



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

February 2004

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ELECTRICITY

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1. INTRODUCTION

This February 2004 report is the third 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.

For background and details of the reporting program, please refer to the Essential Services Commission of South Australia (ESCOSA) Position Paper “Monitoring the Development of Electricity Retail Competition in South Australia”, August 2003¹. All ESCOSA reports are 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.

The second ESCOSA report in this series was published in November 2003, with the title of “Monitoring the Development of Electricity Retail Competition in South Australia – Statistical Report – November 2003”⁶. The November 2003 report provided a more detailed analysis of the development of retail competition in South Australia. In addition to updating the statistics provided in the September 2003 report, the November 2003 report:

- ▲ presented the results of some survey work undertaken of SA small (electricity) customers;
- ▲ provided some analysis of the potential impact of increases in electricity prices on low-income consumers;

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 (i.e. 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).

⁶ Report located at: http://www.escosa.sa.gov.au/resources/documents/031121-R-MonERCompStatRpt_Nov.pdf



- ▲ provided some electricity price comparisons of alternative retail market contracts for residential customers; and
- ▲ reported on the development of electricity FRC interstate and overseas.

This report focuses on publishing up to date statistics, consistent with the approach adopted in the September 2003 report, providing data on the number of South Australian licensed retailers, the number of retailers operating in the South Australian small customer retail market, and the number of small customers switching from standing contracts to market contracts.

The next report, which will be a more detailed report (similar in format to the November 2003 report) containing some analysis on the development of retail competition in South Australia, is scheduled to be released in May 2004.

2. INDICATORS

2.1 Number of Retailers Operating in the SA Electricity Market

Since 11 October 1999, ESCOSA (formerly the SAIIR⁷) 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 current number of electricity retailers licensed to operate in South Australia as at 6 February 2004, together with the history of entry and exit since October 1999. This statistic indicates the current available pool of retailers licensed 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
February 2004	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.

⁷ ESCOSA commenced operation in September 2002 replacing the SA Independent Industry Regulator (SAIIR). ESCOSA is the same body corporate as the SAIIR.



As indicated in previous reports, 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.

Since the November 2003 report, Powerdirect has become active in offering market contracts to small customers. In January 2004, Powerdirect announced jointly with the South Australian Farmers Federation (SAFF) a program to offer small to medium rural business customers cheaper electricity contracts. A similar deal is also understood to cover the clients of a broker firm, potentially offering savings to additional businesses such as hoteliers and butchers⁹. More recently, EnergyAustralia has commenced offering contracts to small customers.

At this stage there are at least five retailers (AGL SA, Origin Energy, TXU, Powerdirect and EnergyAustralia) marketing and selling electricity to small customers located in South Australia.

ESCOSA has recently held discussions with several entities not currently holding a retail licence in South Australia, concerning the SA retail market regulatory environment. Some of these entities have expressed interest in servicing the small customer market in SA.

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

Figure 1 and Table 2 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 12 months to 31 December 2003. Figure 1 shows the cumulative total of transfers from standing contracts, with Table 2 providing the underlying data.

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.

⁹ Reported in *The Advertiser*, 29 January 2004.

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

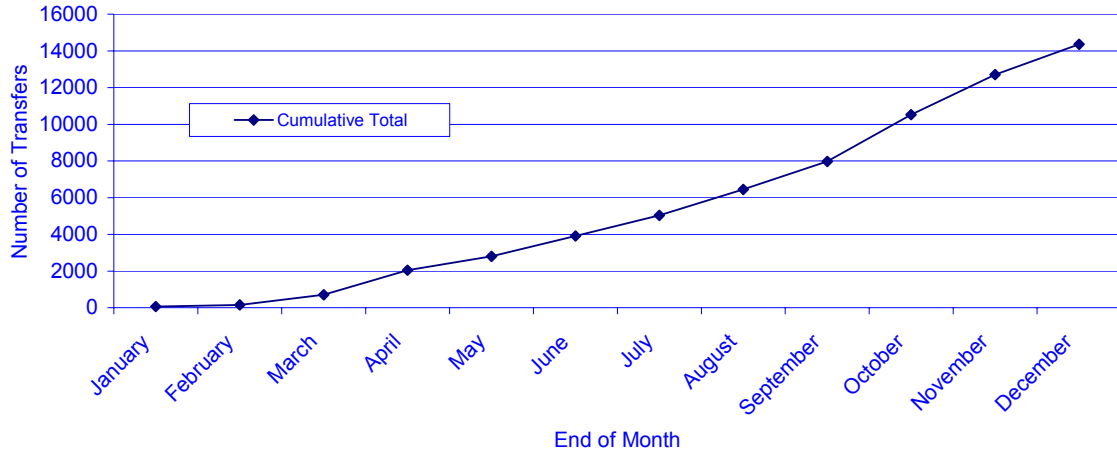


TABLE 2: NUMBER OF SMALL CUSTOMERS TRANSFERRING TO MARKET CONTRACTS FOR ELECTRICITY IN SOUTH AUSTRALIA (JANUARY 2003 TO DECEMBER 2003)

MONTH	NUMBER ⁽ⁱ⁾	CUMULATIVE TOTAL ⁽ⁱ⁾
January	63	63
February	91	154
March	549	703
April	1,338	2,041
May	761	2,802
June	1,106	3,908
July	1,123	5,031
August	1,416	6,447
September	1,522	7,969
October	2,549	10,518
November	2,192	12,710
December	1,652	14,362
Total	14,362	

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

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

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).



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 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.

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.

The around 14,000 completed transfers represents 1.9% of the small customer base of around 740,000 customers.

It is important to note that these figures represent completed transfers (sometimes referred to as customer churn¹³) and that at any time there are usually a considerable number of transfers in progress¹⁴. As at the end of December 2003, there were at least 10,500 small customer transfers in progress, representing an additional 1.4% of the small customer base.

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.

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 the 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, which is not formally deemed to have occurred until after the 'cooling off' period has expired. 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 2, the customer numbers provided will not necessarily translate directly to the number of residences or business premises switching.

¹³ Churn represents the number of transfers as a percentage of the eligible customer base.

¹⁴ 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.

3. SUMMARY

In summary:

- ▲ There are currently 11 electricity retailers licensed to operate in South Australia.
- ▲ At least five retailers are currently marketing and selling electricity to small customers in South Australia.
- ▲ As of 31 December 2003, around 14,000 small South Australian electricity customers had transferred to market contracts, representing 1.9% of the small customer base of around 740,000 customers. A further 10,500 (or 1.4%) transfers were in progress.

The next report, which will be a more detailed report (similar in format to the November 2003 report) containing some analysis on the development of retail competition in South Australia, is scheduled to be released in May 2004.