



MONITORING THE DEVELOPMENT OF ENERGY RETAIL COMPETITION IN SOUTH AUSTRALIA STATISTICAL REPORT

September 2004

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GLOSSARY OF TERMS

THE COMMISSION	Essential Services Commission of South Australia
THE CONSULTANT	McGregor Tan Research
COTA	Council on the Ageing
ESCOSA	Essential Services Commission of South Australia
ESCV	Essential Services Commission of Victoria
ETR	Electricity Transfer Rebate
FINAL DECISION PAPER	refers to "Monitoring the Development of Energy Retail Competition in South Australia, Final Decision", September 2004
FRC	Full Retail Contestability
HES	ABS Household Expenditure Survey
MWH	Mega Watt hours
MIRN	Meter Identification Registration Number
NILS	National Institute of Labour Studies
NMI	National Metering Identifier
NEMMCO	National Electricity Market Management Company Limited
REMCo	Retail Energy Market Company Ltd
STATISTICAL REPORT	refers to the FRC Monitoring Statistical Reports published by the Commission from time to time and available on the Commission's website at www.escosa.sa.gov.au . For example, refer to "Monitoring the Development of Electricity Retail Competition in South Australia, Statistical Report", May 2004 and this September 2004 report
SMALL ELECTRICITY CUSTOMER	refers to a customer with annual electricity consumption of less than 160MWh
SMALL GAS CUSTOMER	refers to a customer with annual gas consumption of less than 1TJ
TJ	Terajoule

1 INTRODUCTION

This September 2004 FRC Monitoring Statistical Report is the fifth in a regular series of Statistical Reports to be published on the development of Full Retail Contestability (FRC) in the South Australian electricity market, but is the first report that also reviews the development of the South Australian gas retail market.

On 1 January 2003, the South Australian electricity retail market became fully contestable. The South Australian gas retail market became fully contestable on 28 July 2004. This means that there are no longer any direct legal, regulatory or operational impediments in place that prevent an appropriately licensed retailer seeking to sell electricity and/or gas to a South Australian customer.

In June 2004, the Commission released a discussion paper titled “Monitoring the Development of Energy Retail Competition in South Australia, Discussion Paper” with submissions closing on 30 July 2004. The purpose of the Discussion Paper was to outline a proposed approach to monitoring the development of gas retail competition, with the aim of consolidating the Commission’s approach to monitoring the gas and electricity (energy) retail markets. Copies of the Discussion Paper, along with all other Commission reports, are available on the Commission’s website at <http://www.escosa.sa.gov.au/>.

Prior to release of the Discussion Paper, in August 2003, the Commission released the paper “Monitoring the Development of Electricity Retail Competition in South Australia – Position Paper”¹. The Position Paper underpinned the approach the Commission had been taking in monitoring and reporting on the progress of the development of electricity retail competition in South Australia, prior to the release of this Statistical Report.

The Commission recently released a Final Decision paper, titled “Monitoring the Development of Energy Retail Competition in South Australia, Final Decision”, September 2004 (referred to hereafter as the Final Decision paper). The Final Decision paper concluded that the FRC monitoring framework developed for electricity was applicable to monitoring the development of the gas retail market, and consequently an energy FRC Monitoring framework has been adopted. The Final Decision paper outlines the energy FRC Monitoring framework in detail, with the development of the South Australian energy retail market to be monitored using the following seven key competition indicators:

- ▲ Indicator 1 – Number of Electricity Retailers
- ▲ Indicator 2 – Customer Switching
- ▲ Indicator 3 – Barriers to Entry
- ▲ Indicator 4 – Information Asymmetries
- ▲ Indicator 5 – Price/Service Mix
- ▲ Indicator 6 – Impacts on Low-Income Groups

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



▲ Indicator 7 – Innovation.

The Commission has decided that it will move to releasing six-monthly substantive energy FRC Monitoring Statistical Reports. The Commission also intends to commence the routine reporting of monthly electricity and gas transfer statistics (i.e. each month reporting on the transfers of the previous month). The monthly reporting would be by way of the Commission's website newsletter and the updating of a schedule contained in the 'FRC Monitoring' sub-menu of the Commission's website. It is hoped that the monthly reporting of customer transfers to market contracts will be able to commence shortly, once the relevant retailers² have made the necessary amendments to their reporting systems.

This September 2004 Statistical Report is the first of the six-monthly substantive energy FRC Monitoring Statistical Reports, and is modelled on the format used for the November 2003³ and May 2004⁴ Statistical Reports, containing some analysis on the development of retail competition (electricity and gas) in South Australia, along with a report on the regular indicators which provide data on the number of South Australian licensed retailers, the number of retailers operating in the South Australian small customer⁵ retail market, and the number of small customers switching from standing contracts⁶ to market contracts⁷. In relation to the publishing of customer switching statistics, the Statistical Reports will continue to provide updated statistics and graphs in addition to the monthly reporting of these statistics.

This report is divided into the following sections. Section 2 provides an update of the regular published indicators, as presented in the February 2004 Statistical Report (and updated in the May 2004 Statistical Report).

Section 3 presents the results of a brief survey of retailers carried out in August 2004 which sought information regarding the level of retailer participation in nominated electricity and gas market segments, the nature of innovative products on offer and the extent of any barriers to entry into the energy retail market.

Section 4 presents the results of some survey work undertaken of South Australian small (electricity and gas) customers. During August 2004, the ESCOSA commissioned a survey of small customers covering aspects such as awareness of the ability to choose

2 As outlined below in the report, the transfer statistics reported will be the number of transfers to market contracts, which will require AGL SA (for electricity) and Origin (for gas) to report on the number of their customers that move to market contracts with them.

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

4 Report located at: <http://www.escosa.sa.gov.au/resources/documents/040524-R-MonERCompStatRpt.pdf>

5 Small Customer refers to all residential customers and those business customers with an annual consumption of less than 160MWh (electricity) and 1TJ (gas).

6 Standing Contracts: from 1 January 2003 all small electricity 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. Similar arrangements exist for small gas customers.

7 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).

retailers, whether an offer had been received from a retailer, availability of information to assess offers, future switching intentions and experience with the transfer process.

Section 5 looks at potential impacts of electricity and gas retail competition on low-income consumers and reports in more detail the component of the small customer survey work outlined in Section 4 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 the Commission.

Section 6 reports on the Commission's 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. The Commission has been undertaking work to extend its electricity price comparison services to enable access to similar information for gas.

Section 7 examines the development of energy FRC interstate and overseas, with the aim of placing South Australia's current experience in some context.

Finally, section 8 provides an overall summary of this report's findings, along with some brief commentary on the development of energy FRC in South Australia to date.



2 INDICATORS OF COMPETITION

2.1 Number of South Australian Licensed Electricity Retailers

Since 11 October 1999, the Commission (formerly the SAIR⁸) has been responsible for administering the licensing regime that applies to South Australian 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 September 2004, together with the history of entry and exit since October 1999. This statistic indicates the current available pool of licensed electricity retailers in South Australia.

Table 1: Number of Licensed South Australian Electricity 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 ^(vi) , TXU Electricity and Yallourn Energy ⁽ⁱⁱⁱ⁾	11
September 2004	AGL South Australia, Aurora Energy ^(vii) , Country Energy, Energex Retail, EnergyAustralia, International Power (Retail) ^(viii) , NRG Flinders, Origin Energy Electricity, Powerdirect ^(v) , 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 South Australia 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) Tarong Energy Corporation Ltd's licence was surrendered on 31 May 2004.

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

(viii) International Power (Retail) Pty Ltd was issued with a licence on 25 May 2004.

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



Since publication of the May 2004 Statistical Report, the following licences have been issued or surrendered:

- ▲ On 25 May 2004, the Commission issued an electricity retail licence to International Power (Retail) Pty Ltd authorising the retailing of electricity in South Australia. International Power (Retail) is a wholly owned subsidiary of the UK-based International Power PLC, with other subsidiaries in this group responsible for operating generation plant in South Australia.
- ▲ As previously foreshadowed, Tarong Energy Corporation Ltd's licence was surrendered on 31 May 2004.

As indicated in previous Statistical 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 customers⁹.

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 Number of South Australian Licensed Gas Retailers

From 1 July 2003, the Commission assumed certain regulatory functions in relation to the South Australian gas supply industry, including responsibility for administering the licensing regime that applies to gas entities, pursuant to Part 3 of the *Gas Act 1997*.

Table 2 provides the number of gas retailers licensed to operate in South Australia as at 1 September 2004, together with the history of entry and exit since July 2003. This statistic indicates the current available pool of licensed gas retailers in South Australia.

Table 2: Number of Licensed South Australian Gas Retailers⁽ⁱ⁾

AS AT DATE	RETAILERS ⁽ⁱⁱ⁾	NUMBER
July 2003	AGL South Australia, Origin Energy Retail, Terra Gas Trader and TXU Electricity	4
November 2003	AGL South Australia, Origin Energy Retail, Terra Gas Trader and TXU Electricity	4
September 2004	AGL South Australia, EnergyAustralia ⁽ⁱⁱⁱ⁾ , Origin Energy Retail, Terra Gas Trader and TXU Electricity	5

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

(ii) Prior to 28 July 2004 only Origin Energy was licensed to sell gas to non-contestable customers. From 28 July 2004 there were no restrictions, as all customers became contestable with the commencement of gas FRC.

(iii) EnergyAustralia was issued with a licence on 30 March 2004.

⁹ During August 2004, there were at least eight active SA licensed retailers (i.e. had SA customers), five of which were selling to small customers (based on NEMMCO MSATS system and information available to the Commission).

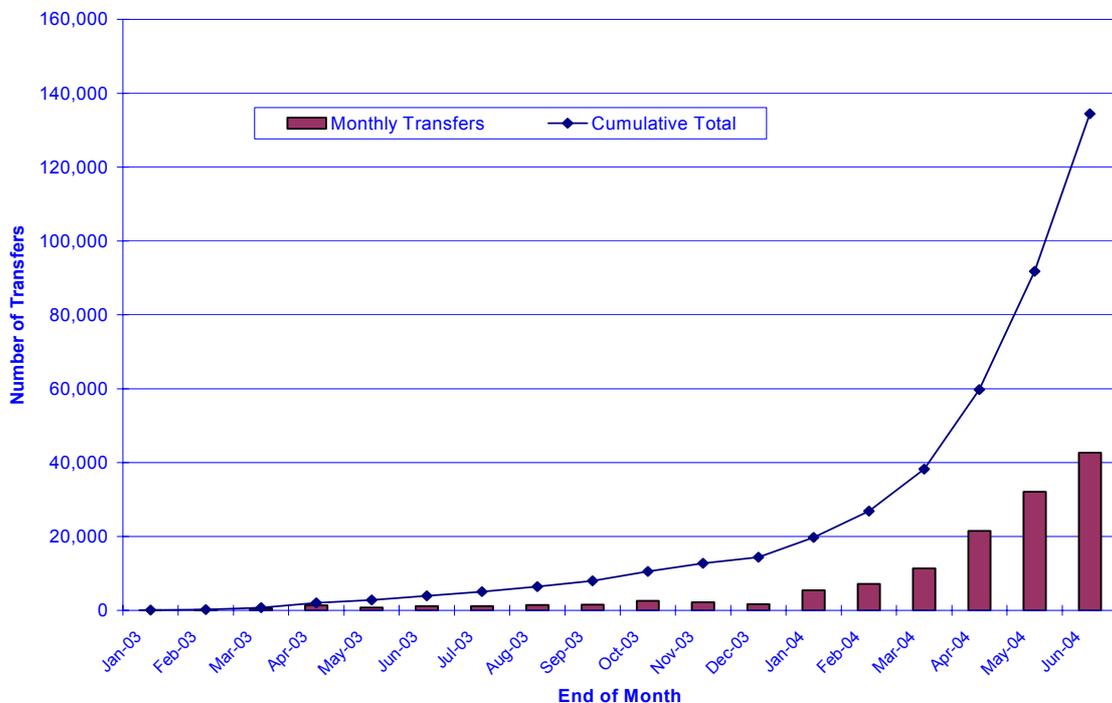
On 30 March 2004, the Commission issued a gas retail licence to EnergyAustralia authorising the retailing of gas in South Australia. EnergyAustralia was established as a State owned Corporation in NSW on 1 March 1996. EnergyAustralia is one of Australia's largest energy services corporations, operating as an electricity network service provider in NSW and an energy retailer in several jurisdictions. It has held an electricity retail licence in South Australia since April 2003.

The number of retailers currently operating in the small customer gas retail 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 it is understood there are four retailers (AGL SA, Origin Energy, TXU and EnergyAustralia) marketing and selling gas to small customers located in South Australia. All of these retailers are also marketing and selling electricity to small customers (see Section 2.1).

2.3 Number of 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 18 months to 30 June 2004¹⁰.

**Figure 1: Number of Completed Small Electricity Customer Retail Transfers
South Australia: 2003 to 2004**



¹⁰ Note that it is possible that a small number of these transfers represent transfers back to standing contracts with AGL SA.

Figure 1 shows the monthly and cumulative total of completed small electricity customer transfers, with Table 3 providing the underlying data. As at the end of June 2004¹¹, there had been around 134,000 small customer completed transfers, representing around 18% of the small customer base of 740,000.

**Table 3: Number of Completed Small Electricity Customer Retail Transfers
South Australia⁽ⁱ⁾
(January 2003 to June 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	1,652	14,362	1.9%
Sub-total	14,362		
2004			
January	5,393	19,755	2.7%
February	7,109	26,864	3.6%
March ^(iv)	11,350	38,214	5.2%
April	21,489	59,703	8.1%
May	32,071	91,774	12.4%
June	42,694	134,468	18.2%
Sub-total	120,106		
Total	134,468		

- 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).
(iv) The large increase in completed transfers from March 2004 reflects the impact of the State Government's \$50 Electricity Transfer Rebate (ETR) offer, which ended on 13 August 2004.

11 Small customer electricity transfer numbers are reported as at 30 June 2004, consistent with the previous reporting timetable. The intention would be to report more current electricity transfer statistics in future reports. However, given that gas FRC commenced after June 2004, with the assistance of Origin Energy, this Statistical Report includes the most recent gas transfer statistics available (see Section 2.4).

Table 3 shows the marked increase in completed transfers that has occurred since early 2004, with monthly transfers increasing from around 5,000 (January 2004) to a peak of 43,000 (June 2004). This compares with monthly transfer levels of 1,100 to 2,500 during the last six months of 2003, and even lower transfer rates in the preceding six months.

It is understood that a significant factor in the marked increase in transfers to market contracts that occurred towards the end of the period under review, was due to customers taking advantage of the South Australian Government's \$50 Electricity Transfer Rebate (ETR) offer, which ended on 13 August 2004. Accordingly, it is expected that the number of customer transfers to electricity market contracts will also be high in the 3rd Quarter 2004, with monthly transfer rates expected to drop in the 4th Quarter 2004.

This aggregated transfer data combines NEMMCO¹² 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 market contracts¹³). The combination of the AGL SA and NEMMCO data shows the overall extent to which customers are exercising choice in moving to market contracts.

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 progress¹⁴. Around 20,000 small customer transfers were in progress at the end of June 2004, representing a further 3% of the small customer base.

Customer switching can be defined in a number of ways, as follows¹⁵:

- ▲ 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

12 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).

13 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.

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

15 Based on definitions contained in Office of Gas and Electricity Markets (Ofgem) publication "Domestic Competitive Market Review 2004 – A review document", April 2004, p53 (http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/6741_DCMR_publication_Ch_1_to_3.pdf) 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 (http://www.esc.vic.gov.au/apps/page/user/pdf/FinalReportBackgroundFRC_June2004.pdf).

- ▲ 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. 134,000 small customer transfers completed as at the end of June 2004) are gross switching figures, in the sense of switching to market contracts. 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 SA¹⁶, as the single incumbent retailer in South Australia.

2.4 Number of Transfers to Market Contracts for Gas

With gas FRC only effectively commencing on 28 July 2004, there are limited statistics to report at this stage. For the March 2004 Statistical Report and subsequent Statistical Reports, the equivalent of Figure 1 and Table 3 will be presented to report progressive totals of the number of completed small gas customer transfers.

At this stage, consistent with the Final Decision paper, the Commission has sought data from Origin Energy on the number of its customers moving to market contracts with Origin Energy, to be added to the transfer data provided by REMCo to determine an aggregate monthly number for customers moving to market contracts. This approach is consistent with the approach adopted in Section 2.3, to report the total number of electricity customers moving to market contracts.

On this basis, as at the end of August 2004 (the first full month of gas FRC), there had been around 3,300 small gas customer completed transfers, representing approximately 1% of the small customer base of 340,000.

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 progress¹⁷. Around 9,500 small gas customer transfers were in progress at the end of August 2004, representing a further 3% of the small customer base.

2.5 Aggregators & Information Intermediaries

Customers can either deal individually with retailers or potentially through third parties that combine (aggregate) individual demand into a block of demand in an effort to improve the level of buying power, with these third parties termed aggregators. There are also opportunities in a market for third parties to specialise in providing independent sources of information to assist customers, in this context termed information intermediaries.

¹⁶ See Commission Position Paper "Monitoring the Development of Electricity Retail Competition in South Australia – August 2003", p15. (<http://www.escosa.sa.gov.au/resources/documents/030807-R-MonitorEffectiveERC-PositionPaper.pdf>)

¹⁷ As with electricity transfers, a gas transfer is not effected until the customer's next scheduled meter read, which can be up to three months after contract sign-up. Consequently, a significant number of completed gas transfers to market contracts would not be expected at this stage.

Since the May 2004 Statistical Report, the South Australian Energy Co-operative Limited was publicly launched in Adelaide, in June 2004. As advised on its website (www.energycoop.org.au), the co-operative is a not for profit community organisation that “*seeks to negotiate energy supply contracts on behalf of its members on more favourable terms than those on offer to individual consumers, by applying the combined bargaining power of its membership base to the negotiation process*”. Early reports indicated that this initiative had generated a lot of interest, but with an unknown number of memberships taken out with the cooperative.

At this stage, the Commission is performing an information intermediary function in its provision of the telephone price comparison and Estimator services (see section 6.1).

2.6 Summary

In summary:

- ▲ There are currently 11 electricity retailers and 5 gas retailers licensed to operate in South Australia.
- ▲ Five retailers are currently marketing and selling electricity to small customers in South Australia. Four of these retailers are also marketing and selling gas to small customers in South Australia.
- ▲ As of 30 June 2004, there had been 134,000 small customer completed transfers to electricity market contracts since commencement of electricity FRC in January 2003, representing 18% of the small customer base of 740,000. A further 20,000 (or 3%) transfers were in progress at that time.
- ▲ As of 31 August 2004, there had been 3,300 small customer completed transfers to gas market contracts since commencement of gas FRC on 28 July 2004, representing 1% of the small customer base of 340,000. A further 9,500 (or 3%) transfers were in progress at that time.



3 RETAILER SURVEY RESULTS

A short survey of retailers was carried out in August 2004, following a similar survey undertaken in September 2003. The 2004 Retailer Survey sought information on the extent to which the retailer has offered or will seek to offer market contracts in identified small customer categories in South Australia, the nature of any innovative product offerings and the extent to which 'barriers to entry' to the South Australia exist for retailers, which might limit the potential for active competition.

Apart from the 2004 Retailer Survey asking similar questions for gas, the key additional question asked in this year's survey was the question on barriers to entry. This question was asked of all South Australian licensed retailers and a select number of retailers operating in other jurisdictions but not licensed in South Australia. It was considered that non-South Australian licensed retailers could hold a unique perspective on potential barriers to entry that may exist in relation to the South Australian energy retail market.

As a result, there were three distinct groups of retailers surveyed, as follows:

- ▲ South Australian licensed and operating in the South Australian small customer electricity and/or gas retail market (SA small customer retailers);
- ▲ South Australian licensed, but not currently operating in the South Australian small customer electricity and/or gas retail market (SA non-small customer retailers);
- ▲ Interstate licensed, but not licensed to operate in South Australia (Non-SA retailers).

The number of retailers surveyed in each group and the corresponding number of completed survey questionnaires received is identified in the following table.

Table 4: Retailer Survey Response Rate

RETAILER GROUP	NO. OF RETAILERS SURVEYED IN GROUP	NO. OF COMPLETED SURVEY QUESTIONNAIRES RETURNED
SA small customer retailers	5	5
SA non-small customer retailers	7	6
Non-SA retailers	8	3 ⁽ⁱ⁾
Total	20	14

Note: (i) Five responses were received from non-SA retailers, however, two responses received stated that for varying reasons the retailers did not consider that they could respond appropriately to the survey questions.

3.1 Level of Participation

In relation to the information sought on participation, the only statistic requested was the extent to which the retailer offered in 2003/04, or intended to offer in 2004/05, market contracts in certain identified customer categories. The intention was for the retailer's marketing section to provide this information, to avoid the need for retailers to undertake any interrogation of their data systems. This question was only asked of South Australian licensed retailers, i.e. SA small customer retailers and SA non-small customer retailers.

Table 5 shows the number of retailers offering contracts to small customers at some stage in 2003/04 and the number intending to do so in 2004/05, by category of electricity and gas customer, based on the survey of retailers that were licensed to operate in South Australia during August 2004.

**Table 5: Number of Retailers Participating in Small Customer Market
by Category of Electricity & Gas Customer⁽ⁱ⁾
South Australia**

CATEGORY	ELECTRICITY		GAS	
	2003/04	2004/05 ⁽ⁱⁱ⁾	2003/04	2004/05 ⁽ⁱⁱ⁾
Residential				
* metropolitan Adelaide	5	5	2	5
* rural & regional	4	4	1	3
Small Business				
• annual consumption of 0 to 80MWh (electricity) or 0 to 0.5TJ (gas):				
* metropolitan Adelaide	5	6	1	5
* rural & regional	4	5	0	3
• annual consumption of 80 to 160MWh (electricity) or 0.5 to 1.0TJ (gas):				
* metropolitan Adelaide	5	6	1	5
* rural & regional	4	5	0	3

Note: (i) Survey of retailers licensed to operate during August 2004.
(ii) For those retailers able to indicate a clear intention for 2004/05.

However, Table 5 only indicates the number of retailers intending to offer contracts in 2003/04 for those retailers who at the time of the August 2004 survey were in a position to indicate a clear intention¹⁸.

Table 5 indicates that in the electricity retail market there were at least 4 retailers operating across all categories of small customer in 2003/04, with an additional retailer operating in the metropolitan Adelaide region. There was relatively little activity for gas in 2003/04, but this was to be expected given that the market did not open until 28 July 2004.

Looking forward to 2004/05, Table 5 indicates that there may be a slight increase in the number of retailers offering electricity market contracts to small business this financial year. In relation to gas, the number of retailers offering gas market contracts in the metropolitan region in 2004/05 looks like being broadly similar to the number offering

¹⁸ One retailer has indicated that it is reviewing whether to continue to service the residential market in 2004/05, and consequently was not recorded as intending to participate in 2004/05.

electricity market contracts. However, in rural and regional South Australia fewer retailers (n=3)¹⁹ have indicated an intention to offer gas contracts in 2004/05.

3.2 Innovative Products

Retailers were requested 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 'lifestyle' tariff structures (e.g. individual packages aimed at a range of household and business types), or customer base segmentation (e.g. into small, medium and large usage with each segment receiving combinations of offerings)
- ▲ Dual fuel options
- ▲ Varying price options, including fixed prices for a period of time and tariff structures that do not include a seasonal peak tariff
- ▲ Various types of rebates (e.g. loyalty rebates, dual fuel rebates and rebates for permitting payments by direct debit to bank accounts), or discounts (percentage or fixed)
- ▲ Varying payment options, including direct debit, smoothed payments (e.g. option of single, equal monthly energy payments on one bill), with some products incorporating a mandatory payment method
- ▲ Varying contract terms, including fixed term
- ▲ Non-price based benefits such as product vouchers (eg to reduce the cost of purchasing products at the retailer's store) and offsets against club memberships.

A key development over the past year²⁰ has been the extension to gas offers, with various dual fuel offers available. There also appears to be a broader range of green energy products on offer.

3.3 Barriers to Entry

The 2004 Retailer Survey's barriers to entry question contained 16 categories or issues on which retailers were requested to provide a ranking, ranging from "1" if strongly

¹⁹ n=3 indicates that three retailers responded in the identified fashion. Such notation is used throughout this report (i.e. also in relation to discussion of the small customer survey responses) to identify the number of responses received to a particular question.

²⁰ For the results of last year's review refer November 2003 Monitoring the Development of Electricity Retail Competition: Statistical Report, p6, (http://www.escosa.sa.gov.au/resources/documents/031121-R-MonERCompStatRpt_Nov.pdf)

believed was not an issue through to “5” if strongly believed was an issue²¹. This question was asked of all three groups of retailers, i.e. SA small customer retailers, SA non-small customer retailers and Non-SA retailers. The results of the survey are summarised below, together with a brief commentary.

Whilst the issues identified in this section are generally characterised as potential barriers to entry, it is noted that high rating scores for some of these issues were identified by retailers serving small customers in South Australia and hence for this group were not barriers that prevented entry. Nevertheless, even if these retailers are prepared to operate in the South Australian small customer energy retail market notwithstanding these issues, the survey results are useful both in terms of identifying issues that may be hampering the operations of such retailers and in terms of identifying issues that may be acting as barriers to potential entrants. It is also possible that certain retailers might still not choose to operate in the small customer retail market even in the absence of such barriers, as to do so would not be consistent with the corporate strategies of their companies (e.g. some retailers have determined to confine their operations to large consumers, rather than incur the large overheads associated with serving the ‘mass’ market).

The 2004 Retailer Survey was a confidential survey and accordingly the results are presented in a manner that seeks to protect the identity of individual respondents. Table 6 identifies the number of respondents providing a particular response on the 1 to 5 scale, across all the responses received (n=14)²². As indicated, not all respondents answered both the electricity and gas components of the questionnaire, with the Non-SA retailers confining their responses to the electricity component. The ‘believe it is an issue’ (rating 4) and ‘strongly believe it is an issue’ (rating 5) columns of Table 6 have been highlighted to indicate the issues seen of key importance by the overall group of respondents.

²¹ For each Barrier to Entry category, retailers were advised that only one response should be circled, with the graduated rating scale defined as follows: 1=strongly believe it is not an issue; 2=believe it is not an issue; 3=neutral; 4=believe it is an issue; 5=strongly believe it is an issue.

²² Note that in Table 6 the total number of electricity respondents is given as 13, as one respondent was a gas retailer and did not answer the electricity component of the question.

Table 6: 2004 Retailer Survey
Distribution of Entry Barrier Responses

CATEGORY OF ENTRY BARRIER		ELECTRICITY					GAS						
		not an issue		→ major issue			not an issue		→ major issue				
		1	2	3	4	5	Total	1	2	3	4	5	Total
1.	Level of State regulation (e.g. customer protections)	1	1	2	6	3	13	0	0	3	5	1	9
2.	Regulation differences between jurisdictions	1	0	3	4	5	13	0	0	3	4	2	9
3.	Regulatory uncertainty	0	2	3	5	3	13	0	0	4	3	2	9
4.	Standing offer price regulation	0	2	7	3	1	13	0	0	5	3	1	9
5.	Level of available retail margins	0	2	4	5	2	13	0	0	2	5	2	9
6.	Wholesale market imperfections	3	3	4	0	3	13	0	1	4	3	1	9
7.	Access to energy supply at reasonable cost	3	2	5	1	2	13	2	2	4	1	0	9
8.	Access to risk mitigation products (e.g. hedging)	3	2	6	0	2	13	2	1	5	1	0	9
9.	Incumbency advantages	3	1	3	2	4	13	1	0	5	3	0	9
10.	Customer billing system establishment cost	2	1	4	4	2	13	2	0	3	3	1	9
11.	Retailer brand awareness	3	1	2	6	1	13	2	0	4	3	0	9
12.	Customer inertia	2	1	5	4	1	13	1	1	4	3	0	9
13.	Exit or termination fees for some customer contracts	3	3	6	1	0	13	2	2	5	0	0	9
14.	Access to sufficient customer data to make offers	2	2	4	3	2	13	2	1	2	3	1	9
15.	Customer transfer processes	1	1.5	6.5	4	0	13	1	0	4	4	0	9
16.	Business-to-Business (B2B) systems & processes	3	1	6	3	0	13	1	0	5	2	1	9

To further assist interpretation, Table 7 (below) provides average rating scores, for each of the three retailer categories and in total. A similar approach to that adopted by the small customer survey consultants in assessing average rating results has been applied to the retailer survey responses to assess the importance of each issue from the respondents' perspective. Under this approach, an average rating of 3.5 is taken to mean that there is a reasonably high level of agreement amongst respondents that it is an important issue, 4.0 that there is a very high level of agreement and 4.5 or above that there is an extremely high level of agreement.

Examining the total average ratings (i.e. the Total column in Table 7) for those issues scoring at least 3.5, shows that the 'level of state regulation', 'regulation differences

between jurisdictions', 'regulatory uncertainty' and 'level of available retail margins' were important issues for both electricity and gas retailers, and generally for each of the three defined groups of retailers. The 'standing offer price regulation' issue was of reasonably high importance to gas retailers.

**Table 7: 2004 Retailer Survey
Average Ratings for Entry Barrier Responses**

	CATEGORY OF ENTRY BARRIER	ELECTRICITY RETAILERS				GAS RETAILERS			
		SA Small Customer	SA non-Small Customer	Non-SA	Total	SA Small Customer	SA non-Small Customer	Non-SA	Total
1	Level of State regulation	4.2	3.4	3.3	3.7	4.0	3.6	-	3.8
2	Regulation differences between jurisdictions	4.2	3.8	3.7	3.9	4.0	3.8	-	3.9
3	Regulatory uncertainty	3.8	3.6	3.7	3.7	4.3	3.4	-	3.8
4	Standing offer price regulation	3.6	3.2	2.7	3.2	4.0	3.2	-	3.6
5	Level of available retail margins	3.8	3.6	3.0	3.5	4.5	3.6	-	4.0
6	Wholesale market imperfections	1.6	3.2	4.0	2.8	3.8	3.2	-	3.4
7	Access to energy supply at reasonable cost	1.8	3.0	4.0	2.8	2.0	2.8	-	2.4
8	Access to risk mitigation products	1.6	2.8	4.3	2.7	2.3	2.8	-	2.6
9	Incumbency advantages	2.0	4.0	4.0	3.2	2.8	3.4	-	3.1
10	Customer billing system establishment cost	2.8	3.4	3.7	3.2	3.3	3.0	-	3.1
11	Retailer brand awareness	2.0	3.8	3.7	3.1	2.3	3.4	-	2.9
12	Customer inertia	2.2	3.4	4.0	3.1	2.5	3.4	-	3.0
13	Exit or termination fees for some customer contracts	1.6	3.0	2.7	2.4	1.8	2.8	-	2.3
14	Access to sufficient customer data to make offers	2.0	4.0	3.3	3.1	2.0	3.8	-	3.0
15	Customer transfer processes	2.9	3.2	3.0	3.0	3.0	3.4	-	3.2
16	Business-to-Business (B2B) systems & processes	2.2	3.4	2.3	2.7	2.5	3.8	-	3.2

Some of the remaining barriers to entry issues were considered important to certain groups of retailers. The 'standing offer price regulation' issue was of reasonably high and very high importance for SA small customer electricity and gas retailers respectively, but not ranked highly as an issue by the other defined retailer groups.

SA small gas customer retailers considered that there was a reasonably high issue of importance with wholesale gas market imperfections, but there was no issue with the wholesale electricity market.

For the SA non-small customer retailer group, the electricity retailers considered that there were reasonably high to very high issues of importance associated with 'incumbency advantages', 'retailer brand awareness' and 'access to sufficient customer data to make offers'. The last issue was also considered important by SA non-small gas customer retailers, as was the gas 'business-to-business (B2B) systems and processes' issue.

The remaining issues of importance to non-SA electricity retailers, ranging from reasonably high to very high levels of importance, were 'wholesale market imperfections', 'access to energy supply at reasonable cost', 'access to risk mitigation products', 'incumbency advantages', 'customer billing system establishment cost', 'retailer brand awareness' and 'customer inertia'.

Retailers were given the opportunity to provide additional comments on the barriers to entry issue and to rate these additional issues. The responses received covered concerns associated with the level of regulation and uncertainties in regulation, wholesale market imperfections and issues associated with the customer transfer processes. These responses are summarised in Attachment 1²³, noting that no assessment of the merits of the comments has been made at this stage, nor have any third parties referred to in the comments been given the opportunity to comment in response.

²³ As discussed above, the survey was Confidential and so the retailer making the comment has not been identified.



4 SMALL CUSTOMER SURVEY RESULTS

McGregor Tan Research (the Consultant) was commissioned in July 2004 to undertake a telephone survey of small customers, both residential and small business, which was conducted in August 2004²⁴. The broad areas covered in the survey included customer awareness; market offers received; whether customers have switched retailers and intentions to switch retailers; ability to understand offers received and reasons for declining any offers; and availability of appropriate information.

The telephone survey comprised:

- ▲ A residential survey with a random sample of 1201 households, comprising 800 metropolitan Adelaide and 401 regional households, with key demographics being household income levels, fuel expenditure (gas and/or electricity) and customer location.
- ▲ A survey of small business customers with a random sample of 406, comprising 250 metropolitan Adelaide and 156 regional customers, with key demographics being fuel expenditure (gas and/or electricity) and customer location.

Respondents were selected by asking for the main person in the household or business that makes decisions about the purchase of electricity and/or gas²⁵.

Copies of the McGregor Tan Research reports, which provide the detailed results, are available on the Commission's website at <http://www.escosa.sa.gov/>²⁶.

A similar, but smaller, survey was conducted in September 2003, covering 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. Copies of the 2003 reports, the findings of which were summarised in the November 2003 Statistical Report, are also available on the Commission's website²⁷.

The key findings from the 2004 small customer survey are presented below, and where relevant are compared with the 2003 small customer survey findings. Only statistically significant variances (i.e. where results recorded for a particular customer grouping are

²⁴ The residential interviews were conducted over the period 17th August to 22nd August 2004 and the small business interviews conducted over the period 17th August to 19th August.

²⁵ This has had the result of tending to skew the survey to having a higher proportion of older people compared to the general South Australian population. For example, those respondents 40+ year old represent 76% of the small customer survey sample, compared to the general South Australian population share of 56% for this group.

²⁶ McGregor Tan Research, 2004 (September), "Monitoring the Development of Energy Retail Competition – Residents" <http://www.escosa.sa.gov.au/resources/documents/040927-R-McGregorTanMonitorERC-Residential.pdf> and McGregor Tan Research, 2004 (September), "Monitoring the Development of Energy Retail Competition –Business", <http://www.escosa.sa.gov.au/resources/documents/040927-R-McGregorTanMonitorERC-Business.pdf> available on the Commission's website at www.escosa.sa.gov.au.

²⁷ McGregor Tan Research, 2003 (November), "Full Retail Contestability Effectiveness Research – Residents" (<http://www.escosa.sa.gov.au/resources/documents/031124-R-McGregorFRCResidential.pdf>) and McGregor Tan Research, 2003 (November), "Full Retail Contestability Effectiveness Research – Small Businesses" (<http://www.escosa.sa.gov.au/resources/documents/031124-R-McGregorFRCSmallBusiness.pdf>).

statistically different from the results recorded for the sample population) are reported below. Variances relating to responses recorded for low-income residential customer groupings are reported separately in Section 5.1.

The Consultant has provided the Commission with a copy of the entire database for the survey. The intention is that the Commission will undertake further analysis of key areas of the survey and report the results in the March 2005 Statistical Report.

4.1 Residential

This section focuses on reporting the key findings from the residential component of the 2004 small customer survey and any variances identified for particular customer groupings, although as indicated above, variances identified for low-income customer groupings will be discussed in Section 5.1. The summary results are grouped below under the relevant FRC competition monitoring indicator, noting that not all the competition indicators rely on survey data.

The survey identified the following energy combinations in the households of survey respondents:

- ▲ Electricity and reticulated natural gas (49%, n=585²⁸).
- ▲ Electricity only (39%, n=471).
- ▲ Electricity and bottled gas (12%, n=145).

11% (n=130) of respondents surveyed indicated that they purchased both electricity and gas from the same retailer. Using this as the definition of dual fuel (i.e. the one retailer providing both electricity and gas, regardless of the nature of the associated contractual arrangements), based on a 30 June 2003 residential customer count of 632,000²⁹, this indicates a total residential dual fuel count of around 70,000³⁰ (as of August 2004).

Based on the level of transfers to market contracts that have been recorded to date (see Section 2), this derived dual fuel figure appears high. However, it is possible that some of the August 2004 activity (reported in the small customer survey) has yet to be recorded in the relevant systems, given the large level of activity that is understood to have taken place in August. This issue will be further reviewed after the September customer transfer reports have been received (after the publication of this report).

The Consultant's reports provide the spread of electricity and gas consumption across the chosen bill bands. This shows that there was a relatively even spread of electricity usage,

²⁸ n=585 indicates the number of respondents identifying this fuel combination. Such notation is used throughout this report (i.e. also in relation to discussion of the retailer survey responses) to identify the number of responses received to a particular question.

²⁹ Refer 4th Annual Performance Report, Performance of Regulated Electricity Businesses in South Australia 2002-2003, November 2003, p29, (<http://www.escosa.sa.gov.au/resources/documents/031127-R-4thAnnPerformanceReport.pdf>). Estimate will be updated for a 30 June 2004 customer base figure when 2003/04 numbers are finalised.

³⁰ Using a 95% confidence interval, the number of residential dual fuel customers would be expected to lie within a $\pm 3\%$ band of 70,000 (i.e. lie in the range of 68,000 to 72,000).

but that two thirds (67%) of residents indicated that their quarterly gas bills were in the range from \$51 to \$150 per quarter³¹.

The Consultants also provided data comparing the spread of expenditure for the combined 'Electricity only' and 'Electricity and bottled gas' groups (Electricity only) with the 'Electricity & reticulated natural gas' group, presented below as Table 8. This indicates that those households having both electricity and gas connected would tend to have larger overall energy bills than those electricity only households. This might be expected, as the larger overall energy use could justify the additional connection costs associated with gas usage.

Table 8: Energy Expenditure Patterns
Electricity & Reticulated Natural Gas Households vs Electricity Only⁽¹⁾

QUARTERLY EXPENDITURE BANDS	ELECTRICITY ONLY ⁽¹⁾ (%)	ELECTRICITY + GAS (%)
Less than \$200 per quarter	25%	12%
\$201 to \$300 per quarter	34%	31%
\$301 to \$500 per quarter	33%	39%
Greater than \$500 per quarter	8%	18%

Note: (1) includes bottled gas use households, although no expenditure details were sought for bottled gas.

4.1.1 Degree of Customer Switching (Competition Indicator 2)

More than one quarter (28%, n=336) of residents surveyed had taken out an electricity market contract³², compared with 2% recorded in the 2003 survey³³. The older demographic were more likely to have taken out contracts, retired people (37%, n=139) and aged 65 plus (36%, n=110). [That is, for the 'retired people' subgroup, 139 of the total 380 respondents (37%) in this subgroup had taken out a market contract, which was a higher rate than the 28% recorded for the survey sample as a whole. By dividing the number 139 by the percentage 37%, a good approximation can be derived of the total number of respondents in the relevant subgroup. This format has been adopted throughout this Report to present survey results.]

In terms of household structure, those living with partner/spouse without dependent children (32%, n=141) and single adult with dependent children (39%, n=35) were also more likely to have taken out a contract. Those respondents from the

³¹ The average quarterly bill bands for electricity ranged from less than \$150 per quarter to more than \$700 per quarter (with no responses recorded in the last band). The average quarterly bill bands for gas ranged from less than \$50 per quarter to more than \$300 per quarter (with no responses recorded in the last band).

³² Reconciling this number with the actual number of transfers recorded earlier in this report, Section 2.3 shows the level of completed and in progress transfers to market contract for small customers (residential and small business) at around 21% at the end of June. As reported below, the proportion of small business customers having taken out market contracts was a lower 18%. The survey was also undertaken in mid-August enabling more transfers to have occurred since the end of June.

³³ As stated in the Consultant's report (Appendix 3), the sample figures should not be regarded as an absolute value, but rather as the mid-point of a range. For a sample of 1201 the Consultant's 95% confidence level margin table indicates a possible range of $\pm 3\%$ of 28%, indicating that the actual value would lie in the range of 25% to 31% (using a 95% confidence level).

metropolitan Adelaide north region³⁴ (37%, n=84) were also more likely to have taken out a contract with an electricity retailer. Conversely, younger people, those in paid work, those earning higher incomes, those living in households comprising two adults with dependent children and those living in regional South Australia were less likely to have taken out a contract with an electricity retailer.

Of those residential respondents connected to reticulated natural gas, 15% (n=85) indicated that they had taken out a gas market contract. Those aged 65 plus (24%, n=34) had a higher incidence of taking out a gas market contract. This would indicate a significant level of initial activity in the gas retail market and significantly higher than the 4% combined completed small customer gas transfers and transfers in progress reported in Section 2.4. Given that gas FRC has only just commenced and that there has been some considerable early activity, it is possible that a significant number of transfers signed-up in August may not be formally processed³⁵ until September 2004. Also, as stated in the Consultant's report (Appendix 3), the sample figures should not be regarded as an absolute value, but rather as the mid-point of a range, potentially in the order of 10% to 20%³⁶.

A significantly higher proportion (51%, n=617) of residential electricity respondents indicated that they were unlikely to take out a contract with an electricity retailer in the next 12 months, compared with the 36% recorded in the 2003 survey. Conversely, 22% (n=269) of respondents indicated that they were likely to take out a contract, compared with the 27% recorded in the 2003 survey. This result appears to be influenced by the fact that a significant number of respondents had taken out market contracts since the 2003 survey (only 12% of those who had taken out a contract indicated that they would likely take out a contract in the next twelve months), as well as a reduced number of undecided respondents (10%, down from 20% in 2003).

Those more likely to indicate they would take out an electricity market contract in the next twelve months included those earning more than \$100,000 p.a. (35%, n=20), those aged 18 to 39 (30%, n=86), those in households comprising two or more adults with dependent children (29%, n=107) and those in paid work (28%, n=172) – particularly professionals/executives (30%, n=44). Also, those from the south of Adelaide indicated that they would be more likely to take out a contract (27%, n=72), compared to just 13% (n=17) in the east.

For gas, 49% (n=288) of residential gas respondents indicated that they were unlikely to take out a gas contract in the next 12 months, with 28% (n=161)

34 Postcodes were collected from respondents to enable more detailed location analysis, which is intended to be undertaken for the March 2005 Statistical Report. However, some locational results are included in this report. The City aside, metropolitan Adelaide is divided into four regions, North, East, South and West. Each of these regions represent a combination of postcodes, but visually the North region can be determined by a segment comprising the area contained between northeast around to northwest on a compass, with the remaining regions defined accordingly.

35 In terms of being advised to REMCo, or recorded in the case of Origin transfers to market contracts with Origin.

36 For a sample of 585 the Consultant's 95% confidence level margin table (Appendix 3) indicates a possible range of $\pm 5\%$, indicating that the actual value would lie in the range of 10% to 20%.

indicating that they would be likely to do so. Those more likely to take out a gas market contract were professionals/executives (39%, n=32).

On drivers for the decision to switch retailers, price was rated as extremely important³⁷ and supply³⁸ very important for both electricity and gas. However, having both contracts with the one supplier was rated of low importance³⁹.

4.1.2 Information Asymmetries (Competition Indicator 4)

A significant increase was identified in the proportion of residential electricity respondents aware that they could now choose their electricity retailer (79% (n=945) compared with 62% recorded in the 2003 survey). A higher level of awareness was indicated by the professional/executive occupation (86%, n=126) and the partner/spouse without dependent children household category (83%, n=365), whereas the home duties occupation indicated a lower level of awareness (72%, n=83).

Residential gas respondents had a similar high level of awareness (78%, n=457), although those in regional South Australia (26%, n=14) were more likely to indicate that they were obliged to purchase gas from their existing retailer compared to those from metropolitan Adelaide (10%, n=53).

This general high level of awareness was also demonstrated by a reasonably high level of ability for respondents to name both their existing and alternative retailers⁴⁰.

Of those electricity respondents that had taken out a market contract, the overwhelming majority (85%, n=284) considered the transfer process to be either quite easy or very easy, compared to 4% (n=13) that considered the transfer process to be difficult. Residential gas respondents indicated similar experiences, with 80% (n=68) indicating that the transfer process was easy, compared to just 4% (n=3) who stated that this process was difficult.

A relatively small proportion of residential electricity respondents (15%, n=185) indicated that they had looked for information to assist them in making a decision about moving to a market contract with an electricity supplier. An even smaller proportion (8%, n=45) of residential gas respondents indicated that they had looked for such information. Table 9 (below) reports the sources of the information obtained, for both electricity and gas respondents.

37 For certain questions (such as this one) respondents were asked to rate, on a scale of 1 to 5, where 5 is very important and 1 is not at all important, the importance of a particular issue or factor (e.g. factors in relation to the decision to switch retailers). The Consultant has adopted an average rating of 3.5 to be 'important', 4.0 to be 'very important' and 4.5 or above to be 'extremely important'.

38 It is worth noting that supply is the responsibility of the distributor (ETSA Utilities) and not retailers.

39 Average rating for electricity of 2.6 and for gas 3.1.

40 For example, less than 3% of electricity respondents were unable to nominate one of the five retailers operating in the small customer market segment as their retailer, with 36% not knowing/ not sure of the names of alternative retailers.

Those residential electricity respondents more likely to have looked for information included those who had taken out an electricity market contract (27%, n=92), professional/executives (25%, n=37), those who had received an offer of a contract (23%, n=120) and those living in metropolitan Adelaide (19%, n=149), particularly in the south of Adelaide (23%, n=62). Conversely, blue collar workers (8%, n=19) and those living in regional South Australia (9%, n=36) were significantly less likely to have looked for this information.

Table 9: Sources of Information⁽¹⁾

INFORMATION SOURCE	ELECTRICITY (%)	GAS (%)
The retailer	26%	36%
Representatives of the retailer	13%	4%
Advertisements	35%	29%
The internet	14%	18%
Friends/family/work colleagues	13%	13%
Other	21%	16%
Don't know/not sure	1%	2%
Number of Respondents	185	45

Note: (1) Need not sum to 100% as multiple responses allowed.

There was a similar result for residential gas respondents, with those who had taken out a contract (21%, n=18), and those who had received an offer of a contract (17%, n=20) more likely to look for information.

More than three quarters (76%, n=140) of these residential electricity respondents (i.e. who had sought information) considered the information to be easy to obtain, with gas respondents providing a similar response (80%, n=36). Higher proportions of those who had taken out a contract with an electricity retailer (84%, n=77) and those who had received an offer of a contract from an electricity retailer (81%, n=97) indicated that it was easy to obtain the information. A significantly higher proportion of those respondents living on their own found the information difficult to obtain (29%, n=9), compared to the survey group as a whole (14%, n=26).

When asked how easy was it to understand the information and compare offers, more than half (54%, n=99) of the electricity respondents who had sought information considered it was either quite easy or very easy. For gas respondents, a higher 67% (n=30) considered it was either quite easy or very easy. Once again, higher proportions of those who had taken out a contract with an electricity retailer (65%, n=60) and those who had received an offer of a contract from an electricity retailer (62%, n=74) indicated that it was easy to understand the information and compare offers.

There was a relatively high proportion (65%, n=121) of these electricity respondents who indicated that they were able to obtain sufficient information to make an

informed choice. The comparable figure for gas was a higher 76% (n=34). Once again, higher proportions of those who had taken out a contract with an electricity retailer (84%, n=77) and those who had received an offer of a contract from an electricity retailer (77%, n=92) indicated that they were able to obtain sufficient information to make an informed choice.

One quarter of the total residents surveyed indicated that they were aware of the availability of independent assistance, such as the Commission's Electricity Price Comparison Service, to help in making energy decisions. Retired respondents (32%, n=123), those not in paid work (28%, n=169), those living in households with a partner/spouse without dependent children (31%, n=138), and those living in the east of Adelaide (34%, n=43) indicated a higher level of awareness of such services.

For both electricity and gas resident respondents, there was a very high level of importance attributed to bills being easy to understand and for the information contained in bills to enable easy comparisons to be made with market contract offers. This response was to be expected, and the approach in future surveys will be to ask respondents to rate the presentation of the bills they currently receive in terms of the ability to obtain useful information for price comparison purposes.

When read a number of statements relating to misleading and deceptive behaviour from energy retailers, the overwhelming majority (87%, n=1040) of the total residents surveyed indicated that they had not experienced any of this behaviour in the previous 12 months. A small proportion of residents indicated that they had experienced a number of these types of behaviour, e.g. high pressure selling including badgering and harassment (6%, n=69), provision of misleading or deceptive information (5%, n=65) and attempts to trick people into signing a contract (3%, n=41).

4.1.3 Price/Service Mix (Competition Indicator 5)

There has been a very large increase in the proportion of respondents receiving an offer of a contract from an electricity retailer (44%, n=525), compared with 5% in 2003. Metropolitan Adelaide residents (49%, n=388) were more likely to have received an offer than regional residents (34%, n=137), as were those in the north (53%, n=122) and south of Adelaide (50%, n=135). Those respondents retired (52%, n=198) and not in paid work (49%, n=293) were also more likely to have received an offer.

One in five residential gas respondents (20%, n=117) indicated that they had received a market contract offer.

Two thirds (65%, n=339) of those residential electricity respondents that had received an offer indicated that the offer was easy to understand, compared to 18% who indicated that the offer was difficult to understand. A similar overall response rate was received for gas, with 68% (n=80) of residential gas respondents who had

received an offer indicating that it was easy to understand. A higher proportion of those who had taken out a contract with an electricity retailer (79%, n=219) and aged 18 to 39 (74%, n=86) indicated the offer was easy to understand, compared to 62% (n=253) for the 40 and over age group. A higher proportion of those that had taken out a contract with a gas retailer (77%, n=47) indicated that the offer was easy to understand.

For those that had not taken out a contract, Table 10 reports the main reasons given for not doing so, for both electricity and gas respondents.

Table 10: Main Reasons for Not Taking Out a Contract⁽¹⁾

INFORMATION SOURCE	ELECTRICITY (%)	GAS (%)
Happy with current retailer	32%	36%
Insufficient information	19%	19%
Waiting for better offers	9%	9%
Inadequate potential savings	6%	5%
Have not got around to it	4%	4%
Lack of confidence in the new retailer	3%	3%
Have not been approached/ offered a contract	3%	4%
Cannot be bothered	3%	3%
Concern with transfer process	2%	2%
Other	13%	9%
Don't know/not sure	17%	15%
Number of Respondents	865	500

Note: (1) Need not sum to 100% as multiple responses allowed.

Those more likely to indicate that they were happy with their current electricity retailer included those aged 65 plus (45%, n=88), retired (42%, n=101), those living in a household comprising partner/spouse without dependent children (39%, n=116) as well as those living in metropolitan Adelaide (35%, n=191). For gas respondents, there were higher proportions of those aged 65 plus (49%, n=52) and retired people (46%, n=69), who indicated that they were happy with their current gas retailer.

The incidence of residential electricity respondents approaching a retailer remained low at 10% (n=122), although an increase over the 3% recorded in 2003. Groups more likely to have approached an electricity retailer included, those who had taken out a contract with an electricity retailer (22%, n=73), those who had received an offer of a contract from a retailer (14%, n=72), and those in the older demographic groups, retired people (14%, n=52) and aged 65 plus (13%, n=40). Those respondents who ended up taking out a contract with a gas retailer were more likely to have approached a retailer in the first place (26%, n=22), compared with the overall group total of 8% (n=45). Also more likely to have approached a gas retailer

were those who received an offer from a gas retailer (21%, n=25) and those aged 65 plus (13%, n=18).

Of those residential electricity and gas respondents who had approached a retailer to ask about buying electricity (122 respondents) or gas (45 respondents), only 4% were refused by the retailer.

4.1.4 Innovation (Competition Indicator 7)

All the residents surveyed were read two statements relating to the variety and innovation of electricity and gas offers and asked to rate on a scale of 1 to 5 (5 is strongly agree, 1 is strongly disagree). Based on these parameters, there was a reasonably high level of agreement that there is a greater variety of offers available compared to a year ago (average rating of 3.7).

However, in relation to offers of a year ago being more innovative, there was a mixed response, with a mid point rating of 3.1, which is below the 3.5 cut off that would indicate a reasonably high level of agreement amongst respondents.

The 2004 Retailer Survey asked retailers to identify changes in product offerings introduced in the past twelve months, the results of which were reported in Section 3.2.

4.2 Small Business

This section focuses on reporting the key findings from the small business component of the 2004 small customer survey and any variances identified for particular customer groupings. The summary results are grouped under the relevant FRC competition monitoring indicator, noting that not all the competition indicators rely on survey data.

When the 406 small businesses were asked what energy combinations they had, the following combinations were identified:

- ▲ Electricity only (76%, n=310)
- ▲ Electricity and reticulated natural gas (12%, n=49)
- ▲ Electricity and bottled gas (11%, n=46)
- ▲ Reticulated natural gas only (0%, n=1)

The type of businesses included in the survey were:

- ▲ Retail (30%, n=121)
- ▲ Manufacturing (16%, n=66)
- ▲ Wholesale (7%, n=28)
- ▲ Farming/Agriculture/Horticulture/Landscaping (7%, n=27)
- ▲ Personal services (7%, n=27)
- ▲ Hospitality (accommodation, hotels, cafes & restaurants) (5%, n=22)

- ▲ Service industry/business services (4%, n=18)
- ▲ Transport (3%, n=14)
- ▲ Mechanical/crash repairs (3%, n=14)
- ▲ Building/construction (3%, n=13)
- ▲ Other (14%, n=56)

Of the 12% of small business respondents surveyed that indicated they had both electricity and natural gas in their businesses, none currently purchased both electricity and gas from the same retailer. It should be noted that only a relatively small number (50) small businesses had gas, so some care should be taken in interpreting the survey results in this area.

4.2.1 Degree of Customer Switching (Competition Indicator 2)

Approximately one in five (18%, n=74) of small businesses surveyed had taken out an electricity market contract, compared with 7% recorded in the 2003 survey. Higher proportions were indicated for those who had received an offer of a contract (40%, n=61) and businesses in metropolitan Adelaide (24%, n=61). Only 8% (n=13) of regional South Australian businesses had taken out an electricity market contract.

Of those small business respondents connected to reticulated natural gas, 10% (n=5) indicated that they had taken out a gas market contract⁴¹.

A higher proportion (49%, n=200) of small business electricity respondents indicated that they were unlikely to take out a contract with an electricity retailer in the next 12 months, compared with the 38% recorded in the 2003 survey. Conversely, 28% (n=114) of respondents indicated that they were likely to take out a contract, up from 20% recorded in the 2003 survey. This increase corresponded with a significant decline in those businesses that indicated they did not know/were not sure (8%, n=34), compared to 24% in the 2003 survey, which the Consultant suggests tends to indicate that a higher proportion of respondents have made a decision about their supplier.

The likelihood of not taking out a contract or switching retailers in the next twelve months was significantly higher (66%, n=49) among those who had already taken out a contract with an electricity retailer.

For gas, 56% (n=28) of business gas respondents indicated that they were unlikely to take out a gas contract in the next 12 months, with 24% (n=12) indicating that they would be likely to do so.

41 As noted by the Consultant, the small business gas results reflect the findings from the relatively small sample of 50 businesses that used reticulated natural gas in their businesses.

On drivers for the decision to switch retailers, price was rated as extremely important⁴² and supply very important for both electricity and gas. However, having both contracts with the one supplier was rated of low importance⁴³.

4.2.2 Information Asymmetries (Competition Indicator 4)

A significant increase was identified in the proportion of small business electricity respondents aware that they could now choose their electricity retailer (77% (n=312) compared with 67% recorded in the 2003 survey). Small business gas respondents indicated a slightly higher level of awareness (80%, n=40). Those respondents in metropolitan Adelaide (83%, n=206) were more likely to indicate that they could choose their own electricity retailer now.

This level of awareness of the ability to choose alternative retailers was also demonstrated by a reasonably high ability for respondents to name both their existing and alternative retailers⁴⁴.

Of those electricity respondents that had taken out a market contract, the overwhelming majority (80%, n=59) considered the transfer process to be either quite easy or very easy, compared to 8% (n=6) that considered the transfer process to be difficult. For small business gas respondents, 80% (n=4) of the small number who had taken out contracts indicated that the transfer process was easy, compared to 20% (n=1) that indicated it was quite difficult.

A relatively small proportion of business electricity respondents (12%, n=49) indicated that they had looked for information to assist them in making a decision about moving to a market contract with an electricity supplier. An even smaller proportion (4%, n=2) of business gas respondents indicated that they had looked for such information. The following table (Table 11) reports the sources of this information, for both electricity and gas respondents.

Table 11: Sources of Information⁽¹⁾

INFORMATION SOURCE	ELECTRICITY (%)	GAS (%)
The retailer	24%	0%
Representatives of the retailer	12%	0%
Advertisements	29%	0%
The internet	20%	50%
Friends/family/work colleagues	6%	0%

42 For certain questions (such as this one) respondents were asked to rate, on a scale of 1 to 5, where 5 is very important and 1 is not at all important, the importance of a particular issue or factor (e.g. factors in relation to the decision to switch retailers). The Consultant has adopted an average rating of 3.5 to be 'important', 4.0 to be 'very important' and 4.5 or above to be 'extremely important'.

43 Average rating for electricity of 2.4 and for gas 3.3.

44 For example, less than 5% of electricity respondents were unable to nominate one of the five retailers operating in the small customer market segment as their retailer, with 35% not knowing/ not sure of the names of alternative retailers.

Industry Association	14%	0%
ESCOSA/Government	8%	0%
Other	2%	50%
Don't know/not sure	0%	0%
Number of Respondents	49	2

Note: (1) Need not sum to 100% as multiple responses allowed.

Those small business electricity respondents more likely to have looked for information included: those who had taken out a contract (20%, n=15), compared to those that had not (10%, n=33); and those who had received an offer of a contract from an electricity retailer (18%, n=28), compared to those that had not (9%, n=21).

Almost three quarters (73%, n=36) of these electricity respondents (i.e. who had sought information) considered the information to be easy to obtain. Of the two gas businesses, one considered the information was easy to obtain, while the other found it quite difficult. Given the very low numbers of gas respondents, the results should be treated with some caution.

When asked how easy was it to understand the information and compare offers, nearly half (47%, n=23) of these electricity respondents considered it was either quite easy or very easy. [Both the gas business respondents indicated that they had found it quite difficult to understand and compare offers].

Almost two thirds (61%, n=30) of these electricity respondents indicated that they were able to obtain sufficient information to make an informed choice. [However, one of the small business gas respondents stated that the information was not sufficient to make an informed choice, while the other indicated that they did not know/were not sure.]

More than one in five (22%, n=90) small business respondents surveyed indicated that they were aware of the availability of independent assistance, such as the Commission's Estimator comparison service, to help in making energy decisions.

For both electricity and gas resident respondents, there was a very high level of importance attributed to bills being easy to understand and of relatively high importance for the information contained in bills to enable easy comparisons to be made with market contract offers. This response was to be expected, and the approach in future surveys will be to ask respondents to rate the presentation of the bills they currently receive in terms of the ability to obtain useful information for price comparison purposes.

When read a number of statements relating to misleading and deceptive behaviour from energy retailers, the overwhelming majority (91%, n=371) of the total small businesses surveyed indicated that they had not experienced any of this behaviour in the previous 12 months. A small proportion of businesses indicated that had experienced a number of these types of behaviour, e.g. high pressure selling

including badgering and harassment (6%, n=25), provision of misleading or deceptive information (3%, n=12) and attempts to trick people into signing a contract (3%, n=12).

Those who had received an offer of a contract from an electricity retailer were more likely to indicate that they had been exposed to some misleading and deceptive behaviour (84%, n=128 indicated no experience with such behaviour, compared with 91% for the group as a whole). Some of the behaviour experienced covered high pressure selling including badgering and harassment (12%, n=18), as well as attempts to trick them into signing a contract (6%, n=9). Higher proportions of businesses in metropolitan Adelaide had been exposed to high pressure selling including badgering and harassment (8%, n=21), attempts to trick them into signing a contract (5%, n=12) and be provided with what was considered misleading or deceptive information (4%, n=10).

4.2.3 Price/Service Mix (Competition Indicator 5)

There has been a very large increase in the proportion of small business respondents receiving an offer of a contract from an electricity retailer 38% (n=152), compared with 18% in 2003. Metropolitan Adelaide businesses 45% (n=112) were more likely to have received an offer than regional businesses 26% (n=40).

Approximately one in five small business gas respondents (18%, n=9) indicated that they had received a market contract offer.

More than two thirds (68%, n=104) of those business electricity respondents that had received an offer indicated that the offer was easy to understand, compared to 18% (n=27) who indicated that the offer was difficult to understand. Of those few business gas respondents that had received an offer, 78% (n=7) indicated that it was easy to understand.

For those that had not taken out a contract, the following table (Table 12) reports the main reasons given for not doing so, for both electricity and gas respondents.

Table 12: Main Reasons for Not Taking Out a Contract⁽¹⁾

INFORMATION SOURCE	ELECTRICITY (%)	GAS (%)
Happy with current retailer	29%	44%
Insufficient information	22%	7%
Waiting for better offers	7%	4%
Inadequate potential savings	9%	16%
Have not got around to it	6%	13%
Lack of confidence in the new retailer	2%	0%
Have not been approached/ offered a contract	1%	0%
Cannot be bothered	1%	0%

Concern with transfer process	3%	0%
All done through landlord	2%	0%
Other	9%	9%
Don't know/not sure	23%	16%
Number of Respondents	331	45

Note: (1) Need not sum to 100% as multiple responses allowed.

Insufficient information was more likely to be named by those business electricity respondents whose average monthly spend on electricity was \$201 to \$350 (32%, n=18) and who were also more likely to have a concern with the transfer process (9%, n=5). Those from regional South Australia (27%, n=39) were also more likely to cite insufficient information. Inadequate potential savings was named by higher proportions of those whose average monthly spend on electricity was \$351 to \$500 per month (18%, n=8), those who had received an offer of an electricity contract (16%, n=15) and those in retail businesses (15%, n=15).

The incidence of business electricity respondents approaching a retailer remained low at 7% (n=27), although an increase over the 3% recorded in 2003. Not surprisingly, higher proportions of those who had taken out a contract with an electricity retailer (14%, n=10) indicated that they had approached a retailer. None of the businesses surveyed had approached any gas retailers.

Of those business electricity respondents who had approached a retailer to ask about buying electricity, 11% (n=3) were refused by the retailer.

4.2.4 Innovation (Competition Indicator 7)

All the small businesses surveyed were read two statements relating to the variety and innovation of electricity and gas offers and asked to rate on a scale of 1 to 5 (5 is strongly agree, 1 is strongly disagree). Based on these parameters, there was a reasonably high level of agreement that there is a greater variety of offers available compared to a year ago (average rating of 3.5).

However, in relation to offers of a year ago being more innovative, there was a mixed response, with a mid point rating of 3.0, which is below the 3.5 cut off that would indicate a reasonably high level of agreement amongst respondents.

4.3 Summary

In summary:

- ▲ More than one quarter (28%) of residents indicated that they had taken out an electricity market contract, compared with 2% recorded in the 2003 survey. Approximately, one in five (18%) of small businesses surveyed had taken out an electricity market contract, compared with 7% recorded in the 2003 survey.

Although it is at a very early stage of development, there appears to have been a good start to the gas retail market.

- ▲ An overwhelming majority of both residential and small business respondents considered the transfer process to be easy.
- ▲ A significant increase was identified in the proportion of residential and small business electricity respondents aware that they could now choose their electricity retailers, with a similar high level of awareness amongst gas respondents.
- ▲ Price was rated as an extremely important driver in the decision to move to a market contract.
- ▲ A significant increase was also identified in the proportion of residential electricity respondents receiving an offer of a contract, with an encouraging number of gas market contracts being offered. A high proportion of respondents receiving offers considered them easy to understand.
- ▲ Survey respondents indicated low levels of experience with misleading and deceptive behaviour from energy retailers.



5 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 services⁴⁵. The Commission considers it important to monitor the extent to which financially disadvantaged consumers are faring⁴⁶. 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.

This section reports in more detail on the results of the small customer survey (see Section 4 of this report) for the low-income category of respondents. It also reviews some 'hardship' baselines and reports on movements in electricity prices and incomes for low-income consumers.

5.1 Small Customer Survey

Section 4 reported on the results of the survey of residential and small business customers, which was commissioned by the Commission and undertaken by McGregor Tan Research (the Consultant) in August 2004. As indicated in section 4, the following section reports on the survey results for residential respondents by income level groupings, concentrating on those aspects where the experience of low-income respondents with FRC differed significantly from the responses from the survey group as a whole, particularly in terms of statistically significant variances from the overall survey responses. For a detailed analysis of results by income, refer to the Consultant's report, available on the Commission's website.

The survey results can be grouped according to a number of low-income indicators:

- ▲ a specific Low Income Segment was defined for residents who met the following criteria:
 - if they were single, their gross household income was \$20,000 or less p.a.
 - if they lived with a partner or spouse, their gross household income was \$25,000 or less p.a.
 - if they were single adults with a dependent child or children, their gross household income was \$30,000 or less p.a.
 - if they lived in a household with two or more adults with dependent children, their gross household income was \$35,000 or less p.a.;

45 Refer section 6 of the Essential Services Commission Act 2002.

46 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.

- a range of gross household income bands (starting with under \$15,000 p.a. and \$15,001 to \$25,000 p.a.); and
- those respondents receiving the electricity pension concession.

Reviewing the demographics indicates that the consumption patterns differ in a statistically significant manner between low-income energy expenditure patterns and for survey respondents overall, as indicated in the following tables.

**Table 13: Electricity Expenditure Comparison by Key Groups
Percentage within Bands**

INFORMATION SOURCE	OVERALL RESPONDENTS	LOW INCOME SEGMENT	GROSS HOUSEHOLD INCOME < \$25,000 P.A.	ELECTRICITY PENSION
Less than \$150 per quarter	15%	23%	29%	26%
\$151 to \$200 per quarter	19%	23%	25%	24%
\$201 to \$250 per quarter	15%	14%	14%	14%
\$251 to \$300 per quarter	18%	16%	13%	16%
\$301 to \$500 per quarter	27%	20%	15%	18%
\$501 to \$700 per quarter	6%	3%	3%	2%
More than \$700 per quarter	0%	0%	0%	0%
Don't know/ not sure	0%	0%	0%	0%
Number of Respondents	1201 100%	553 100%	384 100%	414 100%

**Table 14: Gas Expenditure Comparison by Key Groups
Percentage within Bands**

INFORMATION SOURCE	OVERALL RESPONDENTS	LOW INCOME SEGMENT	GROSS HOUSEHOLD INCOME < \$25,000 P.A.	ELECTRICITY PENSION
Less than \$50 per quarter	4%	5%	4%	5%
\$51 to \$100 per quarter	38%	48%	50%	45%
\$101 to \$150 per quarter	29%	26%	25%	28%
\$151 to \$200 per quarter	17%	13%	14%	14%
\$201 to \$300 per quarter	11%	8%	6%	8%
More than \$300 per quarter	0%	0%	0%	0%
Don't know/ not sure	0%	0%	0%	0%
Number of Respondents	585 100%	262 100%	179 100%	200 100%

Those respondents in lower income groups were more likely to have taken out a market contract compared with the overall survey group (28% electricity, 15% gas), namely: those in the Low Income Segment, with electricity 37% (n=205) and gas 23% (n=59); those receiving an energy pensioner concession, with electricity 44% (n=182) and gas 26% (n=53); and those earning between \$15,001 and \$25,000 p.a., with electricity 38% (n=99) and gas 24% (n=29).

Those in the defined Low Income Segment, 59% (n=327) electricity and 55% (n=145) gas, and those receiving the energy pensioner concession 63% (n=260) electricity and 58% (n=117) gas were more unlikely to take out an electricity contract in the next 12 months, compared with the overall survey result (51% electricity, 49% gas).

Those resident gas respondents earning less than \$15,000 p.a. (61%, n=34) were less likely to be aware of their ability to choose their own gas retailer (78% for the survey as a whole).

Low-income residential electricity groups were more likely to have received an offer compared with the overall survey group (44%, n=525), including Low Income Segment (50%, n=277), those receiving an energy pensioner concession (55%, n=229) and those earning between \$15,001 and \$25,000 (52%, n=134). A similar outcome occurred for low-income residential gas groups, with those receiving an energy pensioner concession (29%, n=58) and those in the defined Low Income Segment (24%, n=64) more likely to have received a contract offer, compared with the overall survey total of 20%.

Those receiving an energy pensioner concession, 13% (n=55) electricity and 12% (n=24) gas, were also more likely to have approached a retailer, compared with the overall survey group (10% electricity, 8% gas).

Those residential electricity respondents in the defined Low Income Segment (38%, n=133) and those receiving an energy pensioner concession (44%, n=102) were more likely than the overall survey response (32%) to state as a reason for not taking out an electricity contract that they were happy with their current retailer.

5.2 Air Conditioning Survey

One factor that would be expected to influence the size of a household's electricity bill is the use of an air conditioner. As part of its consideration of demand side issues for the Electricity Distribution Price Review, the Commission commissioned a survey of incidence and use of air-conditioning in South Australia⁴⁷.

A key requirement of the research was to determine the extent to which low income people have home air conditioning. The survey specifically compared the incidence, type and usage patterns of air-conditioners in the general population and low-income households. The low-income households were defined using the same income criteria as

47 McGregor Tan Research, 2004 (June), "Air Conditioning Survey" (<http://www.escosa.sa.gov.au/resources/documents/040709-R-ESCOSAAirConditioningDraft.pdf>)

employed for the defined 'Low Income Segment' used in the 2004 small customer (residential) survey discussed in Section 5.1⁴⁸.

Key findings of the survey, released in June 2004, were that air-conditioning penetration for both groups in South Australia is about 90%. There are many similarities in the air-conditioning usage patterns of the general population and low-income households segments. However, low-income households tend to have older air-conditioning units and were identified as having more specific cooling needs due to age, disability, illness or other reasons.

As indicated, the penetration of air conditioners in the homes of both general public and low-income segments was similar, with general public 88% and the low-income segment 90%. The incidence of having evaporative versus other types of air conditioning was similar for both segments - general public (evaporative 29%, other 71%); low income segment (evaporative 27%, other 73%).

The estimated average outside temperature at which air conditioning units were started was identical for both segments, namely 32.5 degrees Celsius. The estimated average number of days per month that air conditioners were used in summer over the past few years was also identical for both segments, that being 11.5 days.

The main variances between the two segments were:

- ▲ Those from the general public were more likely to own ducted air conditioners (both reverse cycle and evaporative), as well as reverse cycle split system air conditioners, while a higher proportion from the low-income segment owned window/wall air conditioners - both reverse cycle (general public 26% and low-income 35%) and refrigerative (general public 8% and low-income 18%).
- ▲ The air conditioners installed in the homes of those from the low-income segment tended to be older than those installed in the homes of those from the general public segment, with almost half of the low-income segment who indicated that their air conditioners had thermostat settings (49% vs 22% from the general public) indicating that their air conditioner thermostat did not display the temperature.
- ▲ Higher proportions of those from the low-income segment indicated that they used fans to supplement air conditioning on hot days (general public 29%, low-income 35%), or in rooms that were not air conditioned (general public 42%, low-income 52%).
- ▲ Those from the low-income segment were also more likely to indicate that they had specific cooling needs due to illness, disability, age or other reasons (18% low-income, 9% general public).

⁴⁸ Low income earners were defined in the Air Conditioning Survey as meeting the following criteria: if single, their gross household income was \$20,000 or less per year; if they lived with a partner or spouse, their gross household income was \$25,000 or less per year; if they were single adults with a dependent child or children, their gross income was \$30,000 or less; if they lived in a household with two or more adults with dependent children, their gross income was \$35,000 or less. The survey included a sample of 400 adults over the age of 18 in the Adelaide metropolitan area that met these criteria.

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

As reported in the November 2003 Statistical Report, in a report prepared for the Commission in October 2002, the National Institute of Labour Studies (NILS)⁴⁹ 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.

A copy of a further NILS report, titled "Household Energy Expenditure: Measures of Hardship & Changes in Income", was released with the February 2004 Statistical Report⁵⁰. Table 15⁵¹ (below), which is drawn from this NILS report, 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'⁵². The table was derived from data from the 1998/99 ABS Household Expenditure Survey (HES).

Table 15 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 median⁵³ 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.

49 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, (http://www.escosa.sa.gov.au/resources/documents/021031-R-FuelPoverty_NILSFinalReport.pdf).

50 National Institute of Labour Studies (NILS), 2004 (February), "Household Energy Expenditure: Measures of Hardship & Changes in Income" (<http://www.escosa.sa.gov.au/resources/documents/040217-R-NILSEnergyReport.pdf>).

51 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.

52 '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.

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

Table 15: 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).

The February 2004 NILS report also presented results for a NILS subsidiary indicator which, based on the ABS 2002 GSS, 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?”⁵⁴.

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.

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 (below) plots movements in the index of adjustments to weekly allowances and pensions over the period 1998/99 (year of latest available HES) to 2002/03⁵⁵, which updates a similar Figure produced in the November 2003 Statistical Report. Also plotted on Figure 2 is the movement in average annual residential electricity prices (c/kWh) over this period, once again expressed in terms of index numbers⁵⁶.

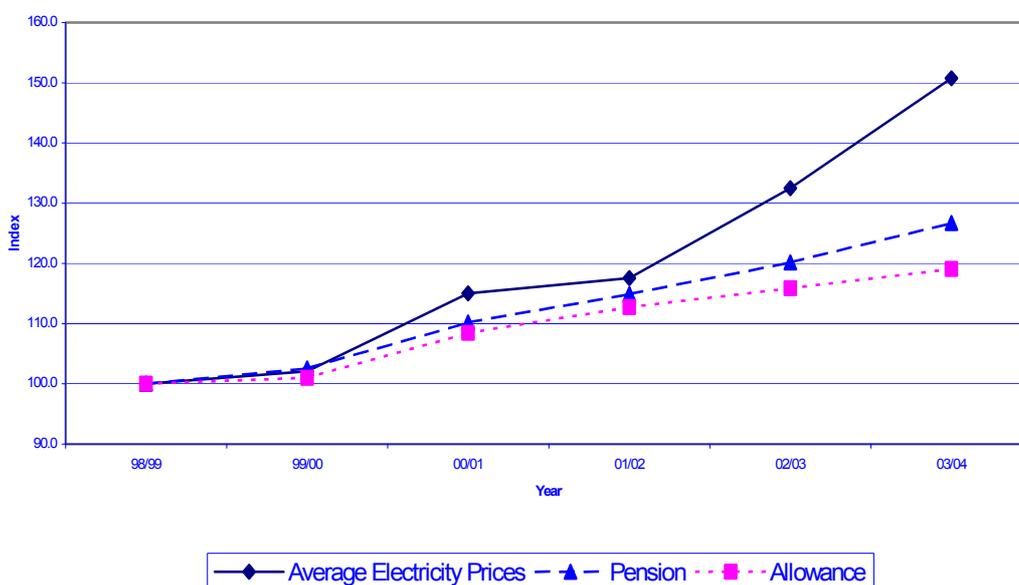
54 Note this refers to the situation prior to electricity FRC commencing on 1 January 2003.

55 Derived from the February 2004 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).

56 Derived from retailer returns supplied to the Commission. 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 2003/04 average annual residential electricity price is a preliminary number, based on the figures provided by retailers, which will be reviewed prior to publication in the 2003/04 Regulated Energy Businesses Annual Performance Report.

The average annual residential electricity price is calculated as the total annual residential revenue billed by retailers divided by the total annual residential consumption. This residential revenue should be net of the value of the Government's electricity concession received by pensioners and rebates offered with certain market contracts. However, the figure is not net (i.e. does not take account) of the Government's Electricity Transfer Rebate (\$50) payment to pensioners and self-funded retirees (with valid concession card) who took out a market contract for electricity, with the offer closing on 13 August 2004.

Figure 2: South Australian Average Residential Electricity Price Movements Against Weekly Allowances and Pension Movements – Index (base 1998/99 – nominal dollars)



Source: February 2004 NILS report and retailer statistical returns provided to the Commission.

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 interpreting this result, it should be noted that:

- ▲ The actual financial impact for an individual, in terms of electricity bills, would depend on the relevant individual's consumption patterns⁵⁷.
- ▲ The average electricity prices for financial year 2002/03 by their nature only incorporate six months of the 1 January 2003 standing contract prices, with the balance flowing through to the 2003/04 prices.
- ▲ On 23 November 2003, the Premier announced that from 1 January 2004 the annual electricity pensioner concession would increase by \$50, from \$70 to \$120

⁵⁷ A phone-in survey conducted by the Consumers' Association of South Australia (CASA) in May 2004 indicated that 72% of respondents had altered their consumption patterns as a result of electricity price rises, through means such as less home cooling and heating, with 34.5% of respondents feeling that they were taking health risks in their reduction of power use.

p.a., representing the first increase since 1990⁵⁸. This increased concession will be reflected progressively in the 'average residential electricity price movements' index line shown in Figure 2, as the annual level of revenue billed to residential customers is reduced accordingly (i.e. it will not be until 2004/05 that the full impact of the concession increase will be reflected in annual revenue and hence the annual price).

- ▲ As Figure 2 shows the movement in total residential average price, the impact of the increased electricity pensioner concession on this index will be somewhat muted, on the basis that around 30% of residential customers are in receipt of the electricity concession⁵⁹.
- ▲ Most of the customer transfer activity occurred well into the 2003/04 financial year, and hence only a portion of any savings achieved from the new market contracts would be reflected in the 2003/04 average electricity price.
- ▲ The marked increase in average price in 2000/01 was as a result of the introduction of GST.

Further consideration of appropriate indices will be undertaken prior to the March 2005 Statistical Report. For example, it may be appropriate to construct an index line based on electricity tariffs applied to a constant annual consumption level, with the prevailing level of pensioner concession deducted from the annual bills derived on this basis.

58 From that date around 15,000 self-funded South Australian retirees who hold a valid concession card (valid concession cards include the Commonwealth Seniors Health Care Card, Pensioner Concession Card and the SA State Concession Card) also became eligible for the electricity concession.

59 Based on figures for 2002/03 (4th Annual Performance Report, op.cit.,p29 & p38), there were 187,295 customers receiving the electricity pensioner rebate out of a total residential customer base of 631,630 (i.e. around 30%).

6 ELECTRICITY PRICE COMPARISONS

As indicated in the small customer survey (see Section 4), price is a key factor in the decision to switch retailers. This section reports on available independent price comparison services, the finalisation of information disclosure requirements, and the results of an internal Commission review of contracts on offer for residential customers.

6.1 Commission Price Comparison Services

As reported in previous Statistical Reports⁶⁰, 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.
- ▲ Price Comparison Service: a telephone price comparison service for residential customers (EnergyChoice Hotline number **1800 226 100**, on weekdays between 9am to 5pm), which provides callers with a comparison of the estimated annual energy cost under generally available electricity, gas and dual fuel retail contracts, based on the caller's own historical energy use.

The Estimator is in the process of being upgraded to enable gas contract comparisons. The EnergyChoice Hotline was expanded in July to provide details of licensed energy retailers, information about changing retailers and consumer protection information, with the Price Comparison Service expanded in September 2004 to cover gas and dual fuel comparisons. A series of fact sheets are also available and can be posted to consumers.

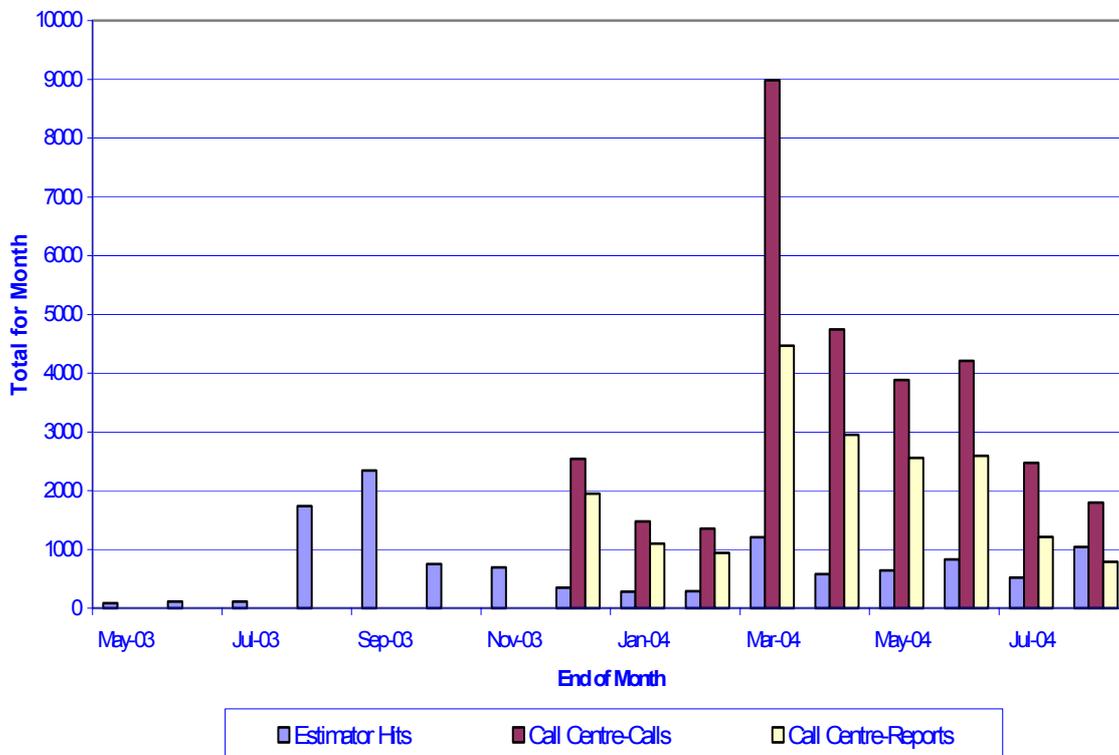
Both these services appear to be well patronised. Estimator 'hits' from the commencement of the service in April 2003 until the end of August 2004⁶¹ (totalling around 12,000), and the number of telephone price comparison calls received and price comparison reports issued since the commencement of the service in November 2003 until the end of August 2004 (totalling around 33,000 and 20,000 respectively), are provided in Figure 3 (below).

As suggested in the May 2004 Statistical Report (p16), some support for the Commission's work in this area, including the Commission's support of the information role being performed by COTA (see section 6.2), comes from a number of quarters which indicate the need for end users to be able to easily compare the market offers of competing retailers.

60 For a detailed discussion, refer to publication "Monitoring the Development of Electricity Retail Competition in South Australia, Statistical Report", November 2003, section 5, (http://www.escosa.sa.gov.au/resources/documents/031121-R-MonERCompStatRpt_Nov.pdf).

61 Note that the August 2004 Estimator Hit total is inflated by in-house testing work.

**Figure 3: Number of Estimator Hits, Price Comparison Calls Received and Price Comparison Reports Issued(i)
2003 to 2004**



(i) Source: Commission.

6.2 COTA Electricity Market Offers Comparison Service

Previous Statistical Reports have also advised that the Commission is supporting the Council on the Ageing (COTA) service to assist older electricity consumers to understand and 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. COTA has provided assistance through information sessions, individual appointments and telephone support.

The Commission has received a copy of an interim evaluation report completed by COTA in August 2004, which includes the following interim statistics:

- ▲ 40 information sessions have been conducted, with 50 individual appointments held, approximately 300 calls handled through the telephone advisory service, resulting in 2200 people being assisted to date;
- ▲ 13 of the information sessions were held in the Bethlehem Centre (city location) assisting 620 people, with 12 sessions and two talks held by Peer Educators held in the community in the Adelaide area assisting a further 660 people; and
- ▲ 13 of the information sessions were held in rural areas, assisting 570 people.

Of those participants that completed the COTA evaluation form, most found the sessions of use, with 97% of respondents (26% of participants answering the question) rating the sessions as between moderately and highly successful in increasing the participant's confidence in finding and choosing an electricity contract.

When asked to rank which of certain information provided in the sessions was of most importance, the majority of responses received (24% of participants answered the question) indicated the following order of importance:

Most Important	6	What's happening with electricity?
	5	The electricity bill
	4	Standing and market contracts – what are they?
	3	Getting and comparing market offers
	2	Concessions and rebates
Least Important	1	Managing electricity

Some qualitative feedback received by COTA included:

- ▲ GST should not be included on essential services;
- ▲ frustration at difficulty in getting information in writing;
- ▲ dislike of call centres as sources of information;
- ▲ confusion about the necessity to change contracts;
- ▲ confusion regarding the intention behind the \$50 Electricity Transfer Rebate and lack of general knowledge about this;
- ▲ seeking gas information when available;
- ▲ some people did not consider they had accepted contracts, rather they had been discussing agreements with the retailer; and
- ▲ fear of the potential for retailers to discriminate against some population segments on the basis of low electricity consumption.

COTA intends updating resources and curriculum with gas information and renaming the project "Comparing Energy Contracts for Older People".

6.3 Price Information Disclosure

As noted in the May 2004 Statistical Report (p17), 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*). Accordingly, an Electricity Price Disclosure Code was made and released in July 2004, with an accompanying Final Decision paper (Price Information in the Competitive Electricity Market, Final Decision, July 2004). This followed the Commission's release of an Issues Paper in March 2004 titled "Price



Information Disclosure in the Competitive Electricity Market" (available on the Commission website)

The Electricity Price Disclosure Code requires retailers to:

- ▲ clause 1: publish a price factsheet for each market contract that a retailer offers to residential customers, which must include certain information such as: the estimated annual cost for a range of nominated annual electricity consumption levels (excluding hot water) and estimated annual cost of 1.5MWh of hot water; value of any associated rebates; and the level of any establishment and exit fees;
- ▲ clause 2: express prices in any promotional or marketing information as inclusive of GST; and
- ▲ clause 3: provide the Commission with accurate and full information about the market contracts being offered to residential customers.

A three month transition period was allowed for the implementation of clauses 1 and 2 of the Electricity Price Disclosure Code, with clause 3 operative immediately. The clause 3 information requirement assists the Commission in maintaining its price comparison service (see Section 6.1).

The Commission is considering the release of an issues paper that will outline an approach in relation to price disclosure requirements for the gas market.

6.4 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 electricity market 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 sections 6.1 & 6.3 of this report).

This review updates a similar analysis presented in the November 2003 and May 2004 Statistical Reports. 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 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 May 2004 review suggested that there had 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 p.a. and in the order of 6% when these consumption levels incorporated off-peak hot water consumption. The corresponding figures incorporating rebates were potential savings of 8% to 10% (no off-peak hot water) and 6% (with off-peak water), for consumption levels ranging from 5,000 kWh p.a. to 10,000 kWh p.a.

This report continues to adopt the approach used in the May 2004 Statistical Report⁶² and factors in direct debit and loyalty rebates on offer⁶³. Any other rebates available have not been incorporated and represented potential additional savings.

Figure 4 (below) 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%⁶⁴ summer consumption and 73.5% non-summer consumption has been made to deal with summer tariffs⁶⁵.

Figure 4 indicates the potential level of savings, by comparing the various electricity tariff rates on offer with the standing contract rates 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 level⁶⁶, and then incorporating any direct debit and loyalty rebates on offer. Table 16 provides the relevant data for a selected range of consumption levels.

62 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.

63 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.

64 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.

65 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.

66 Market contract rates on offer from AGL SA, Origin, TXU and EnergyAustralia, as at 25 August 2004, used in this assessment.

**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)**

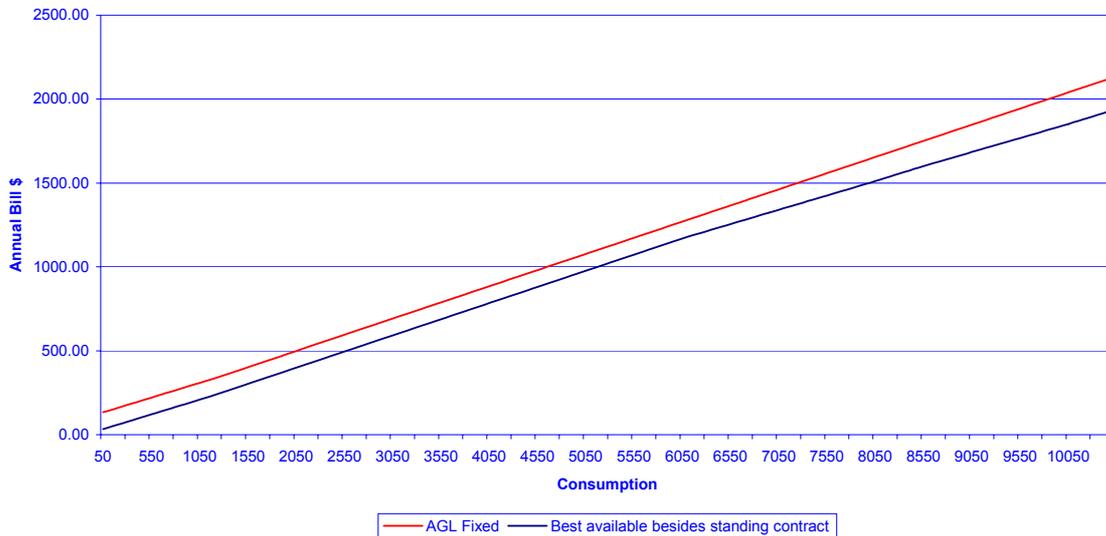


Table 16: Annual Residential Bill Comparison⁽ⁱ⁾

**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⁾ (\$)	ANNUAL PERCENTAGE SAVING (%)
2000	489	389	100	20.4%
3000	682	582	100	14.7%
4000	875	775	100	11.4%
5000	1067	967	100	9.4%
6000	1260	1160	100	7.9%
7000	1453	1332	121	8.3%
8000	1646	1503	143	8.7%
9000	1839	1676	162	8.8%
10000	2031	1843	188	9.3%

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

(ii) may be some variation due to rounding.

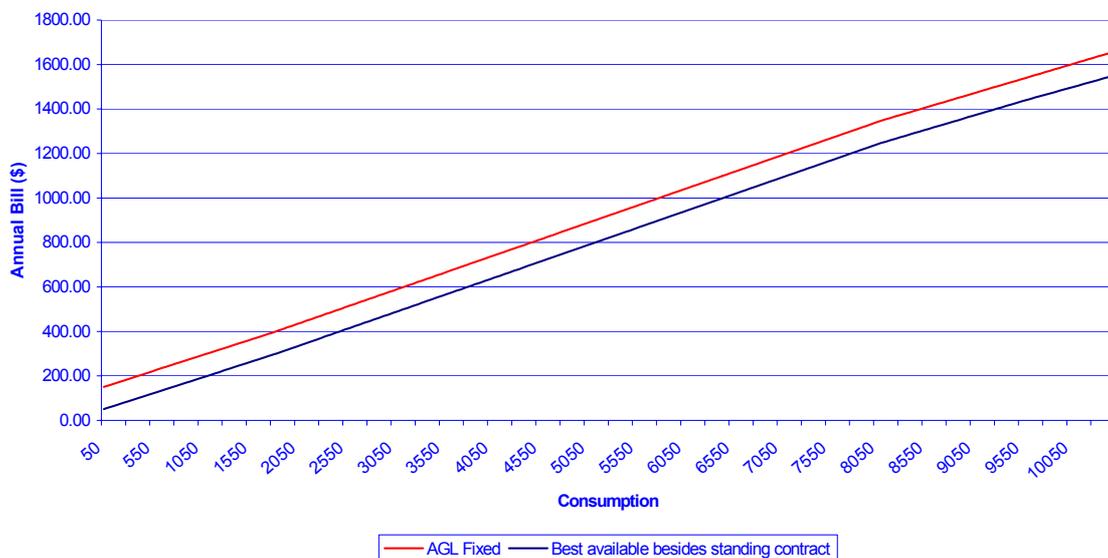
Figure 4 and Table 16 indicate that the level of potential savings, after a steady flat rate to 6,000 kWh p.a., increase in absolute dollar (\$) terms with increasing levels of consumption. Whilst the level of potential savings might appear modest, for an individual with an annual consumption of 5,000 kWh, a saving of \$100 would represent a saving of

over 9.0% on a standing contract-based annual bill. For consumption levels of 10,000 kWh the potential savings could also be of the order of 9%. Over the consumption range provided in Table 16, potential savings are generally within a range of 8% to 11%, but are much higher for very low levels of annual consumption, such as 2,000 kWh (20%) and 3,000 kWh (15%), where flat rebates have a larger relative impact.

Comparing Table 16 with the equivalent Table 4 in the May 2004 Statistical Report, shows that since the last report the level of potential savings for low to moderate consumption households (up to 5,000 kWh p.a.) has increased significantly, influenced by the introduction of new market offers with substantial rebates. For households with annual consumption of 6,000 kWh p.a. and above, the absolute level of potential savings has declined slightly; resulting from the market offers largely remaining static against a small decline in the AGL SA standing contract rates.

Figure 5 and Table 17 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)



**Table 17: Annual Residential Bill Comparison⁽¹⁾
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 (kWh)	AGL SA STANDING CONTRACT (\$)	BEST AVAILABLE CONTRACT ⁽ⁱ⁾ (\$)	ANNUAL SAVING ⁽ⁱⁱ⁾ (\$)	ANNUAL PERCENTAGE SAVING (%)
2000	425	325	100	23.5%
3000	577	476	100	17.4%
4000	728	628	100	13.8%
5000	879	779	100	11.4%
6000	1030	930	100	9.7%
7000	1181	1081	100	8.5%
8000	1332	1232	100	7.5%
9000	1463	1363	100	6.8%
10000	1591	1488	103	6.5%

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

(ii) may be some variation due to rounding.

Figure 5 and Table 17 indicate that over the selected consumption range the level of potential savings is flat in absolute dollar (\$) terms with increasing levels of consumption (which, as indicated below, results in a percentage decline over increasing rates of consumption). For an individual with an annual consumption of 5,000 kWh (including off-peak hot water⁶⁷), a saving of \$100 would represent a saving of around 11% on a standing contract-based annual bill. For consumption levels of 10,000 kWh the potential savings would be of the order of 7%. Over the consumption range contained in Table 17, potential savings are generally within a range of 7% to 14%, but are much higher for very low levels of annual consumption, such as 2,000 kWh (24%) and 3,000 kWh (17%), where flat rebates have a larger relative impact.

Table 18 uses an annual consumption level of 5,000 kWh (with and without off-peak hot water) to compare the results in this report with those in the May 2004 Statistical Report, to show that there has been an improvement for this mid-range category in the level of potential savings from taking out a market contract.

⁶⁷ Hot water use assumed to be one-third of total consumption, up to a cap of 2700 kWh.

Table 18: Improvement in Potential Savings from Moving to a Market Contract (Comparing September 2004 Results with May 2004 Statistical Report)

ANNUAL CONSUMPTION (kWh)	POTENTIAL SAVINGS	
	5,000 KWH P.A. NO HOT WATER (\$)	5,000 KWH P.A. INCLUDING HOT WATER (\$)
May 2004 Statistical Report	8%	6%
September 2004 Statistical Report	9%	11%

More generally, comparing the results between the May 2004 Statistical Report and this report across all the consumption levels identified in Tables 16 & 17, shows that for peak electricity only consumption (i.e. no off-peak hot water), a significant increase in potential savings occurred for consumption levels up to 5,000 kWh p.a. (in the order of an additional 1.5% for 5,000 kWh p.a., up to an additional 11% for 2,000 kWh p.a.), and for consumption levels above there was a slight decline in potential savings as a result of market offers not matching the small reduction in the standing contract tariff rates that occurred on 1 July 2004. For those households with off-peak hot water, there was an across the board improvement in the level of potential savings, for the defined consumption range.

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, as indicated only including direct debit rebates and loyalty rebates (rather than joining rebates) given their on-going nature.



7 INTERSTATE AND OVERSEAS EXPERIENCE

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

7.1 Electricity Transfer Activity Comparisons

Section 2.3 reported that the gross switching rate⁶⁸ of small customers in the South Australian electricity market as at the end of June 2004 was 18%, some 18 months after electricity FRC was introduced in January 2003.

Electricity FRC commenced in Victoria and NSW in January 2002, and 18 months later (June 2003) the gross switching rates based on the NEMMCO MSATS small customer transfer statistics⁶⁹ were 8.6% and 4.0% respectively⁷⁰. 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 South Australia electricity retail market is now performing well.

On a more comparable basis, the Victorian Essential Services Commission in its recent retail competition effectiveness review⁷¹ indicated that by the end of December 2003 (two years after FRC commencement) around 17% of electricity customers had accepted electricity market contracts.

These statistics suggest that at a comparable stage of market development, South Australia is performing as least as well as, if not better than, Victoria and significantly ahead of NSW in terms of the proportion of small customers that have switched to market contracts.

The November 2003 FRC Monitoring report reproduced a graph prepared by NEMMCO showing small customer one month annualised switch rates⁷² experienced in Victoria and NSW since FRC was introduced in those States (January 2002), up to May 2003. Using NEMMCO MSATS data, the June 2003 annualised switch rates for Victoria and NSW were 8% and 4% respectively. Noting the difference that the South Australian statistics also include switching to the incumbent retailer, the June 2004 one-month annualised

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

69 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.

70 "Special Investigation: Review of Effectiveness of Retail Competition and Consumer Safety Net in Gas and Electricity-Background Report", Essential Services Commission of Victoria (ESCV), 22 June 2004, p14 and p19 states that there are approximately 2.3 million small electricity retail customers in Victoria, of which 87% are residential and 12% small business. The Commission understands that there are approximately 2.8 million small customers in NSW. According to the NEMMCO MSATS data, as at 30 June 2003 the total number of completed electricity small customer transfers was 194,951 for Victoria and 112,596 for NSW.

71 June ESCV report, p16

72 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.

switch rate for South Australia (i.e. a comparable 18 months after commencement of electricity FRC) was far in excess of the comparable Victorian and NSW one-month annualised switch rates⁷³. However, to the extent that the South Australian June 2004 one-month annualised switch rate was driven by activity associated with the Government's ETR offer which ceased on 13 August, then such a high rate would not be expected to be sustainable.

Since January 2004 there has been a marked increase in activity in the South Australian electricity retail market. For the first six months of 2004, the South Australian one-month annualised switch rate ranged from 9% to in excess of 20%, compared with a peak of 4% in calendar year 2003. The Victorian one-month annualised switch rate for June 2004 was 19% (6% for NSW). These statistics reinforce the point that South Australia has experienced a marked increase in small customer switching to electricity market contracts in the first six months of 2004.

Given that the gas retail market is now fully contestable, which will enable all retailers to pursue dual fuel customers, a high level of activity is expected to continue for some time in the South Australian electricity retail market.

As reported in the May 2004 Statistical Report, 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 once⁷⁴. 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, Ofgem⁷⁵ shows gross switching rates for electricity of 19% after one year and in excess of 30% after two years.

Ofgem considered that the electricity and gas markets in Great Britain are competitive but not yet mature⁷⁶. Ofgem also considers that UK customers who switch stand to gain a larger share of the benefits of competition than non-switchers⁷⁷.

73 One month annualised SA switch rates for electricity market contracts for 2004 are: January 8.7%, February 11.5%, March 18.4%, April 34.8%, May 52.0%, June 69.2%.

74 "Domestic Competitive Market Review 2004 – A review document", prepared by the Office of the Gas and Electricity Markets (Ofgem), UK, April 2004, p56. (http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/6741_DCMR_publication_Ch_1_to_3.pdf) Represents a 'gross switch' estimate.

75 op.cit., p57.

76 op.cit., p(ii).

77 op.cit., p105. (http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/6740_DCMR_publication_Ch_4_to_7_2_.pdf) Reflects decision of UK 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.

7.2 Gas Transfer Activity Comparisons

With gas FRC only commencing on 28 July 2004, the gas retail market is at a very early stage of development. By the time of the next Statistical Report due in March 2005, there should be a number of months of small gas customer switching data on which to report.

As indicated in Section 2.4, based on preliminary data, the indications are that the South Australian gas retail market will experience a much higher initial level of activity than that experienced in its electricity counterpart.

The experience of the development of the Victorian gas retail market is that after the first five months completed transfers represented around 3.7% of Victorian gas customers⁷⁸.

The ESCV special investigation of the state of energy retail competition in Victoria noted that Victoria has the highest rate of access to natural gas in Australia⁷⁹, which may have had some impact on the level of activity experienced in that State. This ESCV report also noted that, on gas FRC commencing in Victoria in October 2002, and given the incidence of dual fuel offers, the pace of electricity transfers accelerated, also driving gas transfers to higher levels than seen on the introduction of electricity FRC⁸⁰.

On the initial statistics presented in this report, South Australia should match the Victorian performance in the development of its gas retail market.

78 "Special Investigation: Review of Effectiveness of Retail Competition in Gas & Electricity" Essential Services Commission of Victoria (ESCV) 2004, p27 indicates that there are approximately 1.4 million small gas customers in Victoria. At the end of March 2003 there had been around 52,000 completed transfers for customers with basic meters (source: Vencorp, Gas Market Report, Edition 234, January 2004). Although gas FRC eligibility date was 1 October 2002 (ESCV 2004 op. cit., p27), system problems resulted in delays affecting customer transfers until 26 October 2002 ("Gas Industry Comparative Performance Report 2002", ESCV, June 2003, p13).

79 ESCV 2004 (March 2004) op. cit., p27. The number of gas small customers as a percentage of electricity small customers is around 67% in Victoria, compared with 45% in South Australia.

80 ESCV 2004 (March 2004) op. cit., p68.



8 SUMMARY

This report shows that as at the end of June 2004, there had been around 134,000 small customer completed transfers to electricity market contracts in the South Australian electricity retail market. These completed transfers represent 18% of the South Australian small customer base of around 740,000 electricity customers. In addition, around 20,000 small electricity customer transfers were in progress⁸¹ at the end of June 2004, representing a further 3% of the small customer base.

The second quarter of 2004 (April to June) has seen a substantial increase in the number of completed transfers, given that as of 31 March 2004 there had been around 38,000 (5%) completed transfers and that the March figure had represented a significant increase on the position as at 31 December 2003, where there had been around 14,000 (1.9%) completed transfers. It is understood that this substantial growth was strongly influenced by a large take up of the Government's Electricity Transfer Rebate (ETR), which expired on 13 August 2004. Consequently, monthly transfer rates would be expected to drop to more 'normal' levels from September 2004.

FRC has now operated in the South Australian electricity retail market for 18 months. As noted in section 7 of this report, experience interstate suggests that the South Australian retail electricity market is developing well in the Australian context.

At this stage, South Australia has five retailers operating in the small customer electricity retail market. As indicated in Section 6.4 of this Statistical Report, retailers continue to offer cheaper prices compared to the standing contract rates and so an incentive for customers to switch to market contracts exists. Since the May 2004 Statistical Report there has been an improvement in the level of potential savings in moving to an electricity market contract for most electricity consumers (apart from higher consumption electricity users without off-peak hot water that faced a small decline in potential savings as a result of offers for this group generally not matching the small decline in standing contract rates that occurred on 1 July 2004). For electricity customers with average annual consumption, the potential level of savings is in the order of 8% to 10%.

An important development has occurred since the May 2004 Statistical Report, with the commencement on 28 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 initial indications are that the gas retail market has commenced well in terms of the number of customer transfers, but detailed analysis will not be available until the March 2005 Statistical Report.

This report shows that as at the end of August 2004, there had been around 3,300 small customer completed transfers to market contracts in the South Australian gas retail market. These completed transfers represent 1% of the South Australian small gas customer base of around 340,000 customers. In addition, around 9,500 small gas

⁸¹ That is, contracts have been signed but the transfer (change of retailer financial responsibility) has not yet occurred.



customer transfers were in progress at the end of August 2004, representing a further 3% of the small customer base.

The Commission hopes to be in a position to shortly report monthly electricity and gas customer transfer statistics on its website, in accordance with the reporting framework outlined in the September 2004 FRC Monitoring Final Decision paper.

The results of the small customer (residents and small business) survey undertaken in August 2004 reinforce the view that the South Australian electricity retail market is now performing well and, although at an early stage of development, there appears to have been a good start to the gas retail market. An overwhelming majority of both residential and small business respondents considered the transfer process to be easy.

A significant increase was identified in the proportion of residential and small business electricity respondents aware that they could now choose their electricity retailers, with a similar high level of awareness amongst gas respondents. Price was rated as an extremely important driver in the decision to move to a market contract.

A significant increase was also identified in the proportion of residential electricity respondents receiving an offer of a contract, with an encouraging number of gas market contracts being offered. A high proportion of respondents receiving offers considered them easy to understand.

There were encouraging signs that all sectors of the community have access to market contracts, with the customer survey indicating that those respondents in lower income groups were more likely to have received an offer and to have taken out a market contract compared with the overall survey group.

Survey respondents indicated low levels of experience with misleading and deceptive behaviour from energy retailers.

The results of the retailer survey indicate that a similar number of retailers are intending to service the small customer electricity retailer market in 2004/05, with the potential for a slight increase. The number of gas retailers offering market contracts in metropolitan Adelaide in 2004/05 looks like being broadly similar to the number offering electricity contracts. However, at this stage, only three retailers have indicated an intention to offer gas contracts in rural and regional South Australia in 2004/05.

The retailer survey results also indicate that there has been an increase in the range of products on offer over the past year, with a key development being the extension to gas offers, with various dual fuel offers available. There also appears to be a broader range of green energy products on offer.

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 6 of this report. The indications are that all these services are being well patronised,

although the small customer survey indicated that only a quarter of the residents surveyed were aware of the availability of such assistance.

The next report in this series is scheduled to be released in March 2005.



ATTACHMENT 1

2004 Retailer Survey: Barriers to Entry Question

Summary of Additional Comments Received from Retailers

In the Retailers were given the opportunity to provide additional comments on the barriers to entry issue and to rate the additional issues. These responses are summarised below, noting that no assessment of the merits of the comments has been made at this stage, nor have any third parties referred to in the comments been given the opportunity to comment in response. For discussion of this component of the 2004 Retailer Survey, refer to Section 3.3.

Level of State regulation and regulation differences between jurisdictions

- ▲ while supporting the concept of a retail energy code, delays in the delivery of the Code (and the REMCo Market Rules) had hampered system build and process implementation for gas market entry. Suggested that future consultations take into consideration participant lead-times for delivery;
- ▲ the transfer and consent code is inconsistent and does not meet customers' needs in terms of move-out/move-ins for gas and electricity (Rating 4);
- ▲ regulatory compliance and response to ESCOSA papers is very time consuming and imposes a considerable cost on business;
- ▲ annual licence fees are a material cost for those considering market entry (Rating 4);
- ▲ level of regulatory obligations and differences between jurisdictions is a major obstacle. Internal systems are not able to cope with SA and Vic small retail requirements and costs to alter systems not justified at this time;
- ▲ need for a streamlined and consistent process for licence application, especially where applicant holds licences in other jurisdictions;

Regulatory uncertainty and standing offer price regulation

- ▲ the key uncertainty for electricity at this point is the future standing tariff price path (Rating 5);

Wholesale market imperfections and access to energy supply at reasonable cost

- ▲ there are considerable barriers associated with the gas wholesale and other upstream arrangements. There is not free access to delivery points and the default rates for swing gas are extremely high making participation in the market very risky. There is no access to sell to business customers, except through one city gate station (Rating 5);
- ▲ the gas city gate prices increased significantly when FRC started (Rating 3);

- ▲ current access arrangements (including access to city gates) make it difficult to supply some regional areas (e.g. Mt Gambier);
- ▲ the uncertainty surrounding congestion in Envestra's network creates a barrier to entry as there is an expectation that the retailer would need to take positions on both transmission pipelines, creating additional cost, administrative burden and city gate access expenses;
- ▲ the lack of uncontracted haulage for Moomba gas is an impediment (Rating 4);

Access to risk mitigation products

- ▲ difficulties in SA wholesale electricity market (e.g. relative illiquidity) hinder ability to secure hedges at reasonable cost;

Customer transfer processes

- ▲ Envestra has fairly low levels of daily churn capability, depending on numbers of special reads (Rating 2);
- ▲ the gas B2B arrangements have not been tested yet. The electricity B2B arrangements are generally satisfactory, but ETSA Utilities still has a considerable number of missing meter reads (Rating 2);
- ▲ in relation to the 'customer transfer processes' issue, ETSA Utilities was cited as being somewhat slower than other distributors, but that performance was improving at a satisfactory rate;
- ▲ the delay in transfer to next scheduled read (up to 3 months) causes unnecessary waiting periods for customers and can influence choice decisions, generally advantaging the incumbent. Retailer recommended that a move to transfer on special reads be hastened;

Other

- ▲ as SA did not use exactly the NSW or Vic gas market system, this has resulted in an additional cost to retailers to build a new interface, which needs to be factored into the price that can be made available under market offers (Rating 4); and
- ▲ ETSA Utilities' bundled charges need to be unbundled as soon as possible, so retailers can identify meter reading costs etc., to enable benchmarking comparisons.