as intending to offer contracts to households from early 2004⁷.

As indicated in the September 2003 FRC monitoring report, care needs to be exercised in comparing the number of licensed retailers over time. A number of licence holders in 1999 and 2000 were either not selling to anyone and eventually surrendered their licences, or the few customers they had were transferred to a related entity, as part of the market settling down process. Also, not all the current licensed retailers listed in Table 1 have South Australian customers⁸.

The number of retailers 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.

It is early in the development of electricity FRC in South Australia. At this stage there are three retailers (AGL SA, Origin Energy and TXU) selling electricity to small customers located in South Australia. Although surrender of the ActewAGL licence would result in the number of SA retail electricity licences reducing to ten (the same level existing in November 2002), ESCOSA views the expected entry of an additional two retailers to serve the SA small customer market as a positive development.

As at 30 June 2003 there were eight retailers selling electricity to large customers located in South Australia (which included AGL SA, Origin Energy and TXU).

2.2 Retailer Activity

The August 2003 ESCOSA FRC Monitoring Position Paper flagged an additional retailer data request for 2003, to enable ESCOSA to determine which groups of small customers retailers are targeting, and the existence of innovative product offerings. This data request sought only key information in an effort to avoid the expense associated with undertaking a detailed retailer survey this year, given that FRC is in its infancy. As outlined in the Position Paper, ESCOSA undertook to ensure that the information received would not be published in a manner that identified any individual retailer.

In relation to the information sought on participation, the only statistic requested was the extent to which the retailer offered in 2002/03, or intended to offer in 2003/04, market

⁷ Reported in *The Advertiser*, 29 October 2003.

⁸ As at 30 June 2003, there were eight active SA licensed retailers (ie had SA customers), only three of which were selling to small customers.

contracts in certain identified customer categories. The intention was for the retailer's marketing sections to provide this information, to avoid the need for retailers to undertake any interrogation of their data systems.

2.2.1 Level of Participation

Table 2 shows the number of retailers offering contracts to small customers at some stage in 2002/03 and the number intending to do so in 2003/04, by category of electricity customer, based on the survey of retailers that were licensed to operate in South Australia during September 2003⁹.

**TABLE 2: NUMBER OF RETAILERS PARTICIPATING IN SMALL CUSTOMER MARKET
BY CATEGORY OF ELECTRICITY CUSTOMER ⁽ⁱ⁾
SOUTH AUSTRALIA**

CATEGORY	FINANCIAL YEAR	
	2002/03	2003/04 ⁽ⁱⁱ⁾
Residential		
metropolitan	3	3
rural & regional	3	3
Small Business		
consumption of:		
- 0 to 80 MWh p.a.	3	3
- 80 to 160 MWh p.a.	3	3

Note: (i) Survey of retailers licensed to operate during September 2003.

(ii) For those retailers able to indicate a clear intention for 2003/04.

Of the 11 retailers licensed to operate in South Australia during September 2003 that were surveyed, Table 2 indicates that there are three retailers operating across all categories of small customer.

However, Table 2 only indicates the number of retailers intending to offer contracts in 2003/04 for those retailers who at the time of the September 2003 survey were in a position to indicate a clear intention. Some retailers were not in a position to advise their intentions, with some indicating that they would be taking a watching brief on how the market develops in South Australia. Some retailers who had no immediate plans to make market offers to small customers in the foreseeable future nonetheless stated that they would not rule out becoming active in this customer segment at some point in the future.

⁹ Powerdirect was not included in this survey as it was granted a licence to operate in South Australia on 10 October 2003.



As indicated above, ESCOSA understands that both Powerdirect and EnergyAustralia will be seeking to service the small market segment shortly.

2.2.2 Innovative Products

The additional information sought from retailers also requested them to outline the nature of any innovative product offerings their companies had available in the marketplace for small customers.

This request was only relevant to those retailers participating in the small customer market. The information received shows the nature of innovative products on offer include:

- ▲ A range of 'green energy' products.
- ▲ Offers that focus on different tariff structures, including individual packages aimed at a range of household and business types and tariff structures that do not include a seasonal peak tariff.
- ▲ Fixed prices for a period of time.
- ▲ Various rebates, such as loyalty rebates and rebates for permitting payments by direct debit to bank accounts.
- ▲ Product vouchers (eg to reduce the cost of purchasing products at the retailer's store).

2.3 Number of SA Small Customers Transferring to Market Contracts for Electricity

Figure 1 and Table 3 provide the number of small customers who have elected to take out a market contract for electricity either with AGL SA or an alternative retailer, for the nine months to September 2003. Figure 1 shows the cumulative total of transfers from standing contracts, with Table 3 providing the underlying data.

This aggregated transfer data combines NEMMCO¹⁰ small customer transfer data, with AGL SA data on the number of its customers transferring to market contracts with AGL SA. The NEMMCO data provided from its Market Settlement and Transfer Solution (MSATS) system only records transfers occurring between retailers and not within a retailer (e.g. transfers away from AGL SA as the 'incumbent' retailer, but not those customers who have moved from an AGL SA standing contract to one of AGL SA's

¹⁰ NEMMCO is the National Electricity Market Management Company Limited, which is responsible for the day-to-day operation and administration of both the power system and the wholesale spot market in the National Electricity Market (NEM).

market contracts¹¹). The combination of the AGL SA and NEMMCO data shows the overall extent to which customers are exercising choice in moving to market contracts.

FIGURE 1: NUMBER OF SMALL CUSTOMERS TRANSFERRING TO MARKET CONTRACTS FOR ELECTRICITY IN SOUTH AUSTRALIA 2003

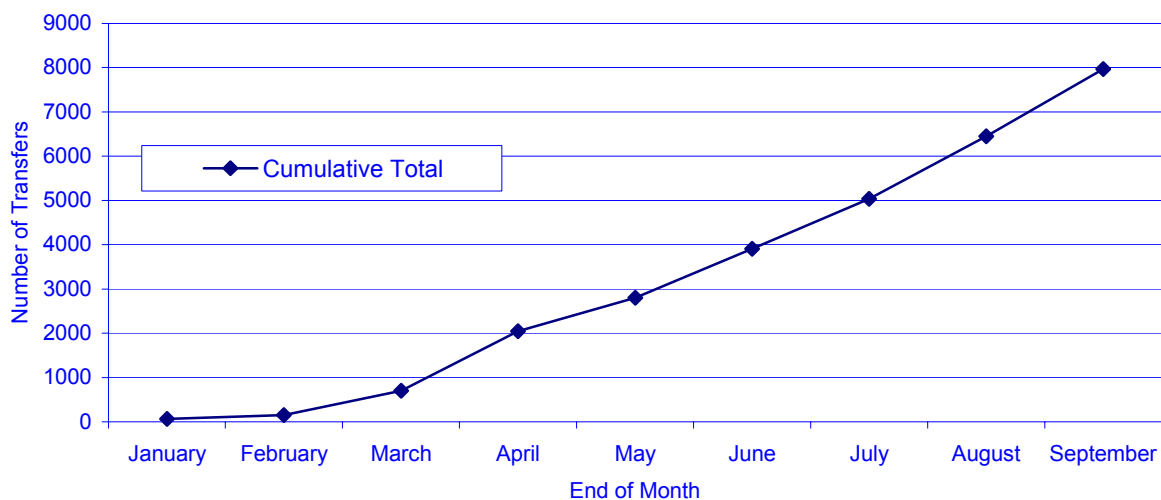


TABLE 3: NUMBER OF SMALL CUSTOMERS TRANSFERRING TO MARKET CONTRACTS FOR ELECTRICITY IN SOUTH AUSTRALIA (JANUARY 2003 TO SEPTEMBER 2003)

MONTH	NUMBER ⁽ⁱ⁾	CUMULATIVE TOTAL ⁽ⁱ⁾
January	63	63
February	91	154
March	549	703
April	1338	2041
May	761	2802
June	1106	3908
July	1123	5031
August	1416	6447
September	1522	7969
Total	7969	

Note: (i) Numbers relate to completed transfers only. For this report, no audit assurance has been sought on the numbers provided to ESCOSA.

¹¹ In relation to 'greenfield' sites, should a new customer seek to take out a contract with other than the incumbent retailer (1st tier) the customer would be assigned to their chosen retailer. The transfer systems assume that all customers are initially assigned to the 1st tier retailer and then transferred to the other retailer (2nd tier), and thus be recorded as a completed transfer.



There are some issues in defining the term “customer”¹², and analysing trends in the data will be as important as the absolute numbers at any given point in time.

It is important to note that these figures represent completed transfers and that at any time there are usually a considerable number of transfers in progress¹³. As at the end of September 2003, there were at least 3,500 small customer transfers in progress. ESCOSA has also received reports from retailers that a considerable take up of market contracts occurred during October 2003.

A small level of churn¹⁴ could be expected in the early stages of retail competition (refer section 6 of this report). The nearly 8,000 completed transfers represents around 1% of the small customer base of around 740,000 customers.

2.4 Information Intermediaries

In the August 2003 FRC Monitoring Position Paper, ESCOSA indicated that it would monitor the existence and output of third party information intermediaries. That is, the extent to which parties independent of retailers are providing a service (eg a price comparison service) to customers.

ESCOSA is aware of certain parties acting as brokers to large customers.

The Australian Consumers Association (ACA) in an article in July 2003¹⁵ provided an indication of potential savings compared to regulated tariffs for NSW and Victorian customers. The ACA stated that South Australia was not included in the survey because market offers were not widely available at the time of its research. Local media has also provided some comparisons of retail electricity offers, eg across a range of typical household consumption levels¹⁶.

ESCOSA is not aware of any other activity in this area for small customers, other than the price comparison services referred to in section 5 of this report, but will continue to monitor.

¹² Footnote 3 defines small customers. However, whilst reference is made to customers, the term ‘customer’ can be defined in a number of ways, such as connection point, National Metering Identifier (NMI), site, contract and account. As noted in this report, the customer transfer data amalgamates NEMMCO transfer data with AGL SA data. The NEMMCO data is best characterised as the change in responsibility for NMIs. The AGL SA data is also provided on a NMI basis and represents acceptance of an offer. It is possible that a single property or contract could have a number of NMIs associated with it. In terms of Figure 1 and Table 3, the customer numbers provided will not necessarily translate directly to the number of residences or business premises switching.

¹³ Under the MSATS system a transfer is not effected until the customer’s next scheduled meter read, which can be up to three months after contract sign-up.

¹⁴ Churn represents the number of transfers as a percentage of the relevant eligible customer base (eg small customer category).

¹⁵ CHOICE, July 2003, pages 28-31.

¹⁶ For example, refer The Advertiser, 1 November 2003, pp 18 & 19.

2.5 Summary

In summary:

- ▲ There are currently 11 electricity retailers licensed to operate in South Australia.
- ▲ Three retailers are currently selling electricity to small customers in South Australia, with indications of an additional two retailers to enter this market segment shortly.
- ▲ As of 30 September 2003, nearly 8,000 small South Australian electricity customers had transferred to market contracts.
- ▲ The nearly 8,000 completed transfers represent around 1% of the small customer base of around 740,000 customers.



3. SURVEY RESULTS

As proposed in the August 2003 FRC Monitoring Position Paper, ESCOSA undertook customer surveys amongst residential and small business customers in September 2003. This section and the following section report on the findings of this survey work.

3.1 Small Customer Survey

McGregor Tan Research was commissioned in September 2003 to undertake a telephone survey of small customers, both residential and business, covering awareness of the ability to choose retailers, whether an offer has been received from a retailer, whether switching of retailers has occurred and any future switching intentions.

The telephone survey comprised:

- ▲ A residential survey with a random sample of 400 households, comprising 300 metropolitan Adelaide and 100 regional households, with household income levels a key demographic.
- ▲ A survey of small business customers with a random sample of 250, comprising 175 metropolitan Adelaide and 75 regional customers, with expenditure on electricity a key demographic.

The respondent was selected by asking for the person in the household or business that makes decisions about the purchase of electricity.

Copies of the McGregor Tan Research reports¹⁷ are available on the ESCOSA website at <http://www.escosa.sa.gov/>.

3.1.1 Residential

In brief, the survey found that for residential respondents:

- ▲ Almost two-thirds (62%) were aware they were now able to choose their electricity retailer.
 - awareness is relatively consistent across age and gender;
- ▲ 5% recalled receiving an individual offer of a contract from an electricity retailer.
- ▲ 3% had approached an electricity retailer (including existing retailer) to enquire about entering into an electricity contract with them.

¹⁷ McGregor Tan Research, 2003 (November), "Full Retail Contestability Effectiveness Research – Residents" and McGregor Tan Research, 2003 (November), "Full Retail Contestability Effectiveness Research – Small Businesses", available on the ESCOSA website at www.escosa.sa.gov.au.

- ▲ Most importantly, more than a quarter (27%) of those respondents that had not taken out a new contract indicated that they were 'quite likely' (18%) or 'very likely' (9%) to do so in the next twelve months. Further, the survey results show:
 - the likelihood of entering into a contract increases with household size;
 - individuals in professional/executive occupations appear more likely to take out a new contract compared to other occupation types;
 - however, more than half (52%) of those respondents over 65 years old indicated that they would be unlikely to take out a new contract in the next 12 months.

Reviewing the results by location of respondent (metropolitan or regional) shows:

- ▲ Those surveyed from regional areas indicated a significantly lower level of awareness of their ability to choose their electricity retailer (48% in regional areas, compared with 66% located in metropolitan Adelaide).
- ▲ Possibly as a result of their lower level of awareness, the incidence of being 'very unlikely'¹⁸ to take out a market contract in the next 12 months was higher among respondents from regional areas (29%), compared to those living in metropolitan Adelaide (18%).

The results according to level of income of the respondent are presented in Section 4 of this report.

3.1.2 Small Business

In brief, the survey found that for small business respondents:

- ▲ Two-thirds (67%) were aware they were now able to choose their electricity retailer.
- ▲ Nearly one-fifth (18%) recalled receiving an individual offer of a contract from an electricity retailer.
- ▲ 3% had approached an electricity retailer (including existing retailer) to enquire about taking out an electricity contract with them. The survey results indicate that:
 - these businesses tended to be located in Adelaide and spend more than \$1,251 on electricity each month.

¹⁸ The McGregor Tan Research reports provide advice on how to read the detailed tabulations in their reports (refer Appendix 5). Where there is a statistical difference between the responses of a particular subgroup and the group as a whole, it is indicated by '+' or '-' signs under the relevant percentages. The text in this report and the McGregor Tan Research reports switch between one group being 'more likely' to have a particular response to another 'more unlikely', with such text being driven by the statistical significance of the results rather than grammatical niceties.

- ▲ Most importantly, 20% of those respondents that had not taken out a new contract indicated that they were 'quite likely' (15%) or 'very likely' (5%) to do so in the next twelve months.

Reviewing the results by location of respondent (metropolitan or regional) shows:

- ▲ The small businesses surveyed from regional areas showed a significantly lower level of awareness of ability to choose their electricity retailer (59% in regional areas, compared with 70% located in metropolitan Adelaide).
- ▲ There was a higher proportion of metropolitan businesses (42%, compared to regional businesses, 29%) who indicated that they would be unlikely to take out an electricity contract in the next 12 months.

On the basis of the survey results overall, whilst small business respondents appear to be marginally more aware than residential respondents of the ability to take out market contracts with their current retailer or an alternative retailer, small businesses indicated a lower intention of doing so than residential customers.



4. LOW-INCOME CONSUMERS

One measure of the outcome of reform is the extent to which benefits are shared amongst affected parties. ESCOSA's primary objective is the protection of the long-term interests of South Australian consumers with respect to the price, quality and reliability of essential services¹⁹. ESCOSA considers it important to monitor the extent to which financially disadvantaged consumers are faring²⁰. Ultimately, it is a matter for the Government and parties other than ESCOSA to determine how any inequalities that might emerge should be addressed.

This section reports in more detail on the results of the small customer survey (see section 3 of this report) for the low-income category of respondents. It also establishes some 'hardship' baselines and reports on movements in electricity prices and incomes for low-income consumers.

4.1 Small Customer Survey

Section 3 reported on the results of the surveys of residential and small business customers, which was commissioned by ESCOSA and undertaken by McGregor Tan Research in September 2003. As indicated in section 3, the following section reports on the survey results for residential respondents by level of income, concentrating on those aspects that might suggest low-income customers are experiencing difficulty with FRC. For a detailed analysis of results by income, refer to the McGregor Tan Research report.

Reviewing the results by income level of residential respondent shows some variances in results for those respondents earning less than \$15,000 p.a.²¹, namely:

- ▲ A significantly lower level of awareness of ability to choose their electricity retailer (47% compared with 62% for the overall sample).
- ▲ Possibly as a result of their lower level of awareness, the incidence of being unlikely to take out a market contract in the next 12 months was higher (51%) compared with 36% for the overall sample.

The household profile for respondents earning less than \$15,000 p.a. was further examined, which showed that 42% were households where only one person resides, 38% were two-person households and 16% were three-person households.

¹⁹ Refer section 6 of the *Essential Services Commission Act 2002*.

²⁰ ESCOSA is not unique in this perspective. For example, the UK regulator Ofgem (Office of the Gas and Electricity Markets) has stated that it "... places particular weight on ensuring that vulnerable customers are benefiting from supply competition" ("Domestic Gas and Electricity Supply Competition – Recent Developments", Ofgem, 2003 (June), p(i)), in line with statutory duties conferred on Ofgem.

²¹ The survey asked respondents to indicate Gross Household Income by broad bands. For a copy of the survey questions, refer to the McGregor Tan Research reports, available on the ESCOSA website at www.escosa.sa.gov.au.

In relation to customers receiving electricity pension concessions:

- ▲ There was a lower incidence of these respondents indicating that they would be likely to take out a market contract (19% compared with 27% for the overall sample).

4.2 Impact of Changes in Domestic Fuel Expenditures for Low-Income Consumers

In a report prepared for ESCOSA in October 2002, the National Institute of Labour Studies (NILS)²² recommended that a 'hardship' baseline be established showing:

- ▲ The proportion of households in the bottom 10-50% of the distribution of household disposable income that spend more than 6%, 8% and 10% of income on fuel.
- ▲ The proportion of households in the bottom 10-50% of the distribution of household disposable income that, due to a shortage of money, were unable to heat their home.

The intention is for this baseline to be updated with each new Household Expenditure Survey, and the General Social Survey, conducted by the Australian Bureau of Statistics (ABS). In the period between these surveys being undertaken, changes in income and prices would be monitored annually.

Table 4²³, drawn from a forthcoming NILS report prepared for ESCOSA²⁴, shows the hardship baseline figures for the percentage of disposable income spent on domestic fuel and power, by percentage of households for South Australia and Australia in the lowest five deciles of 'equivalised disposable income'²⁵. The table was derived from data from the 1998/99 ABS Household Expenditure Survey (HES).

²² National Institute of Labour Studies (NILS), 2002 (October), "Fuel Poverty: A Concept with Power in South Australia?", report prepared for ESCOSA by Professor Sue Richardson and Associate Professor Peter Travers, available on the ESCOSA website at www.escosa.sa.gov.au.

²³ This table is similar to Table 7 in the NILS October 2002 report, but covers the lowest 5 deciles (rather than the 10-40 income percentile used in the October 2002 report) and is based on 'equivalised disposable income' (rather than 'disposable income' definition used in the October 2002 report). Also, 1998/99 proportions for Australia are included.

²⁴ Finalisation of this NILS report is pending the release of the ABS 2002 General Social Survey (GSS) results, in order to provide an update on the baseline relating to households facing financial difficulty in heating their homes. There have been a number of delays in the release of the GSS results, with the most recent revised release date being set as 18 December 2003. The NILS report will either be published separately, or with the release of the next ESCOSA FRC Monitoring report, due February 2004.

²⁵ 'Equivalised disposable income' is disposable income that has been adjusted by the application of an equivalence scale to enable better comparison of income levels between households of differing compositions. It reflects the requirement of a larger household to have a higher level of income to achieve the same standard of living as a smaller household. For more information refer to publications issued by the ABS (www.abs.gov.au), for example, ABS 2000-01 'Household Income and Income Distribution', catalogue no. 6523.0.

**TABLE 4: PERCENTAGE OF DISPOSABLE INCOME SPENT ON DOMESTIC FUEL & POWER
FOR HOUSEHOLDS IN THE LOWEST FIVE DECILES OF EQUIVALISED DISPOSABLE INCOME ⁽ⁱ⁾
SOUTH AUSTRALIA & AUSTRALIA: 1998/99⁽ⁱⁱ⁾**

PER CENT DISPOSABLE INCOME	PERCENTAGE (%) OF HOUSEHOLDS	
	SOUTH AUSTRALIA	AUSTRALIA
Less than 1%	1.1	2.7
1% or more	98.9	97.3
2% or more	94.0	87.4
3% or more	78.7	65.7
4% or more	58.7	45.6
5% or more	38.1	32.2
6% or more	28.5	22.6
7% or more	21.0	16.2
8% or more	12.2	11.7
9% or more	9.3	9.0
10% or more	8.2	7.3
Total	100.0	100.0

Note: (i) Person weighted.

(ii) Special tables calculated by ABS from the 1998/99 Households Expenditure Survey (Households with zero or negative income omitted).

Table 4 suggests that for low-income South Australians, the percentage of income spent on domestic fuel and power in 1998/99 was higher than for Australia as a whole. As indicated:

- ▲ The median²⁶ for South Australia lies between 4% and 5%, while for Australia it is between 3% and 4%.
- ▲ In South Australia 58.7% of low-income households spent 4% or more of their income on domestic fuel and power in 1998/99, compared to 45.6% for Australia.

The NILS October 2003 report (based on the 1998/99 HES), reported the extent to which respondents indicated that they were unable to heat their home in the past year due to a shortage of money. Overall 2.2% of Australian households indicated that they could not afford to heat their home, compared with 5% of the lowest 20% of the household income distribution indicating the same. The 2002 General Social Survey (GSS) will update these results, and when available NILS will be in a position to finalise its report to ESCOSA (see discussion above), which will include the provision of results for this baseline for South Australia.

²⁶ The median is that number which has the same number of values less than it as there are greater than it.

The 'baseline' information can only be updated periodically. The HES is undertaken five-yearly, and the first results for the 2003/04 HES are not due to be available until 2005. The ABS intends to undertake the GSS every four years. Accordingly, it will be some time before an update for these hardship baselines can be reported.

Also, as NILS advised in its October 2002 report, there is an issue with sample size in relation to the data in Table 4. Accordingly, it may be difficult to be confident that any differences between the 1998/99 HES and the 2003/04 HES will be statistically significant, the closer together the data for particular categories from each survey prove to be. ESCOSA understands that the cost involved in the ABS increasing the relevant sample size would be substantial²⁷.

As a general point, the reliability of the survey estimates provided will be influenced by the size of the relevant sample. This suggests some confidence in monitoring the proportion of households in the bottom 50% of the household disposable income distribution that spend more than 6% and 8% of income on domestic fuel and power (see Table 4)²⁸. However, for the proportion spending more than 10% of income on fuel and the proportion having difficulty heating their homes, the data provided should at least be indicative of the magnitudes involved.

In the interim period between the HES surveys, NILS recommended that changes in income and electricity prices be monitored for households in the lower half of the income distribution. This was on the basis that if electricity prices rise faster than incomes, this would be prima facie evidence of deterioration in circumstances.

The 2000/01 ABS Survey of Income and Housing Costs (SIHC), has only recently been published. The results for the 2002/03 SIHC are not expected to be available before February 2004. Consequently, no post-FRC results are currently available from this source.

It is possible, however, to monitor changes in the rate of change in payments for government cash transfers (eg pensions and unemployment and sickness benefits), as a proxy for movement in the level of income for low-income consumers. Figure 2 plots movements in the index of adjustments to weekly allowances and pensions over the period 1998/99 (year of latest available HES) to 2002/03²⁹. Also plotted on Figure 2 is the

²⁷ As the 2003/04 HES is currently being conducted, any potential changes to the South Australian sample size would not come into effect until the following HES, at the earliest, scheduled to be conducted in 2009/10.

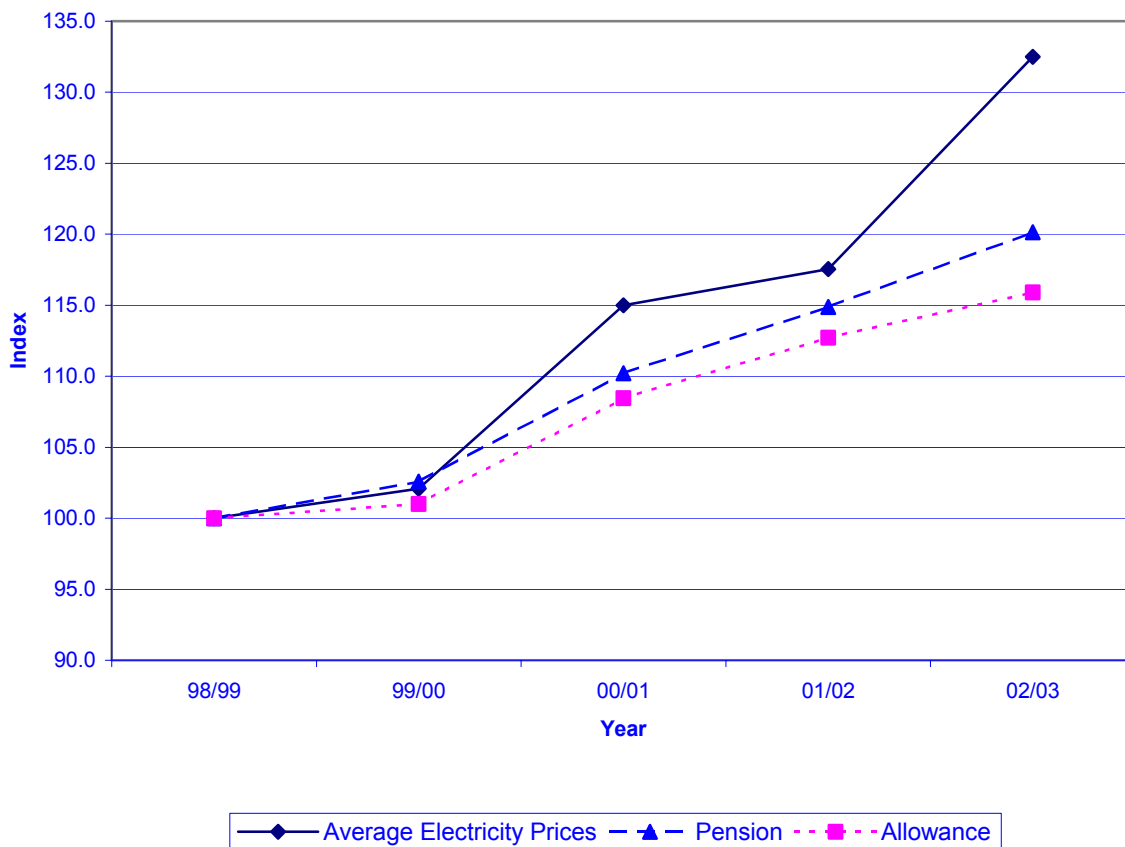
²⁸ Note the NILS October 2002 recommendation was for monitoring of the proportion of households in the bottom 50% of the distribution of household disposable income that spend more than 6%, 8% and 10% of income on fuel.

²⁹ Derived from the forthcoming NILS report. The 'allowance' relates to the over 21 years old single unemployment benefit and sickness benefit, with the 'pension' the applicable rate for the single age pension. The September index adjustment is used in determining the value for the relevant financial year (eg the September 1998 figure is used for the financial year 1998/99). The rates are in nominal dollars (i.e. dollars of the day).

movement in average annual residential electricity prices (c/kWh) over this period, once again expressed in terms of index numbers³⁰.

The results indicate that since the 1998/99 HES, South Australian residential electricity prices have been rising faster than the proxy low-income measures used. In addition, the average electricity prices for financial year 2002/03 by their nature only incorporate six months of the 1 January 2003 standing contract prices.

**FIGURE 2: SOUTH AUSTRALIAN AVERAGE RESIDENTIAL ELECTRICITY PRICE MOVEMENTS
AGAINST WEEKLY ALLOWANCES AND PENSION MOVEMENTS - INDEX
(BASE 1998/99 – NOMINAL DOLLARS)**



³⁰ Derived from retailer returns supplied to ESCOSA. Average retail electricity price index numbers are based on average nominal retail prices, which are calculated as total annual South Australian residential electricity revenue divided by consumption for the relevant financial year.



The actual financial impact, in terms of electricity bills, would depend on the relevant individual's consumption patterns. In this regard, the South Australian Government is funding a two-year energy efficiency program for low-income households in partnership with community welfare organisations. The program is designed to deliver a range of energy services targeted at those households facing financial difficulty. A key element of this program is the delivery of 10,000 home energy audits. The audits are designed to achieve a significant reduction in energy use without sacrificing comfort.³¹

³¹ Refer www.sustainable.energy.sa.gov.au. See also 'Energy Friends' at this website address, a general community program that also includes energy audits.

5. ELECTRICITY PRICE COMPARISONS

Whilst the existence of innovative products is an important indicator of the health of a market, given the experience of significant price increases accompanying the introduction of electricity retail competition in South Australia, it is not surprising that considerable interest is focussed on whether competition will produce reduced prices.

As indicated in this section, from the information available to ESCOSA, it is possible through entering into a market contract to achieve some reduction in annual electricity bills based on standing contract rates, or have access to some green power alternatives at no additional cost.

5.1 Estimator

To assist consumers in comparing offers from various retailers, ESCOSA has developed a program (Estimator) that will estimate electricity costs (bills) under AGL SA's standing contract tariffs and compare these with market offers from retailers.

Both residential and small business customers can access this application via clicking on the Estimator icon (see below) on the menu bar of ESCOSA's website (<http://www.escosa.sa.gov.au/>) to compare any retail electricity offer³².



The Estimator is a menu-driven application, which estimates bills by applying the relevant electricity tariffs (ie AGL SA standing contract and alternative offers) to estimates of future consumption.

The consumer can use one of the following two methods to estimate future electricity use:

- ▲ Enter the average daily use data from recent electricity bills.
- ▲ Enter own estimate of future average daily usage.

The Estimator is updated periodically for the latest AGL SA's standing contract electricity prices. The consumer inputs the tariffs of the alternative offers received and the Estimator then generates a report providing an annual bill comparison (i.e. compares an annual bill based on the AGL SA standing contract with a bill based on an alternative offer), which the consumer can print off for reference.

³² This application requires the Macromedia Flash player 6 plug-in.



This Estimator program is intended for use as a guide only. It provides general information without considering the user's particular circumstances. There are likely to be qualifications and exceptions as to how the estimated results apply to the user.

The Estimator does not take into account any elements of a retail contract offer which are not price-related, rather it concentrates on supply charge and tariff rates/steps differences. The consumer must consider any rebates or the like and any other non-price benefits on offer separately.

5.2 Electricity Price Comparison Service

Although the Estimator is considered to be a useful tool for comparing electricity retail contract offers, it does have limitations as it requires a person to have internet access, a reasonably modern computer and the ability to work through a series of menu-driven requests for information.

ESCOSA has determined that further assistance to consumers is warranted and, after assessing a number of alternatives, launched in November 2003 an independent telephone electricity price comparison service. This service is available to all residential/domestic customers who can use the service by calling the telephone Hotline number **1800 226 100**, on weekdays between 8am to 6pm.

The service will provide a basic customised electricity price comparison of the electricity retail market offers available to residential customers.

To use the service, residential customers are only required to provide the following limited information (all of which is contained on the customer's electricity bill):

- ▲ Name and address (to enable the price comparison to be mailed to the caller).
- ▲ Average daily electricity use from the residential customer's most recent electricity account (it is preferable for the average daily electricity use for the last four accounts to be available, so that a more accurate annual profile can be determined. Also, if applicable, average daily use for light and power and hot water needs to be provided separately).
- ▲ Whether the caller would allow certain terms, eg account payment by direct debit (some retailers offer discounts if this option is selected).

The operator then keys the consumption information provided by the caller into an electricity price comparison model developed by ESCOSA, which produces annual bill estimates based on the AGL SA standing contract tariffs and tariffs for the alternative offers. The caller does not receive the results over the telephone. However, a one-page itemised comparison of potential savings (which takes into account any rebates on offer) for each electricity retailer's available offers that apply to that customer is subsequently mailed out to the caller.

As with the Estimator, the results of this service can only be considered a guide to assist residential customers in assessing the merits of the various market contracts on offer.

5.3 COTA Electricity Market Offers Comparison Service

ESCOSA is supporting the Council on the Ageing (COTA) service to assist older electricity consumers to compare retail electricity market offers, a service launched in November 2003.

The COTA service's principal target group is South Australians over 50 years old, who are responsible for electricity accounts. However, it is expected that funding permitting, the program would be able to be translated to other groups, such as low-income groups.

The service essentially comprises an education tool, being a "Guide to Comparing Retail Offers in the Electricity Market", along with a targeted communication exercise (eg getting the education material to relevant clubs, direct mailing, print media etc), which will include the opportunity for some degree of personal guidance. The Guide explores the various matters that should be considered in making a decision on an available electricity market offer. The COTA service is designed to complement other available services, such as ESCOSA's Estimator and Electricity Price Comparison Service.

The key objective is to overcome what many people perceived as a daunting task - comparing the available retail electricity market offers.

5.4 Price Comparisons for Residential Offers

ESCOSA will continue to review how it might best assist consumers to reap the benefits of any competitive offers. In addition to the services identified above, ESCOSA has undertaken a review of contracts on offer for residential customers, across differing consumption levels, using the information supplied by retailers for use in the Electricity Price Comparison Service (see section 5.2 of this report).

Figure 3 shows a comparison of market contract offers against the AGL SA standing contract tariffs for electricity, over a wide range of annual consumption (kWh) levels. In developing the price lines an assumption of 26.5%³³ summer consumption and 73.5% non-summer consumption has been made to deal with summer tariffs³⁴.

³³ Based on load parameters derived in IES report on 'Wholesale Electricity Cost Estimate for Calendar Year 2004 - A Report for the Essential Services Commission of South Australia', October 2003, available at www.escosa.sa.gov.au.

³⁴ Seasonal summer tariffs generally cover the period 1 January to 31 March, with winter tariffs comprising the balance of the year (i.e. 1 April to 31 December). Note that the levels of savings identified are not significantly impacted by the assumption employed.

Figure 3 is indicative of the potential level of savings, by comparing the various electricity tariff rates on offer on the basis that all consumption is at peak rates (i.e. no off-peak hot water). The gap between the AGL SA standing contract price line (top line) and the alternative offer price line indicates the level of potential savings from 'shopping around' for a market contract rather than staying on the AGL SA standing contract tariffs. The alternative offer price line is derived by selecting the best market contract offer available for the relevant annual consumption level³⁵. Table 5 provides the relevant data for a selected range of consumption levels.

It is important to note that rebates available with some of the offers (eg loyalty rebates) have not been factored into this analysis. Thus the gap between the AGL SA standing contract offer line and the alternative offer line represents the minimum potential savings. It may be possible to achieve additional savings through securing the various rebates on offer, with at least one retailer providing annual rebates of up to \$55 and a 'welcoming' rebate³⁶.

Figure 3 and Table 5 indicate that the level of potential savings increases with increasing levels of consumption. Whilst the level of potential savings might appear modest, for an individual with an annual consumption of 5,000 kWh, a saving of \$54 would represent a saving of 5.0% on a standing contract-based annual bill, to which it might be possible to add additional rebate savings. For consumption levels of 10,000 kWh the potential savings could be of the order of 7% (or possibly more with rebates).

³⁵ Market contract rates on offer from AGL SA, Origin and TXU used in this assessment.

³⁶ Caution should be exercised in adding available rebates to the absolute level of the gap between cheapest alternative and the standing contract rate, as for a particular consumption band the cheapest alternative may not be offered by the retailer providing the rebates.

FIGURE 3: ANNUAL RESIDENTIAL BILL COMPARISON
AGL STANDING CONTRACT ELECTRICITY PRICES VS CHEAPEST ALTERNATIVE
ALL CONSUMPTION AT PEAK RATES (EXCLUDES OFF-PEAK HOT WATER HEATING)

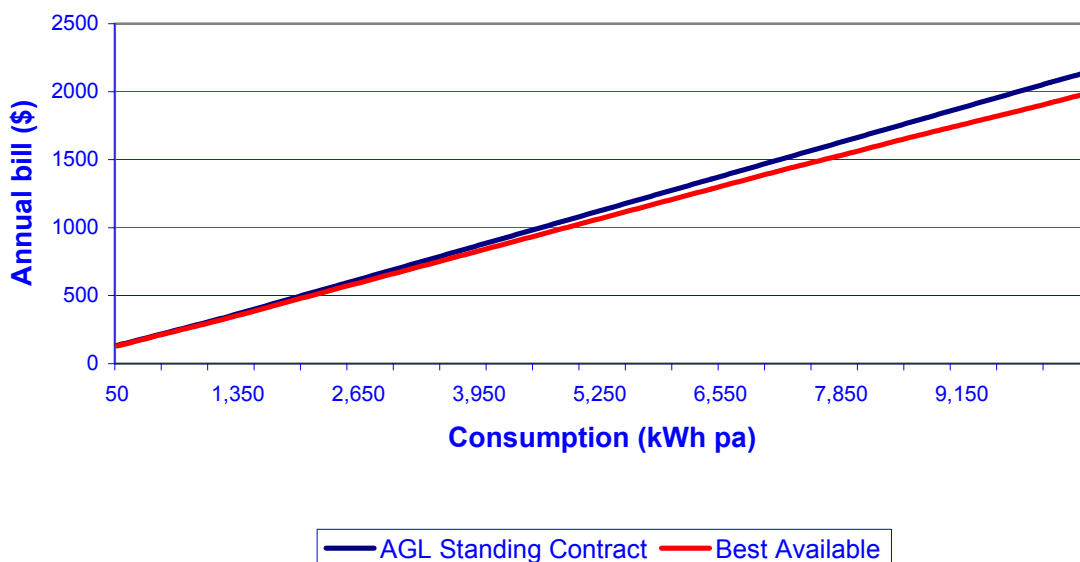


TABLE 5: ANNUAL RESIDENTIAL BILL COMPARISON
AGL STANDING CONTRACT ELECTRICITY PRICES VS CHEAPEST ALTERNATIVE
SELECTED CONSUMPTION LEVELS: ALL CONSUMPTION AT PEAK RATES

ANNUAL CONSUMPTION (kWh)	AGL SA STANDING CONTRACT (\$)	BEST AVAILABLE CONTRACT (i) (\$)	ANNUAL SAVING (i) (\$)
2000	492	474	18
3000	687	657	29
4000	881	839	42
5000	1075	1021	54
6000	1270	1203	67
7000	1464	1385	79

Note: (i) Excludes any potential rebate savings.

Figure 4 and Table 6 make a similar annual residential bill comparison, but include hot water consumption at off-peak rates.

Once again, Figure 4 and Table 6 indicate that the level of potential savings increases with increasing levels of consumption. For an individual with an annual consumption of 5,000 kWh (including off-peak hot water), a saving of \$40 would represent a saving of 4.2% on a standing contract-based annual bill, to which it might be possible to add



additional rebate savings. For consumption levels of 10,000 kWh the potential savings could be of the order of 4.1% (without considering any rebates).

FIGURE 4: ANNUAL RESIDENTIAL BILL COMPARISON
AGL STANDING CONTRACT ELECTRICITY PRICES VS CHEAPEST ALTERNATIVE
CONSUMPTION: MIX OF PEAK RATES & HOT WATER AT OFF-PEAK RATES

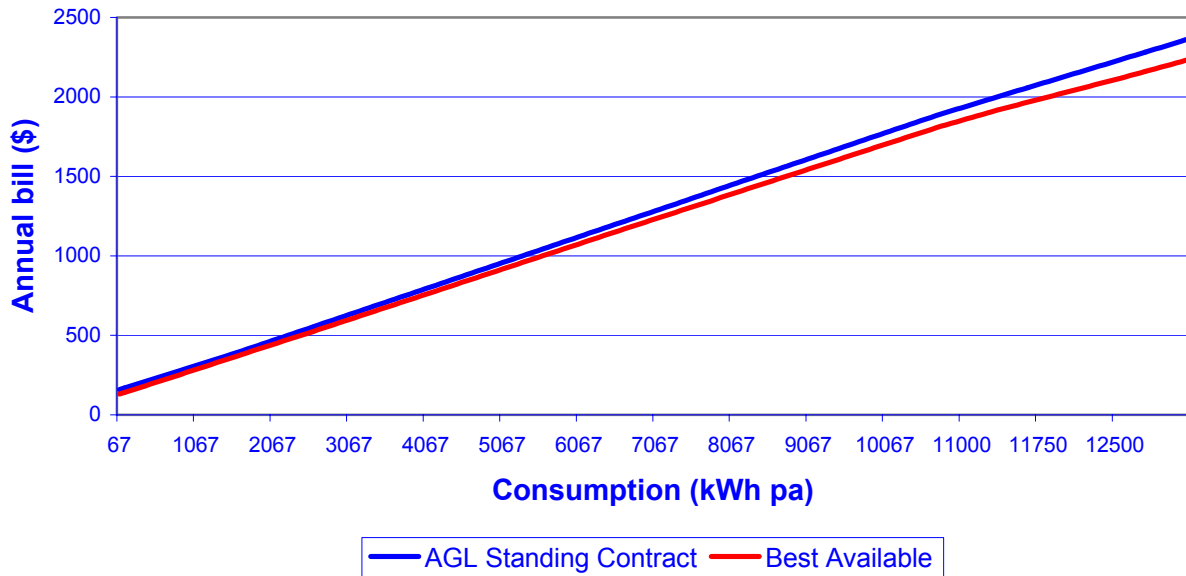


TABLE 6: ANNUAL RESIDENTIAL BILL COMPARISON
AGL STANDING CONTRACT ELECTRICITY PRICES VS CHEAPEST ALTERNATIVE
SELECTED CONSUMPTION LEVELS
CONSUMPTION: MIX OF PEAK RATES & HOT WATER AT OFF-PEAK RATES

ANNUAL CONSUMPTION (kWh)	AGL SA STANDING CONTRACT (\$)	BEST AVAILABLE CONTRACT ⁽ⁱ⁾ (\$)	ANNUAL SAVING ⁽ⁱ⁾ (\$)
2000	456	432	24
3000	619	588	31
4000	783	747	36
5000	946	906	40
6000	1109	1065	45
7000	1273	1223	50

Note: (i) Excludes any potential rebate savings.

It is important that each consumer makes their own assessment of potential savings as the level and pattern of consumption determines the tariffs applied, and a good deal for one consumer might not be for another.

6. INTERSTATE AND OVERSEAS EXPERIENCE

There has been some criticism with the pace of competition as measured by the extent to which small customers have opted to move from the AGL SA standing contract to market-based contracts, either with AGL SA or other retailers. Such movement is usually referred to as churn, measured as the number of transfers as a percentage of the relevant underlying customer population.

As indicated in section 2 of this report, as of the end of September 2003 around 1% of the South Australian small customer population had either taken out a market contract with AGL SA or one of the other competing retailers, with a significant number of transfers still in progress. This period represents the first nine months since electricity FRC was introduced for small customers. Further, Table 3 of this report shows that the number of monthly transfers has progressively increased from June, from 1,100 per month (June) to 1,500 per month (September).

On current indications, around 2% of small customers in South Australia will have transferred to market contracts for electricity by the end of 2003, and ESCOSA believes that number will be significantly higher by the end of 2004 (especially with the expected commencement of competition in the gas market for small consumers, due to commence in the third quarter of 2004, which will enable all retailers to pursue dual-fuel customers).

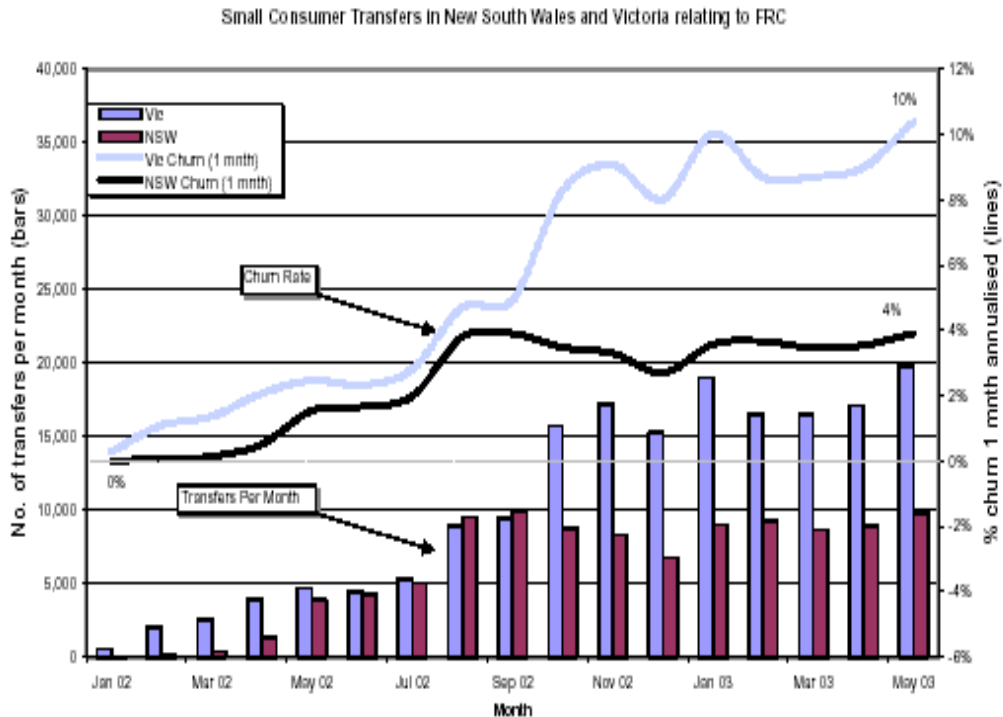
It could be expected that any new market might take sometime to get established (i.e. to mature), possibly due to some initial customer inertia or time required to obtain sufficient information from retailers to make an informed decision³⁷.

Figure 5 reproduces a graph prepared by NEMMCO showing the small customer churn rates experienced in NSW and Victoria since FRC was introduced in those States (January 2002), up to May 2003³⁸. Figure 5 shows a lower initial annualised churn rate for both Victoria and NSW (2%), with much higher rates now (10% Victoria and 4% NSW), noting that Victoria and NSW commenced FRC 12 months ahead of South Australia, in January 2002.

³⁷ Potential reasons cited by the Victorian Essential Services Commission (ESCV) in "Special Investigation: Review of the Effectiveness of Full Retail Competition for Electricity – Final Report", September 2002.

³⁸ The churn rates are based on NEMMCO data provided from its Market Settlement and Transfer Solution (MSATS) system. As indicated in Section 2 of this Report, this only records transfers occurring between retailers and not within a retailer. The '% 1 month annualised (lines)' in Figure 5 is derived by multiplying the relevant month's completed transfers by 12 and dividing this by the relevant customer population.

**FIGURE 5: SMALL CUSTOMER CHURN RATE FOR ELECTRICITY
NSW AND VICTORIA
(JANUARY 2002 TO MAY 2003)**



Source: "Annual Metering & Retail Development Report 2003", prepared by Metering & Retail Development, National Electricity Market Management Company Limited (NEMMCO), June 2003, Version No.1.0, Figure 1; p8.

In South Australia the market also got off to a slow start due to factors such as the necessary systems not being ready and because retailers' resources were still required in interstate markets.

Based on MSATS' number of small customer completed transfers as at 1 January 2003 (i.e. approximately 12 months after FRC commenced in Victoria and NSW), the completed small customer transfers as a percentage of the relevant small customer population was 4.2% for Victoria and 2.1% for NSW³⁹. However, this number is not directly comparable with the estimated 2% of completed transfers for South Australia at the end of the first 12 months, as the South Australian figure includes some transfers of customers to AGL SA market contracts. Nevertheless, it indicates that at this stage the South Australian market development appears to be keeping in step with at least the NSW market development.

³⁹ ESCOSA understands that there are approximately 2.1 million small customers in Victorian and 2.8 million small customers in NSW. According to the NEMMCO MSATS data, as at 1 January 2003 the total number of completed small customer transfers was 90,378 for Victoria and 58,325 for NSW.

In its June 2003 report, Ofgem⁴⁰ stated that the UK domestic energy markets were not yet fully mature, and this is after more than four years experience with energy liberalisation. The UK experience appears to show a relatively faster pace of switching with the total number of completed transfers at 19% after 12 months. Nevertheless, this 12-month period is measured over the period summer 1999 to summer 2000, and FRC in electricity had commenced progressively before summer 1999. Also, the category relates to customers with a maximum demand of less than 100 kW.

Ofgem in the previously cited report, stated that UK competition for residential customers was strong and benefiting all customers, including vulnerable customers.

The experience of large business in South Australia is of interest⁴¹. As indicated in ESCOSA's 2002/03 Annual Performance Report, in relation to large customers, other retailers have made significant inroads into the market share of incumbent retailer AGL SA, since contestability was progressively introduced from December 1998. ESCOSA understands that by July 2003, retailers other than AGL SA had secured about 47% of the total large customer market sales (MWh) in South Australia.

The level of customer churn will be influenced by a number of factors, which include the level of potential savings. As indicated by section 5 of this report, potential savings are on average of the order of at least 5% (potentially higher with rebates) and time will tell whether this will be sufficient motivation for a large proportion of small customers to shift. However, it is also possible that increased activity by consumers could lead to higher potential savings as retailers seek to maintain or increase their customer bases. This also indicates the importance of sufficient margins being available for alternative retailers to be able to offer sufficient savings to entice customers to consider switching from standing contract rates.

Consequently, in addition to factors such as the level of potential savings on offer, the general level of interest consumers have in pursuing alternative offers will be a key determinant of the extent to which churn from standing contracts occurs in South Australia.

⁴⁰ Refer "Domestic Gas and Electricity Supply Competition – Recent Developments", prepared by the Office of the Gas and Electricity Markets (Ofgem), UK, June 2003.

⁴¹ Electricity retail contestability for South Australia was introduced in tranches. Tranche 1 & 2 became contestable in December 1998 (annual consumption of 4 GWh or more), tranche 3 contestable in July 1999 (annual consumption of 750 MWh or more), tranche 4 in January 2000 (160 MWh or more) and the remaining customers in January 2003.



7. SUMMARY

This report shows that as at the end of September 2003, nearly 8,000 small South Australian electricity customers had transferred to market contracts. The nearly 8,000 completed transfers represent around 1% of the South Australian small customer base of around 740,000 customers. Many more transfers are waiting to be completed⁴², with the expectation that by the end of this year around 2% of small customers will have transferred to market contracts.

This result must be placed in the context that FRC has only operated in South Australia for nine months. As noted in section 6 of this report, experience elsewhere indicates that it can take some time for a new retail electricity market to become established, start maturing and for consumer trends to emerge. As indicated in section 5 of this report, retailers have started offering cheaper prices compared to the standing contract rates and so an incentive for change exists.

At this stage South Australia has three retailers operating in the small customer market, with strong indications that a further two retailers will be operating shortly (refer section 2 of this report).

An important development will occur next year with the expected commencement of competition in the gas market for small consumers, due to commence in the third quarter of 2004. This will enable retailers to compete for dual-fuel accounts, potentially being able to pass on some efficiency gains to consumers.

On a positive note, the customer survey work commissioned by ESCOSA (refer section 3) indicates that around two-thirds of small customers are at least aware of the ability to move from the existing standing contract tariffs, to take out a market contract with either their existing retailer or another retailer. Around 20% to 27% of respondents have indicated some likelihood of switching to market contracts in the next 12 months. Even if the focus is on those indicating that they were 'very likely' to switch, this still constitutes 9% of residents and 5% of small business, which would be a positive development if it eventuates. However, there is some concern that some low-income customers may be missing out on reform benefits that may exist (refer to section 4 of this report).

ESCOSA will continue to assess where it might be best able to assist small customers to make informed decisions on alternative electricity retail offers. To date, this assistance has taken the form of the Estimator, Electricity Price Comparison Services and supporting the COTA price comparison initiative for older South Australians, which were discussed in section 5.

⁴² i.e. contracts have been signed but the transfer has not yet been effected.