



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

STATISTICAL REPORT

May 2004

ELECTRICITY

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1. INTRODUCTION

This May 2004 report is the fourth 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 (Commission) has released a Position Paper “Monitoring the Development of Electricity Retail Competition in South Australia – August 2003”¹, which details the approach that the Commission will take in monitoring and reporting progress of the development of electricity retail competition. This report, along with all other Commission reports, is available on the Commission website at <http://www.escosa.sa.gov.au/>.

The first Commission 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 FRC Monitoring 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 Commission 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 FRC Monitoring report provided a more detailed analysis of the development of retail competition in South Australia at that time.

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).

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



In addition to updating the statistics provided in the September 2003 FRC Monitoring report, the November 2003 FRC Monitoring 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;
- ▲ provided some electricity price comparisons of alternative retail market contracts for residential customers; and
- ▲ reported on the development of electricity FRC interstate and overseas.

The February 2004 FRC Monitoring report⁷ (third report) focused on publishing up to date statistics, consistent with the approach adopted in the September 2003 FRC Monitoring report.

This May 2004 report is a more detailed report (similar in format to the November 2003 report) containing some analysis on the development of retail competition in South Australia, along with an update of the regular indicators. This report is divided into the following sections.

Section 2 provides an update of the regular published indicators, as presented in the February 2004 FRC Monitoring report. In addition, this section reviews some general activity indicators to assess the extent to which they might serve as leading indicators for completed small customer transfers.

Section 3 presents a limited update on aspects affecting low-income customers. The Commission plans to undertake a small customer survey again this year along the lines of the survey reported in the November 2003 FRC Monitoring report, and would once again seek responses from residential customers by various categories, including income.

Section 4 reports on independent price comparison services and provides some updated electricity price comparisons for residential customers, comparing various AGL SA, Origin, TXU and EnergyAustralia offers against the AGL SA standing contract tariffs.

Section 5 examines the development of FRC interstate and overseas, with the aim of placing South Australia's current experience in some context.

Finally, section 6 provides an overall summary of this report's findings, along with some brief commentary on the development of FRC in South Australia to date.

⁷ Report located at: http://www.escosa.sa.gov.au/resources/documents/040217-R-MonERC_StatRptFeb04.pdf.

2. INDICATORS OF COMPETITION

2.1 Number of Retailers Operating in the South Australian Electricity Market

Since 11 October 1999, the Commission (formerly the SAIIR⁸) 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 21 May 2004, 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⁽ⁱ⁾

AS AT DATE	RETAILERS ⁽ⁱⁱ⁾	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 ⁽ⁱⁱⁱ⁾	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 ⁽ⁱⁱⁱ⁾	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 ⁽ⁱⁱⁱ⁾	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 ⁽ⁱⁱⁱ⁾	10
November 2003	ActewAGL Retail ^(iv) , AGL South Australia, Australian Energy Services ^(v) , Country Energy, Energex Retail, EnergyAustralia, NRG Flinders, Origin Energy Electricity, Tarong Energy, TXU Electricity and Yallourn Energy ⁽ⁱⁱⁱ⁾	11
May 2004	AGL South Australia, Aurora Energy ^(vi) , Country Energy, Energex Retail, EnergyAustralia, NRG Flinders, Origin Energy Electricity, Powerdirect ^(v) , Tarong Energy ^(vii) , TXU Electricity and Yallourn Energy ⁽ⁱⁱⁱ⁾	11

(i) Source: Commission. See Commission website for list of current licence holders.

(ii) 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.

(iii) Yallourn Energy Pty Ltd trading as AusPower.

(iv) ActewAGL Retail's licence was surrendered on 1 May 2004.

(v) Australian Energy Services Pty Ltd trading as Powerdirect. The Commission was advised on 14 May 2004 that Australian Energy Services Pty Ltd had changed its company name to Powerdirect Pty Ltd & will continue to trade as Powerdirect.

(vi) Aurora Energy Pty Ltd was issued with a licence on 5 May 2004.

(vii) Tarong Energy advised the Commission late April 2004 that it was seeking to surrender its SA retail licence.

⁸ The Commission commenced operation in September 2002 replacing the SA Independent Industry Regulator (SAIIR). The Commission is the same body corporate as the SAIIR.



On 5 May 2004, the Commission issued an electricity licence to Aurora Energy Pty Ltd authorising the retailing of electricity in South Australia. Aurora Energy is a Tasmanian Government-owned distribution and retail company established in 1998. It has indicated some interest in selling electricity to small customers.

As previously foreshadowed, ActewAGL Retail Limited's licence was surrendered on 1 May 2004. Tarong Energy advised the Commission late April 2004 that it was seeking to surrender its SA retail licence. The Commission recently approved a retail licence application from International Power (Retail) Pty Ltd⁹.

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 customers¹⁰.

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.

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

2.2 Retailer Activity

2.2.1 Level of Participation

The November 2003 FRC Monitoring report provided the results of a short survey of retailers undertaken in September 2003, which sought 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 customer¹¹. This showed an even spread of three retailers (offering contracts in 2002/03 and intending to offer contracts in 2003/04) across the chosen categories of small customer (noting that this provided the results for those retailers who at the time of the September 2003 survey both had a retail licence and were in a position to indicate a clear intention).

⁹ Licence issue pending payment of licence fee.

¹⁰ During March 2004, there were at least eight active SA licensed retailers (ie had SA customers), five of which were selling to small customers (based on NEMMCO MSATS system and information available to the Commission).

¹¹ See Table 2, p5 of the November 2003 FRC Monitoring report. The residential categories were 'metropolitan' and 'rural & regional', with the small business categories being '0 to 80 MWh p.a.' and '80 to 160 MWh p.a.'.

It is expected that similar data will be sought for a report later this year. In the absence of such data for this report, the following table (Table 2) shows the number of retailers having residential and/or small business customers at the end of March 2004. It needs to be noted that the March Quarter 2004 was the first time either Powerdirect or EnergyAustralia were required to submit detailed returns in accordance with Electricity Industry Guideline No.2¹², from which this data has been derived.

Table 2 suggests that both residential and small business customers are being served by a number of retailers.

**TABLE 2: NUMBER OF RETAILERS WITH SMALL CUSTOMERS
BY CATEGORY OF ELECTRICITY CUSTOMER
SOUTH AUSTRALIA ⁽ⁱ⁾
(AS AT 31 MARCH 2004)**

CATEGORY	NUMBER
Residential	5
Small Business	4

(i) Source: retailer Guideline No.2 returns provided to Commission.

2.2.2 Innovative Products

The September 2003 survey of retailers also sought information regarding the nature of any innovative product offerings that retailers had available in the marketplace for small customers. The following range of products was advised:

- ▲ 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).

From a review of retailer websites and other information sources, the Commission understands that this continues to broadly reflect the range of products on offer. As a further example of a rebate, one retailer has recently been promoting a rebate of \$50 towards the cost of AFL football club membership.

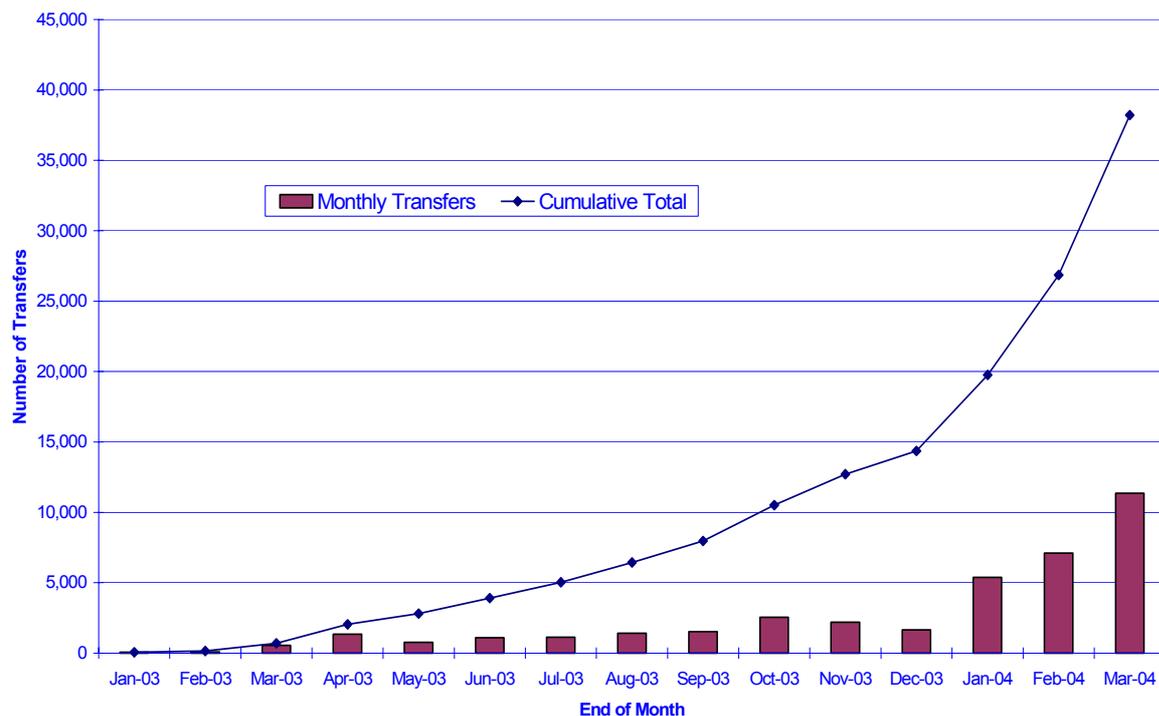
¹² "Electricity Regulatory Information – Retail Code Retailer, Electricity Industry Guideline No.2", available on the Commission website at www.escosa.sa.gov.au.

With Gas FRC due to effectively commence in July 2004, there is an expectation that there will be considerable retailer activity in dual-fuel offers (i.e. electricity and gas contracts with the same retailer)¹³.

2.3 Number of Completed Transfers to Market Contracts for Electricity

Figure 1 and Table 3 provide the number of completed small customer transfers to a market contract for electricity either with AGL SA or an alternative retailer, for the 15 months to March 2004¹⁴. Figure 1 shows the monthly and cumulative total of transfers, with Table 3 providing the underlying data. As at the end of March 2004, there had been around 38,000 small customer completed transfers, representing around 5% of the small customer base.

**FIGURE 1: NUMBER OF COMPLETED SMALL CUSTOMER ELECTRICITY RETAIL TRANSFERS
SOUTH AUSTRALIA
2003 TO 2004**



¹³ For example, the Sunday Mail, 18 April 2004, p7 reported that AGL SA was promising savings of up to \$300 in the first year for householders signing up for both electricity and gas, including a one-off \$100 rebate and an annual loyalty rebate of up to \$100. Origin and TXU were also reported as preparing to offer discounts for dual fuel customers.

¹⁴ Note that it is possible that a small number of these transfers represent transfers back to standing contracts with AGL SA.

TABLE 3: NUMBER OF COMPLETED SMALL CUSTOMER ELECTRICITY RETAIL TRANSFERS
SOUTH AUSTRALIA⁽ⁱ⁾
(JANUARY 2003 TO MARCH 2004)

MONTH	NUMBER ⁽ⁱⁱ⁾	CUMULATIVE TOTAL ⁽ⁱⁱ⁾	PERCENTAGE OF CUSTOMER BASE ⁽ⁱⁱⁱ⁾ (%)
2003			
January	63	63	-
February	91	154	-
March	549	703	0.1%
April	1,338	2,041	0.3%
May	761	2,802	0.4%
June	1,106	3,908	0.5%
July	1,123	5,031	0.7%
August	1,416	6,447	0.9%
September	1,522	7,969	1.1%
October	2,549	10,518	1.4%
November	2,192	12,710	1.7%
December	<u>1,652</u>	<u>14,362</u>	<u>1.9%</u>
<i>Sub-total</i>	14,362		
<u>2004</u>			
January	5,393	19,755	2.7%
February	7,109	26,864	3.6%
March	<u>11,350</u>	<u>38,214</u>	<u>5.2%</u>
<i>Sub-total</i>	23,852		
Total	38,214		

Note: (i) Source: NEMMCO, AGL SA.
(ii) Numbers relate to completed transfers only. For this report, no audit assurance has been sought on the numbers provided to the Commission.
(iii) Calculated on a SA small customer base of 740,000 (see '4th Annual Performance Report, Performance of Regulated Electricity Businesses in South Australia 2002-2003', Table 7, p29).

Table 3 shows the marked increase in completed transfers that has occurred since early 2004, with monthly switching increasing from around 5,000 (January 2004) to 11,000 (March 2004). This compares with monthly switching levels of 1,100 to 2,500 during the last six months of 2003. Whether the recent high levels of activity can be maintained (or increased) will depend in part on the extent to which the current high levels of retailer activity is maintained (or increased).

This aggregated transfer data combines NEMMCO¹⁵ 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

¹⁵ 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 contracts¹⁶). 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”¹⁷, 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 progress¹⁸. Around 20,000 small customer transfers were in progress at the end of March 2004, representing a further 2.7% of the small customer base.

Customer switching can be defined in a number of ways, as follows¹⁹:

- ▲ gross switching is the proportion of customers who have switched at least once and may include multiple switching;
- ▲ net switching is the proportion of customers no longer with their incumbent/local retailer (in the case of South Australia there is only one incumbent/local retailer in this sense, AGL SA) and can measure the loss of market share of the incumbent/local retailer; and
- ▲ multiple switching refers to those customers who have changed retailer more than once and can be an indicator of the extent to which customers are willing to continue to seek savings through switching.

The customer transfer numbers reported above (e.g. 38,000 small customer transfers completed as at the end of March 2004) are gross switching figures. For data confidentiality reasons, the Commission is not currently in a position to be able to report on the level of net switching, as it has been argued that the publication of data indicating market share could impact on the commercial position of AGL SA²⁰, as the single

¹⁶ 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.

¹⁷ 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.

¹⁸ 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.

¹⁹ Based on definitions contained in Office of Gas and Electricity Markets (Ofgem) publication “Domestic Competitive Market Review 2004 – A review document”, April 2004, p53 and Victorian Essential Services Commission (ESCV) publication “Special Investigation: Review of Effectiveness of Retail Competition in Gas and Electricity – Public Draft Report”, 30 March 2004, p69.

²⁰ See Commission Position Paper “Monitoring the Development of Electricity Retail Competition in South Australia – August 2003”, p15.

incumbent retailer in South Australia. Nevertheless, as would be expected at this stage of market development in South Australia, there is not a large difference in the gross switching and net switching figures.

2.4 General Indicators of Activity

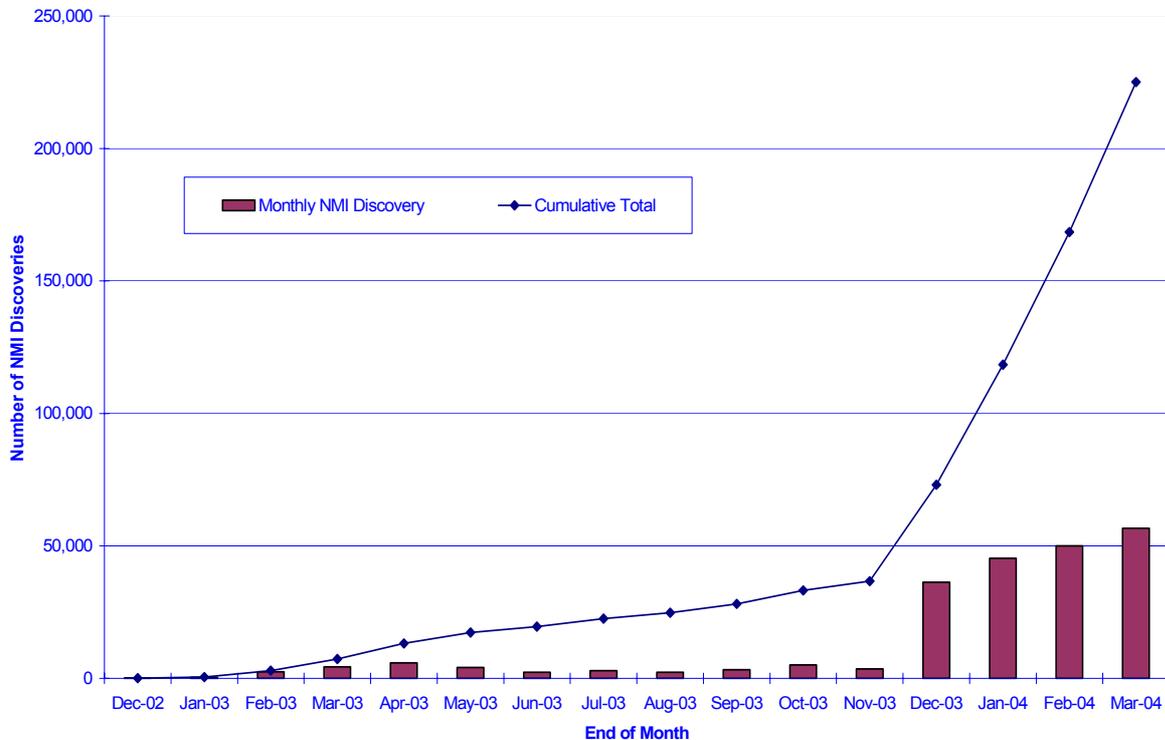
Section 2.3 reported on the number of small customer transfers completed or in progress. There are some other measures available that may indicate a general level of activity associated with future transfers and could potentially act as forward indicators of transfer activity.

NEMMCO, through its MSATS system, routinely collects statistics on NMI discovery. NMI discovery is a function in MSATS that enables a prospective retailer to 'discover' sufficient information about a potential customer's NMI to be able to provide a quotation for a market contract.

Figure 2 plots NMI discovery data for SA customers since December 2002. From a visual inspection, the NMI discovery pattern since FRC is very similar to the pattern of completed transfers (Figure 1). The high NMI discovery count in December 2003 would have provided early warning for the surge in completed transfers recorded from January 2004. However, in this instance, as reported in the February 2004 FRC Monitoring report there was also a large increase in transfers in progress in December 2003, with around 10,500 transfers in progress. Thus, in this instance the NMI discovery statistic did not provide any better lead indicator than the transfer in progress statistic. The transfer in progress statistic would be expected to be a strong lead indicator given that these transfers would generally be expected to be completed at the next meter read, which in turn would be expected to occur within the three months following the date of the statistic.

As indicated in section 2.3, the transfers in progress remained high for March 2004, as was the level of NMI discovery (refer Figure 2). Once again both statistics appear to be reasonable lead indicators, with preliminary April statistics showing completed transfers at around the high level recorded for March.

**FIGURE 2: NUMBER OF NMI DISCOVERIES UNDERTAKEN FOR SA CUSTOMERS⁽ⁱ⁾
2002 TO 2004**



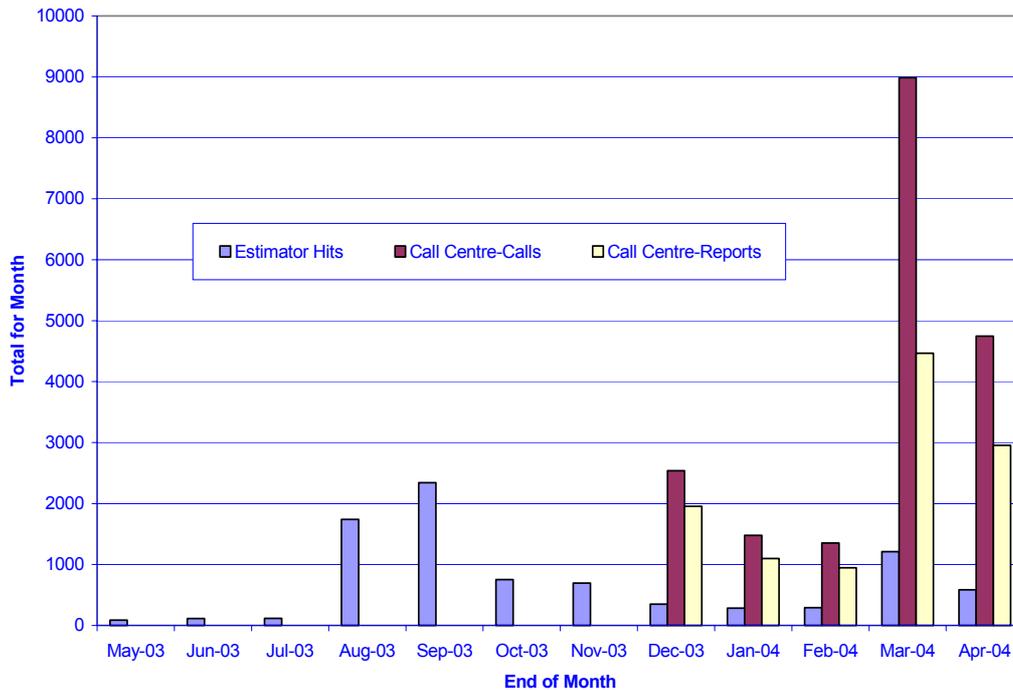
(i) Source: NEMMCO.

It is proposed to continue to monitor the NMI discovery statistics, but not report them unless they start to represent a better lead indicator than the transfers in progress statistics that are routinely reported.

As outlined in the November 2003 FRC Monitoring report, the Commission has developed a website program (Estimator) that will estimate electricity costs (bills) under AGL SA's standing contract tariffs and compare these with market offers. The Commission also operates a telephone electricity price comparison service for domestic customers. The Commission keeps records on the number of Estimator 'hits' (i.e. the number of times the Estimator program is accessed), and the number of calls received and price comparison reports issued associated with the telephone electricity price comparison service.

Estimator 'hits' from the first full month since the commencement of the service in April 2003 until the end of April 2004, and the number of telephone price comparison calls received and price comparison reports issued from the first full month since the commencement of the service in November 2003 until the end of April 2004, are provided in Figure 3.

**FIGURE 3: NUMBER OF ESTIMATOR HITS, PRICE COMPARISON CALLS RECEIVED
AND PRICE COMPARISON REPORTS ISSUED⁽ⁱ⁾
2003 TO 2004**



(i) Source: Commission.

A visual examination of Figure 3 suggests no clear pattern of Estimator hits compared with completed transfers (Figure 1). Nevertheless, the overall number of hits suggests that the service has been of some benefit, noting that unlike the telephone price comparison service which is only open to residential customers, both small business and residential customers can access the Estimator. The Commission will continue to publish statistics on Estimator hits, but as a measure of the use of the service, rather than as a lead indicator.

Extensive use has been made of the telephone call comparison service, with just over 20,000 calls having been received since the commencement of the service until the end of April 2004, and just over 12,000 price comparison reports issued over this period. The commencement of the service largely coincided with the surge in completed small customer transfers. Thus from a visual inspection it is not possible at this stage to determine if utilisation of this service will provide a useful lead indicator. Analysis undertaken indicates that, to date, peaks in activity for this service have tended to match publicity associated with the service or announcements of Government assistance



designed to encourage switching. The level of use suggests that the service is meeting a customer need.

2.5 Summary

In summary:

- ▲ There are currently 11 electricity retailers licensed to operate in South Australia.
- ▲ Five retailers are currently marketing and selling electricity to small customers in South Australia.
- ▲ As of 31 March 2004, there had been just over 38,000 small customer completed transfers since commencement of electricity FRC in January 2003, representing around 5% of the small customer base of 740,000. A further 20,000 (or 2.7%) transfers were in progress.

3. LOW-INCOME CONSUMERS

One measure of the outcome of reform is the extent to which benefits are shared amongst affected parties. The Commission'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 services²¹. The Commission considers it important to monitor the extent to which financially disadvantaged consumers are faring²². Ultimately, it is a matter for the Government and parties other than the Commission to determine how any inequalities that might emerge should be addressed.

Since finalisation of the November 2003 FRC Monitoring report, the South Australian Government has announced two initiatives designed to assist low-income users of electricity.

On 23 November 2003, the Premier announced that from 1 January 2004 the annual electricity concession would increase by \$50, from \$70 to \$120 p.a, representing the first increase since 1990. From that date around 15,000 self-funded South Australian retirees who hold a valid concession card²³ also became eligible for the electricity concession.

On 29 November 2003, the Premier announced a one-off \$50 electricity payment to pensioners and self-funded retirees (with a valid concession card) who take out a market contract for electricity (Electricity Transfer Rebate). Pensioners and self-funded retirees who are eligible for the rebate and who had already switched to market deals prior to the announcement are entitled to receive the \$50 payment retrospectively. At this stage the payment offer is open to eligible customers switching to a market contract before 30 June 2004.

The November 2003 FRC Monitoring report referred to a report prepared by the National Institute of Labour Studies (NILS), the finalisation of which was pending the release of the ABS 2002 General Social Survey (GSS) results, which has now occurred. A copy of the NILS report, titled "Household Energy Expenditure: Measures of Hardship & Changes in Income", was released with the February 2003 report and a copy is available on the Commission website at www.escosa.sa.gov.au.

²¹ Refer section 6 of the *Essential Services Commission Act 2002*.

²² 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.

²³ Valid concession cards include the Commonwealth Seniors Health Care Card, Pensioner Concession Card and the SA State Concession Card.



The key aspect of the NILS report was the development of hardship baseline figures and the reader is referred to the November 2003 FRC Monitoring report for a discussion of the results that were available at the time of the release of the November 2003 report. The ABS 2002 GSS subsequently provided results for a NILS subsidiary indicator which showed that just on 5% of South Australians in the lowest income range answered yes to the question “were you unable to heat your home in the past 12 months because you were short of money?”²⁴.

The NILS baseline information can only be updated periodically. For example, the results of the ABS 2003/04 Household Expenditure Survey are not due to be available until 2005. However, the baseline measure that compares South Australian average residential electricity price movements against weekly allowances and pension movements will be updated and reported later this year.

The November 2003 FRC Monitoring report also presented the results of a small customer survey, which reported some results for low-income category respondents. The Commission plans to undertake a similar survey this year, the results for which would also be reported later this year.

²⁴ Note this refers to the situation prior to electricity FRC commencing on 1 January 2003.

4. ELECTRICITY PRICE COMPARISONS

Price is generally a key factor in the decision to switch electricity retailers. This section reports on available independent price comparison services, the development of information disclosure requirements, and the results of an internal Commission review of contracts on offer for residential customers.

4.1 *Independent Price Comparison Services*

As reported in the November 2003 FRC Monitoring report²⁵, the Commission has developed the following two services to assist customers to compare market offers:

- ▲ Estimator: a website program that will estimate electricity costs (bills) under incumbent retailer AGL SA's standing contract tariffs and compare these with market offers, for residential and small business customers.
- ▲ Electricity Price Comparison Service: a telephone electricity price comparison service for domestic customers (telephone Hotline number **1800 226 100**, on weekdays between 8am to 6pm), which produces annual bill estimates based on AGL SA's standing contract tariffs and tariffs for alternative offers.

Both these services appear to be well patronised, with figures provided in Section 2.4 of this report on the number of Estimator 'hits' (i.e. the number of times the Estimator program is accessed), and the number of calls received and price comparison reports issued associated with the telephone electricity price comparison service.

The November 2003 FRC Monitoring report also advised that the Commission 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.

To date, COTA has held 14 information sessions in metropolitan Adelaide, with four community sessions held at centres away from the principal City location (Bethlehem Centre), assisting around 550 people. Four country information sessions have been held, three in Whyalla and one in Port Augusta, assisting around 180 people.

The seminars cover aspects such as the current situation in the electricity market, consumer rights, understanding the contents of an electricity bill, possible content of market contracts, concessions and rebates, and how to compare market offers using services such as the telephone price comparison service. Information is also provided

²⁵ For a detailed discussion, refer to publication "Monitoring the Development of Electricity Retail Competition in South Australia, Statistical Report", November 2003, section 5, available on the Commission website at www.escosa.sa.gov.au.



about the Energy Industry Ombudsman as a body to whom unresolved complaints can be directed.

Some of the issues raised by seminar participants to date include: people feeling pressurised to agree to contracts on the phone; metering problems; difficulty in getting information from retailers on market offers; and one person transferred in error without consent.

In addition, COTA offers limited individual assistance (by appointment) to compare market electricity contracts, which has so far assisted around 25 people. In excess of 200 people have also been given direct assistance by telephone. All up, to date COTA has provided assistance to approximately 950 people, with more information sessions (metropolitan and country) planned.

COTA has also trained two volunteers to assist with the Electricity Contracts Information Service and three peer educators to deliver a simplified version of the seminars to Probus groups, retirement villages etc.

Some support for the Commission's work in this area comes from a number of quarters. A Discussion Paper released by the Ministerial Council on Energy Standing Committee of Officials (SCO) in March 2004 states that:

*"SCO recognises that end-users need to be able to easily compare the market offers of competing electricity retailers and to access information on demand side response opportunities to make informed choices about their energy needs. SCO proposes the development of an electricity price comparison website to encourage strong user participation in competitive markets by the small customer segment"*²⁶.

It is understood that other jurisdictions are considering an Estimator or price comparison service product.

A key finding of the ESCV's current special investigation of the state of energy retail competition in Victoria is that there is a:

*"...need to improve the availability of relevant, accessible comparative offer information to customers and, through education, to improve the capacity and confidence of energy customers to participate in the market by accepting beneficial contract arrangements"*²⁷.

Ofgem also considers it important that customers have access to accurate and up to date information on alternative retail offers and accordingly:

"Ofgem and Energywatch have therefore taken a number of measures aimed at reducing customers' search and switching costs. These include producing free gas

²⁶ "Improving User Participation in the Australian Energy Market, Discussion Paper", User Participation Working Group, Ministerial Council on Energy Standing Committee of Officials, March 2004, p21.

²⁷ "Special Investigation: Review of Effectiveness of Retail Competition in Gas and Electricity", Essential Services Commission of Victoria (ESCV), 30 March 2004, p9.

and electricity pricing factsheets, approving independent internet price comparison services, that doorstep sales agents should provide customers with written quotes ...”²⁸.

4.2 Price Information Disclosure

The Commission is required to create an industry code to regulate the provision of price information by retailers to small customers, enabling small customers to compare competing electricity offers with greater ease (s24(2)(d) of the *Electricity Act 1996*).

The Commission released an Issues Paper in March 2004 entitled "Price Information Disclosure in the Competitive Electricity Market" (available on the Commission website), seeking feedback and comment from electricity industry participants, consumers and other stakeholders in relation to the possible requirements of such an industry code. Submissions on this paper closed on 15 April 2004. The Commission is required to have the Code in place by 1st July 2004.

The Commission's initial conclusion, expressed in the Issues Paper, was that the Code should include requirements for retailers to:

- ▲ supply information to support the Commission's price comparison services;
- ▲ produce and keep updated "retailer price factsheets" which would set out the annual cost of each of the particular retailer's products, for categories of residential customers specified by the Commission; and
- ▲ express supply charges in terms of cents per day and that prices should be expressed as inclusive of GST, to assist customers to compare retail offers.

4.3 Price Comparisons for Residential Offers

The Commission 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, the Commission 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 4.1 of this report).

This review updates a similar analysis presented in the November 2003 FRC Monitoring report. The November 2003 report indicated potential savings from switching to market contracts of the order of 5% to 7% for peak (i.e. no off-peak hot water) consumption levels

²⁸ "Domestic Competitive Market Review 2004 – A review document", prepared by the Office of the Gas and Electricity Markets (Ofgem), UK, April 2004, p183. The Energywatch website states that the body is "... the independent watchdog for gas and electricity consumers. We provide free, impartial advice on a range of energy issues. We also take-up complaints on behalf of consumers who are experiencing difficulty in resolving problems directly with their energy suppliers".

ranging from 5,000 kWh p.a. to 10,000 kWh and in the order of 4% when these consumption levels incorporated off-peak hot water consumption. This analysis did not incorporate rebates available from some retailers for certain packages.

The recent review suggests that there has been some improvement in the price terms associated with the alternative offers, with potential savings (not including rebates) from switching to market contracts of just over 7% for peak (i.e. no off-peak hot water) consumption levels ranging from 5,000 kWh p.a. to 10,000 kWh and in the order of 6% when these consumption levels incorporated off-peak hot water consumption²⁹.

In this latest review, direct debit and loyalty rebates³⁰ offered by retailers for some packages have also been modelled and factored into the savings in Figures 4 and 5, and Tables 4 and 5 below. Other rebates, including the Government's one-off Electricity Transfer Rebate for pensioners (see section 3) have not been incorporated and represent potential additional savings.

Figure 4 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%³¹ summer consumption and 73.5% non-summer consumption has been made to deal with summer tariffs³².

²⁹ Since the November 2003 FRC Monitoring report a minor adjustment has been made to the price comparison model to set hot water consumption to be a third of total consumption, up to a cap of 2,700 kWh. This has not produced a large impact (less than a figure of 1%) on the on the percentage savings estimates over these ranges.

³⁰ Including both the joining rebate and loyalty rebate (where applicable) would over-estimate annual savings, given the loyalty rebate is considered more applicable to the second year of the contract. Also the loyalty rebate is on-going and hence considered more appropriate to use in an annual saving calculation.

³¹ 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.

³² 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 4: ANNUAL RESIDENTIAL BILL COMPARISON
AGL STANDING CONTRACT ELECTRICITY PRICES VS CHEAPEST ALTERNATIVE
ALL CONSUMPTION AT PEAK RATES (EXCLUDES OFF-PEAK HOT WATER HEATING)
INCORPORATES DIRECT DEBIT AND LOYALTY REBATES WHERE APPLICABLE

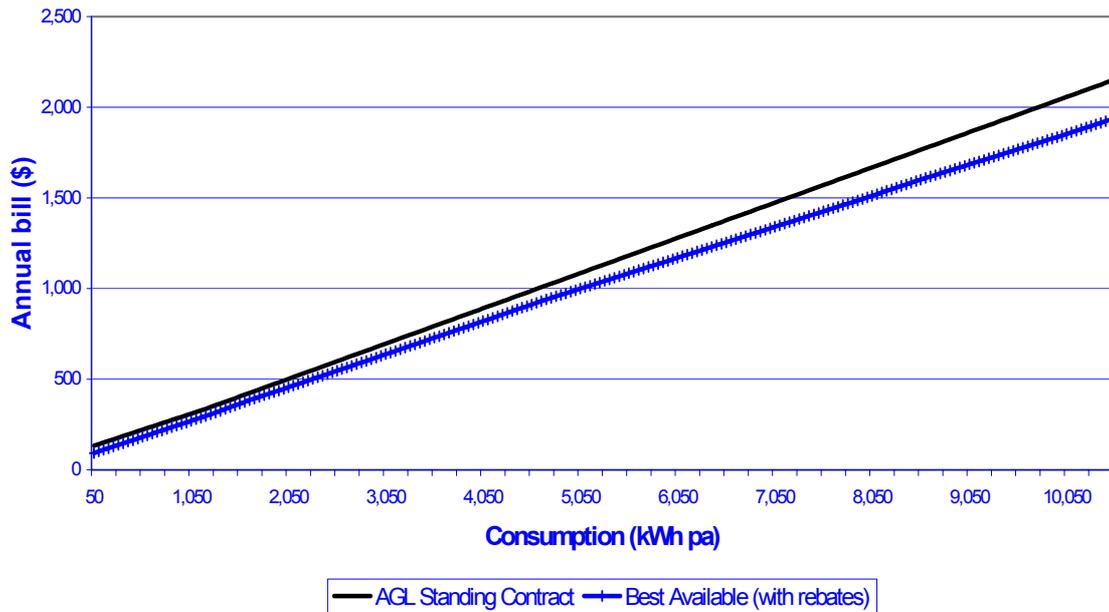


TABLE 4: ANNUAL RESIDENTIAL BILL COMPARISON⁽ⁱ⁾
AGL STANDING CONTRACT ELECTRICITY PRICES VS CHEAPEST ALTERNATIVE
SELECTED CONSUMPTION LEVELS: ALL CONSUMPTION AT PEAK RATES
INCORPORATES DIRECT DEBIT AND LOYALTY REBATES WHERE APPLICABLE

ANNUAL CONSUMPTION (kWh)	AGL SA STANDING CONTRACT (\$)	BEST AVAILABLE CONTRACT (\$)	ANNUAL SAVING ⁽ⁱⁱ⁾ (\$)
2000	492	447	46
3000	687	629	58
4000	881	811	70
5000	1075	991	85
6000	1270	1162	108
7000	1464	1332	132
8000	1658	1503	156
9000	1853	1676	176
10000	2047	1843	204

(i) source: retailer offer material supplied to Commission.

(ii) may be some variation due to rounding.

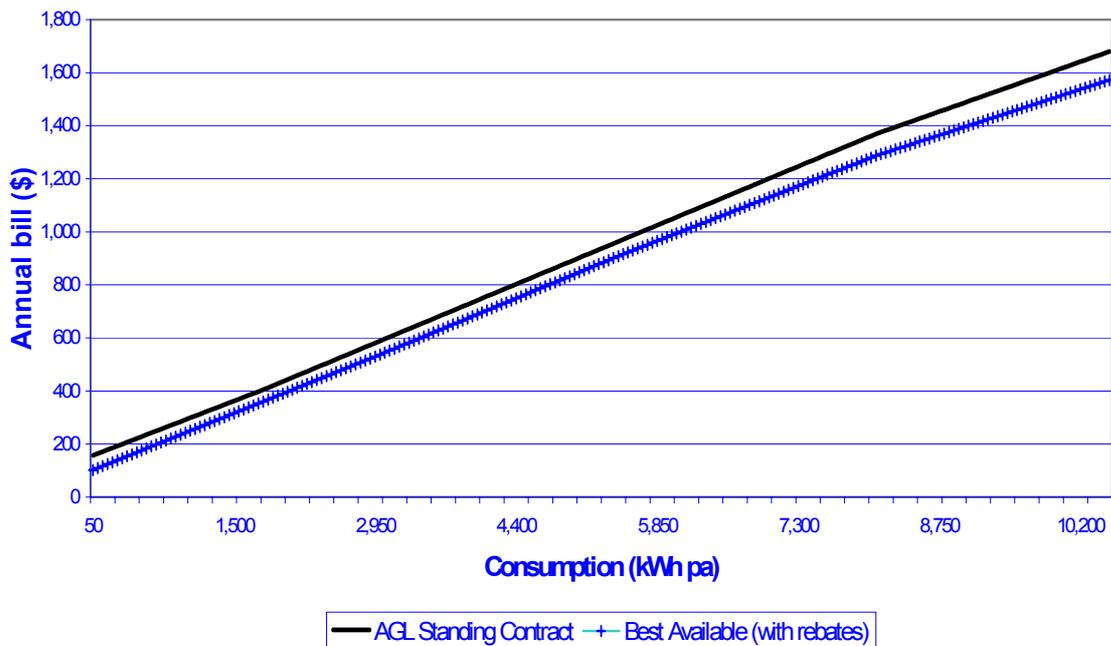
Figure 4 is indicative of the potential level of savings, by comparing the various electricity tariff rates on offer on the basis that all consumption is at peak rates (i.e. no off-peak hot

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 level³³, incorporating any direct debit and loyalty rebates on offer. Table 4 provides the relevant data for a selected range of consumption levels.

Figure 4 and Table 4 indicate that the level of potential savings increases in absolute dollar (\$) terms 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 \$85 would represent a saving of almost 8.0% on a standing contract-based annual bill. For consumption levels of 10,000 kWh the potential savings could be of the order of nearly 10%. Over this consumption range potential savings generally fall within a range of 8% to 10%.

Figure 5 and Table 5 make a similar annual residential bill comparison, but include hot water consumption at off-peak rates.

FIGURE 5: ANNUAL RESIDENTIAL BILL COMPARISON
AGL STANDING CONTRACT ELECTRICITY PRICES VS CHEAPEST ALTERNATIVE
CONSUMPTION: MIX OF PEAK RATES & HOT WATER AT OFF-PEAK RATES
INCORPORATES DIRECT DEBIT AND LOYALTY REBATES WHERE APPLICABLE



³³ Market contract rates on offer from AGL SA, Origin, TXU and EnergyAustralia, as at 31 March 2004, used in this assessment.

TABLE 5: ANNUAL RESIDENTIAL BILL COMPARISON⁽ⁱ⁾
AGL STANDING CONTRACT ELECTRICITY PRICES VS CHEAPEST ALTERNATIVE
SELECTED CONSUMPTION LEVELS
CONSUMPTION: MIX OF PEAK RATES & HOT WATER AT OFF-PEAK RATES
INCORPORATES DIRECT DEBIT AND LOYALTY REBATES WHERE APPLICABLE

ANNUAL CONSUMPTION	AGL SA STANDING CONTRACT	BEST AVAILABLE CONTRACT ⁽ⁱ⁾	ANNUAL SAVING ⁽ⁱⁱ⁾
(kWh)	(\$)	(\$)	(\$)
2000	435	390	46
3000	588	537	51
4000	741	689	53
5000	895	840	54
6000	1048	987	61
7000	1201	1130	71
8000	1354	1272	81
9000	1486	1394	92
10000	1615	1513	102

(i) source: retailer offer material supplied to Commission.

(ii) may be some variation due to rounding.

Once again, Figure 5 and Table 5 indicate that the level of potential savings increases in absolute dollar (\$) terms with increasing levels of consumption. For an individual with an annual consumption of 5,000 kWh (including off-peak hot water³⁴), a saving of \$54 would represent a saving of around 6% on a standing contract-based annual bill. For consumption levels of 10,000 kWh the potential savings are also of the order of 6%. Over this consumption range, potential savings are generally around 6%.

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. Also, this analysis has not modelled all rebates on offer.

³⁴ Hot water use assumed to be one-third of total consumption, up to a cap of 2700 kWh.



5. INTERSTATE AND OVERSEAS EXPERIENCE

This section compares the experience of small customer transfer activity in the South Australian electricity market with the experience interstate and overseas, to place the South Australian experience in context.

Section 2.3 reported that the gross switching rate of small customers in the South Australian electricity market³⁵ as at the end of March 2004 was 5.2%, some fifteen months after electricity FRC was introduced in January 2003.

Electricity FRC commenced in Victoria and NSW in January 2002, and fifteen months later (March 2003) the gross switching rates based on the NEMMCO MSATS small customer transfer statistics³⁶ were 6.7% and 3.0% respectively³⁷. Even though these Victorian and NSW statistics only record transfers occurring between retailers and the South Australian statistics cover this as well as those AGL SA customers switching to market contracts with the incumbent retailer, the comparison still indicates that in recent times South Australia has started to perform well in this area. These statistics suggest that at a comparable stage of market development, South Australia is performing ahead of NSW, but a little behind Victoria.

The November 2003 FRC Monitoring report reproduced a graph prepared by NEMMCO showing small customer one month annualised churn rates experienced in NSW and Victoria since FRC was introduced in those States (January 2002), up to May 2003. The graph showed a low initial annualised churn rate³⁸ for both Victoria and NSW (around 2%), with much higher rates fifteen months later in March 2003 (9.3% Victoria and 3.7% NSW).

Noting the difference that the South Australian statistics also include switching to the incumbent retailer, for the first three months of 2004 the annualised switch rates have been 8.7% (January 2004), 11.5% (February 2004) and 18.4% (March 2004). This is a marked increase from the average annualised switch rates recorded in the last half of 2003, of around 2.0% to 4.0%. These statistics reinforce the point that South Australia has experienced a marked increase in small customer switching to electricity market contracts in the first quarter of 2004.

³⁵ That is, total number of customer transfers divided by small customer base of 740,000.

³⁶ The switching 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.

³⁷ "Special Investigation: Review of Effectiveness of Retail Competition in Gas and Electricity", Essential Services Commission of Victoria (ESCV), 30 March 2004, p27 indicates that there are approximately 2.1 million small customers in Victoria. The Commission understands that there are approximately 2.8 million small customers in NSW. According to the NEMMCO MSATS data, as at 31 March 2003 the total number of completed electricity small customer transfers was 142,206 for Victoria and 85,153 for NSW.

³⁸ The '% 1 month annualised (lines)' in Figure 5 of the November 2003 FRC Monitoring report are derived by multiplying the relevant month's completed transfers by 12 and then dividing this by the relevant customer population.

On current projections, it is likely that South Australia will achieve a gross switching rate in the order of 9% to 10% by the end of June this year, with around 65,000 small customers having switched at least once. The Commission 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 July 2004, which will enable all retailers to pursue dual-fuel customers).

The current ESCV special investigation of the state of energy retail competition in Victoria³⁹ states that as at the end of December 2003, two years after commencement of FRC, around 17% of electricity customers had switched to market contracts (this figure includes those customers taking out a market contract with their incumbent/local retailer).

A recent Office of the Gas and Electricity Markets (Ofgem) review of the residential gas and electricity market in Great Britain reports that, by the end of 2003, 51% of domestic small customers had switched their electricity retailer at least once⁴⁰. Electricity FRC commenced in Great Britain progressively, with domestic electricity FRC starting in September 1998 and finalised in April 1999. Using the summer of 1999 as the base, Ofgem⁴¹ shows gross switching rates for electricity of 19% after one year and in excess of 30% after two years.

Ofgem considers that the electricity and gas markets in Great Britain are competitive but not yet mature⁴². Ofgem also considers that customers who switch stand to gain a larger share of the benefits of competition than non-switchers⁴³.

The ESCV special investigation also reports on some overseas experience, showing the gross switching rate in the New Zealand electricity market at slightly higher than 20% after two years following commencement of FRC⁴⁴. However, as the ESCV points out, switching rates are impacted by “... *the procedures governing transfers, the offers from competing retailers, and the nature of customers in that market*”⁴⁵.

³⁹ op.cit., p71.

⁴⁰ “Domestic Competitive Market Review 2004 – A review document”, prepared by the Office of the Gas and Electricity Markets (Ofgem), UK, April 2004, p56. Represents a ‘gross switch’ estimate.

⁴¹ op.cit., p57.

⁴² op.cit., p(ii).

⁴³ op.cit., p105. Reflects decision of incumbent retailers to charge lower prices for customers outside their franchise area than in their franchise area, referred to as ‘two-tier pricing’. To the extent that standing contract rates remain higher than market contract rates there would appear to be some parallels in the South Australian case, i.e. a need to switch to gain savings.

⁴⁴ op. cit., p70.

⁴⁵ op. cit., p70. The ESCV goes on to note that in NZ a final meter read is conducted for every transfer and in the UK a customer self-read of the meter is sufficient for the transfer process, whereas in the Australian National Electricity Market (NEM) a transfer is aligned to the next scheduled meter read. Also, ESCV suggests that switching is possible continuously in NZ and the UK, whereas in Australia there is a tendency for retailers to impose cancellation penalties.

6. SUMMARY

This report shows that as at the end of March 2004, there had been around 38,000 small customer completed transfers to market contracts in the South Australian electricity retail market. These completed transfers represent 5.2% of the South Australian small customer base of around 740,000 customers. In addition, around 20,000 small customer transfers were in progress⁴⁶ at the end of March 2004, representing a further 2.7% of the small customer base.

The first three months of 2004 has seen a marked increase in the number of completed transfers, given that as of 31 December 2003 there had been around 14,000 (1.9%) completed transfers.

This result must be placed in the context that FRC has only operated in South Australia for fifteen months. Notwithstanding this, as noted in section 5 of this report, experience interstate suggests that the South Australian retail electricity market is developing well in the Australian context, particularly if the extent of transfers experienced in the first quarter of 2004 can be maintained.

At this stage, South Australia has five retailers operating in the small customer market. As indicated in section 4 of this report, retailers continue to offer cheaper prices compared to the standing contract rates and so an incentive for customers to switch exists.

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

The Commission will continue to assess opportunities for it 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, as discussed in section 4 of this report. The indications are that all these services are being well patronised.

The next report in this series is scheduled to be released in September 2004.

⁴⁶ That is, contracts have been signed but the transfer (change of retailer financial responsibility) has not yet occurred.