



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

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## GLOSSARY OF TERMS

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<b>ATO</b>	Australian Taxation Office
<b>THE COMMISSION</b>	Essential Services Commission of South Australia
<b>THE CONSULTANT</b>	McGregor Tan Research
<b>COTA</b>	Council on the Ageing
<b>ELECTRICITY ACT</b>	<i>Electricity Act 1996</i>
<b>ESCOSA</b>	Essential Services Commission of South Australia
<b>ESCV</b>	Essential Services Commission of Victoria
<b>ETR</b>	Electricity Transfer Rebate
<b>FINAL DECISION PAPER</b>	refers to “Monitoring the Development of Energy Retail Competition in South Australia, Final Decision”, September 2004
<b>FRC</b>	Full Retail Contestability
<b>FRMP</b>	Financially Responsible Market Participant
<b>GAS ACT</b>	<i>Gas Act 1997</i>
<b>HES</b>	ABS Household Expenditure Survey
<b>kWh</b>	kilo watt hour, which is the equivalent of 1,000 watts of electricity for one hour
<b>LOCAL RETAILER</b>	Local Retailer (or tier 1 retailer) refers to the incumbent, local or franchise retailer (AGL SA in the case of electricity and Origin Energy in the case of gas)
<b>MARKET CONTRACT</b>	refers to contracts (other than standing contracts) on terms and conditions agreed or negotiated with the customer
<b>MIRN</b>	Meter Identification Registration Number (gas)
<b>MJ</b>	megajoule, which is the equivalent of 1,000,000 joules
<b>MSATS</b>	Market Settlement & Transfer Solution, which is a system that is operated by NEMMCO to fulfil its obligations under the National Electricity Code
<b>MWh</b>	Mega Watt hours, which is the equivalent of 1,000 kWh
<b>NEM</b>	National Electricity Market, arrangements for which are set out in the National Electricity Law, which is a Schedule to the <i>National Electricity (SA) Act 1996</i>
<b>NILS</b>	National Institute of Labour Studies
<b>NMI</b>	National Metering Identifier (electricity)
<b>NEMMCO</b>	National Electricity Market Management Company Limited
<b>REMCo</b>	Retail Energy Market Company Ltd
<b>SA</b>	South Australia

<b>SIHC</b>	ABS Survey of Income and Housing Costs
<b>SMALL ELECTRICITY CUSTOMER</b>	refers to a customer with annual electricity consumption of less than 160MWh
<b>SMALL GAS CUSTOMER</b>	refers to a customer with annual gas consumption of less than 1TJ
<b>STANDING CONTRACTS</b>	refers to those small electricity and/or gas customers who have not entered into a market contract with their retailer of choice. 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 <i>Electricity Act 1996</i> . Similar arrangements exist for small gas customers
<b>STATISTICAL REPORT</b>	refers to the FRC Monitoring Statistical Reports published by the Commission from time to time and available on the Commission's website at <a href="http://www.escosa.sa.gov.au">www.escosa.sa.gov.au</a> . For example, refer to "Monitoring the Development of Energy Retail Competition in South Australia, Statistical Report", September 2004 and this September 2005 report
<b>TIER 1 RETAILER</b>	Tier 1 or Local Retailer, referring to the incumbent or franchise retailer
<b>TIER 2 RETAILER</b>	Tier 2 or non-local retailer, referring to a new entrant retailer
<b>TJ</b>	terajoule, which is the equivalent of 1,000,000 MJ
<b>Vic</b>	Victoria
<b>WA</b>	Western Australia



# 1 INTRODUCTION

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This September 2005 FRC Monitoring Statistical Report is the seventh in a regular series of Statistical Reports to be published on the development of Full Retail Contestability (FRC) in the South Australian electricity market, and the third report that also reviews the development of the South Australian gas retail market. This Statistical Report is also the third in a series six-monthly substantive energy FRC Monitoring Statistical Reports released by the Commission.

On 1 January 2003, the SA electricity retail market became fully contestable. The SA 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 an SA customer.

During 2003 and 2004, consultation occurred on a number of papers reviewing how best to monitor the development of electricity and gas FRC in SA, which culminated in the release of the Final Decision Paper (“Monitoring the Development of Energy Retail Competition in South Australia, Final Decision”) in September 2004. The Final Decision Paper provides an integrated framework for monitoring the development of competition in the SA electricity and gas (energy) retail markets in the future. Copies of the Final Decision Paper, along with all other Commission reports, are available on the Commission’s website at <http://www.escosa.sa.gov.au/>.

The development of the SA energy retail market will 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
- ▲ Indicator 7 – Innovation.

In addition to these six-monthly substantive energy FRC Monitoring Statistical Reports, the Commission commenced routinely publishing electricity and gas transfer statistics on a monthly basis from February 2005<sup>1,2</sup>.

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<sup>1</sup> For example, refer “Completed Small Customer Electricity & Gas Transfers to Market Contracts, Schedule”, August 2005, available at [www.escosa.sa.gov.au/webdata/resources/files/050817-D-FRCTransfSchedAug05.pdf](http://www.escosa.sa.gov.au/webdata/resources/files/050817-D-FRCTransfSchedAug05.pdf).

<sup>2</sup> As outlined below in this report, the transfer statistics reported are the number of transfers to market contracts, which require AGL SA (for electricity) and Origin (for gas) to report on the number of their standing contract customers that move to market contracts with them.



This September 2005 Statistical Report contains some analysis on the development of retail competition (electricity and gas) in SA, along with a report on the regular indicators which provide data on the number of SA licensed retailers, the number of retailers operating in the SA small customer<sup>3</sup> retail market, and the number of small customers switching from standing contracts<sup>4</sup> to market contracts<sup>5</sup>. 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.

## **1.1 Surveys**

The November 2003 and September 2004 Statistical Reports both reported the results of a survey of small customers that had been undertaken in 2003 and 2004 respectively. As outlined in the March 2005 Statistical Report, it was originally the Commission's intention to undertake a similar small (electricity and gas) customer survey in 2005 and report the findings in this Statistical Report. However, the Commission has received a number of applications for retail licences since the March 2005 Statistical Report and if a number of these licences are issued, together with greater activity from recent new entrant retailers, then there is some expectation of more activity occurring by the first quarter in 2006. It would be useful if the customer surveys could be conducted in this heightened competitive environment. Consequently, the next customer survey is intended to be undertaken in February 2006 and reported in the March 2006 Statistical Report.

Given the cost of conducting the customer surveys and the stage of energy retail competitiveness, it is proposed that from the next customer survey, surveys would be conducted on at least a biennial basis unless required to be performed for other purposes, such as an FRC competitiveness review to inform a decision on any extension to the current retail price determination<sup>6</sup>.

The results of a survey of retailers carried out in August 2005 are provided in this report.

## **1.2 NILS Hardship Baseline**

Previous Statistical Reports have included the results of updates undertaken of the National Institute of Labour Studies' (NILS) hardship and changes in income measures. These measures assist the Commission in monitoring the experience of financially disadvantaged consumers in the SA energy retail market.

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<sup>3</sup> Small Customer refers to all residential customers and those business customers with an annual consumption of less than 160MWh (electricity) and 1TJ (gas).

<sup>4</sup> 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.

<sup>5</sup> 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/or pricing arrangements to those available under standing contracts (or default contracts).

<sup>6</sup> The current retail Price Determination covers AGL SA's standing contract process for the period 1 January 2005 to 31 December 2007.

As reported in detail in the November 2003 FRC Monitoring Statistical Report, and as outlined in the September 2004 Statistical Report, NILS<sup>7</sup> has 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 energy.
- ▲ 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 (HES), and the General Social Survey (GSS), 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.

Some results of the 2003/04 HES were released by the ABS in August 2005. Subject to availability of the specific data required, it is intended that the hardship baseline be updated for the 2003/04 HES, with the results reported in the March 2006 Statistical Report, along with an update of other indicators such as SA electricity price movements against weekly allowances and pension movements.

### **1.3 Report Structure**

This report is divided into the following sections. Section 2 provides an update of the regularly published customer transfer statistics, along with the number of licensed retailers. This section also reviews some general activity indicators, to assess the extent to which they might serve as leading indicators for completed small customer transfers.

Section 3 presents the results of a survey of retailers carried out in August 2005 which sought information regarding the level of retailer participation in nominated electricity and gas market segments, the nature of innovative products on offer, the various terms of market contracts and the level of exit charges, and the level of additional fees levied by retailers for items such as meter testing, late payments, dishonoured payments and reconnections.

Section 4 reports on the available independent SA energy price comparison services, retailer information disclosure requirements, and the potential savings from moving to SA market contracts for electricity and gas.

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

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

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<sup>7</sup> National Institute of Labour Studies (NILS), 2002 (October), "Fuel Poverty: A Concept with Power in South Australia?", report prepared for ESCOSA by Professor Sue Richardson and Associate Professor Peter Travers, available at [www.escosa.sa.gov.au/webdata/resources/files/021031-R-FuelPoverty\\_NILSFinalReport.pdf](http://www.escosa.sa.gov.au/webdata/resources/files/021031-R-FuelPoverty_NILSFinalReport.pdf) .



## 2 INDICATORS OF COMPETITION

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### 2.1 Number of SA Licensed Electricity Retailers

Since 11 October 1999, the Commission (formerly the SAIR<sup>8</sup>) 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 (below) provides the number of electricity retailers licensed to operate in SA as at 23 September 2005, together with the history of entry and exit since October 1999. This statistic indicates the current available pool of licensed electricity retailers in SA.

Since publication of the March 2005 Statistical Report, the following licences have been issued:

- ▲ On 15 June 2005, the Commission issued an electricity retail licence to the EA-IPR Retail Partnership (Energy Australia Pty Ltd and IPower Pty Ltd), a partnership comprising Energy Australia and International Power (Retail), with each of these parties continuing to individually hold an SA electricity retail licence. The Partnership intends retailing to both residential and commercial customers, including large industrial customers.
- ▲ On 1 July 2005, the Commission issued an electricity retail licence to Ergon Energy Pty Ltd. Ergon Energy has previously held an SA electricity retail licence, surrendering it in October 2000. Ergon Energy's current intention is to retail only to large customers (i.e. with an annual consumption of 160MWh or greater).
- ▲ On 21 September 2005, the Commission issued an electricity retail licence to South Australia Electricity Pty Ltd. South Australia Electricity Pty Ltd intends retailing to small electricity customers (i.e. with annual consumption of less than 160 MWh).

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, while the number of licence holders has increased by three since the March 2005 Statistical Report (refer Table 1), both EnergyAustralia and International Power (Retail) have transferred customers to the EA-IPR Retail Partnership, whilst continuing to hold their individual retail licences.

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. Not all the current licensed retailers listed in Table 1 have

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

SA customers<sup>9</sup>. At this time, there are six retailers (AGL SA, Origin Energy, TXU, Powerdirect, EnergyAustralia<sup>10</sup> and Country Energy) actively marketing and selling electricity to small customers located in SA. There are ten retailers actively marketing and selling electricity to large SA customers.

**Table 1: Number of Licensed South Australian Electricity Retailers<sup>(i)</sup>**

AS AT DATE	RETAILERS <sup>(ii)</sup>	NUMBER
October 1999	Actew Energy (ActewAGL Retail), Advance Energy, AGL Electricity (AGL SA), 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 <sup>(iii)</sup>	15
October 2000	ACTEW Retail (ActewAGL Retail), Advance Energy, AGL Electricity (AGL South Australia), AGL SA, CitiPower, Energex Retail, National Power Australia, North Power (Country Energy), NRG Flinders, Origin Energy Electricity, TXU Electricity and Yallourn Energy <sup>(iii)</sup>	12
November 2001	ActewAGL Retail, AGL SA, CitiPower, Country Energy, Energex Retail, NRG Flinders, Origin Energy Electricity, Tarong Energy, TXU Electricity and Yallourn Energy <sup>(iii)</sup>	10
November 2002	ActewAGL Retail, AGL SA, CitiPower, Country Energy, Energex Retail, NRG Flinders, Origin Energy Electricity, Tarong Energy, TXU Electricity and Yallourn Energy <sup>(iii)</sup>	10
November 2003	ActewAGL Retail, AGL SA, Australian Energy Services <sup>(iv)</sup> , Country Energy, Energex Retail, EnergyAustralia, NRG Flinders, Origin Energy Electricity, Tarong Energy, TXU Electricity (SPI Electricity) and Yallourn Energy <sup>(iii)</sup>	11
November 2004	AGL SA, Aurora Energy, Country Energy, Energex Retail, EnergyAustralia, International Power (Retail), NRG Flinders, Origin Energy Electricity, Powerdirect <sup>(iv)</sup> , SPI Electricity <sup>(v)</sup> and Yallourn Energy <sup>(iii)</sup>	11
September 2005	AGL SA, Aurora Energy, Country Energy, Energex Retail, EnergyAustralia, EA-IPR Retail Partnership <sup>(vi)</sup> , Ergon Energy <sup>(vii)</sup> , International Power (Retail), NRG Flinders, Origin Energy Electricity, Powerdirect <sup>(iv)</sup> , South Australia Electricity <sup>(viii)</sup> , TRUenergy <sup>(v)</sup> and Yallourn Energy <sup>(iii)</sup>	14

- (i) Source: Commission. See Commission website for list of current licence holders.
- (ii) Prior to 1 January 2003 only AGL SA 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) 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 and will continue to trade as Powerdirect.
- (v) TXU Electricity Pty Ltd changed its name to SPI Electricity Pty Ltd on 13 August 2004 and licence subsequently transferred to SPI Retail Pty Ltd on 15 April 2005. SPI Retail Pty Ltd changed name to CLP Australia Retail Pty Ltd on 2 June 2005, which subsequently changed its name to TRUenergy Pty Ltd on 15 June 2005.
- (vi) Partnership comprising EnergyAustralia and International Power (Retail), with each party continuing to individually hold an SA licence. The EA-IPR Retail Partnership was issued with a licence on 15 June 2005.
- (vii) Ergon Energy Pty Ltd was issued with a licence on 1 July 2005. It had surrendered an earlier licence on 5 October 2000.
- (viii) South Australia Electricity Pty Ltd was issued with a licence on 21 September 2005.

<sup>9</sup> During August 2005, there were ten active SA licensed retailers (i.e. had SA customers) of the thirteen licensed at that time, six of which were actively selling to small customers (based on NEMMCO MSATS system and information available to the Commission).

<sup>10</sup> EA-IPR Retail Partnership.

Table 2 (below) provides the number of retailers actively operating in the SA small electricity customer retail market (including tier 1 retailer AGL SA), at indicated dates.

**Table 2: Number of Licensed Electricity Retailers Active in the SA Small Customer Market <sup>(i)</sup>**

AS AT DATE	RETAILERS <sup>(ii)</sup>	NUMBER
November 2003	AGL SA, Origin Energy Electricity and TXU Electricity (SPI Electricity)	3
November 2004	AGL SA, EnergyAustralia, Origin Energy Electricity, Powerdirect and SPI Electricity <sup>(iii)</sup>	5
August 2005	AGL SA, Country Energy, EA-IPR Retail Partnership <sup>(iv)</sup> , Origin Energy Electricity, Powerdirect and TRUenergy <sup>(iii)</sup>	6

- (i) Source: Commission. See Commission website for list of current licence holders. Small Customer refers to all residential customers and those business customers with an annual consumption of less than 160MWh.
- (ii) Prior to 1 January 2003 only AGL SA 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) TXU Electricity Pty Ltd changed its name to SPI Electricity Pty Ltd on 13 August 2004 and licence subsequently transferred to SPI Retail Pty Ltd on 15 April 2005. SPI Retail Pty Ltd changed name to CLP Australia Retail Pty Ltd on 2 June 2005, which subsequently changed its name to TRUenergy Pty Ltd on 15 June 2005.
- (iv) Partnership comprising EnergyAustralia and International Power (Retail), with each party continuing to individually hold an SA licence. The EA-IPR Retail Partnership was issued with a licence on 15 June 2005.

Some other electricity retailers, who are licensed in other jurisdictions, have shown interest in commencing operations in South Australia. The March 2005 Statistical Report noted that the Commission had received an application from Jackgreen (International) Pty Ltd in April 2005 for an electricity retail licence. Since that time, an application has also been received from Momentum Energy Pty Ltd. Both of these applicants have indicated that their predominant interest is to retail to small SA electricity customers.

## **2.2 Number of SA 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 3 (below) provides the number of gas retailers licensed to operate in SA as at 23 September 2005, together with the history of entry and exit since July 2003. This statistic indicates the current available pool of licensed gas retailers in SA.

Since publication of the March 2005 Statistical Report, the following licences have been issued:

- ▲ On 15 June 2005, the Commission issued a gas retail licence to the EA-IPR Retail Partnership (Energy Australia Pty Ltd and IPower Pty Ltd), a partnership comprising Energy Australia and International Power (Retail), with EnergyAustralia continuing to hold an SA gas retail licence. The Partnership intends retailing to both residential and commercial customers, including large industrial customers.



- ▲ On 21 September 2005, the Commission issued a gas retail licence to South Australia Electricity Pty Ltd. South Australia Electricity Pty Ltd intends retailing to small gas customers (i.e. with annual consumption of less than 1 TJ).

**Table 3: Number of Licensed South Australian Gas Retailers<sup>(1)</sup>**

AS AT DATE	RETAILERS <sup>(i)</sup>	NUMBER
July 2003	AGL SA, Origin Energy Retail, Terra Gas Trader and TXU Electricity	4
November 2003	AGL SA, Origin Energy Retail, Terra Gas Trader and TXU Electricity (SPI Electricity)	4
November 2004	AGL SA, EnergyAustralia <sup>(iii)</sup> , Origin Energy Retail, Terra Gas Trader <sup>(iv)</sup> and SPI Electricity <sup>(v)</sup>	5
September 2005	AGL SA, EnergyAustralia <sup>(iii)</sup> , EA-IPR Retail Partnership <sup>(vi)</sup> , Origin Energy Retail, South Australia Electricity <sup>(vii)</sup> and TRUenergy <sup>(v)</sup>	6

- (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.
- (iv) Terra Gas Trader's (TGT) retail licence was surrendered on 7 February 2005.
- (v) TXU Electricity Pty Ltd changed its name to SPI Electricity Pty Ltd on 13 August 2004 and licence subsequently transferred to SPI Retail Pty Ltd on 15 April 2005. SPI Retail Pty Ltd changed name to CLP Australia Retail Pty Ltd on 2 June 2005, which subsequently changed its name to TRUenergy Pty Ltd on 15 June 2005.
- (vi) Partnership comprising EnergyAustralia and International Power (Retail), with each party continuing to individually hold an SA licence. The EA-IPR Retail Partnership was issued with a licence on 15 June 2005.
- (vii) South Australia Electricity Pty Ltd was issued with a licence on 21 September 2005.

Care needs to be exercised in comparing the number of licensed retailers over time. Whilst the number of SA gas retail licences has increased from the four reported in the March 2005 Statistical Report, as indicated above, EnergyAustralia has transferred customers to the EA-IPR Retail Partnership, whilst continuing to hold an individual retail licence.

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. Not all the current licensed retailers listed in Table 3 have SA customers<sup>11</sup>. At this time, four gas retailers (AGL SA, Origin Energy, TXU and EnergyAustralia<sup>12</sup>) are actively marketing and selling gas to small SA customers. There are three retailers actively marketing and selling gas to large SA customers.

Table 4 (below) provides the number of retailers actively operating in the SA small gas customer retail market (including incumbent Origin Energy), at indicated dates.

Some other gas retailers, who are licensed in other jurisdictions, have shown interest in commencing operations in SA. The March 2005 Statistical Report noted that the

<sup>11</sup> During August 2005, there were at least four active SA licensed retailers (i.e. had SA customers) of the five licensed at that time, all four of which were actively selling to small customers (based on REMCo reports and information available to the Commission).

<sup>12</sup> EA-IPR Retail Partnership.

Commission had received an application from Jackgreen (International) Pty Ltd in April 2005 for a gas retail licence; it plans to sell gas predominantly to small gas customers.

**Table 4: Number of Licensed Gas Retailers Active in the SA Small Customer Market (i)**

AS AT DATE	RETAILERS <sup>(ii)</sup>	NUMBER
November 2004	AGL SA, EnergyAustralia, Origin Energy Retail, and SPI Electricity <sup>(iii)</sup>	4
August 2005	AGL SA, EA-IPR Retail Partnership <sup>(iv)</sup> , Origin Energy Retail and TRUenergy <sup>(iii)</sup>	4

- (i) Source: Commission. See Commission website for list of current licence holders. Small Customer refers to all residential customers and those business customers with an annual consumption of less than 1 TJ.
- (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) TXU Electricity Pty Ltd changed its name to SPI Electricity Pty Ltd on 13 August 2004 and licence subsequently transferred to SPI Retail Pty Ltd on 15 April 2005. SPI Retail Pty Ltd changed name to CLP Australia Retail Pty Ltd on 2 June 2005, which subsequently changed its name to TRUenergy Pty Ltd on 15 June 2005.
- (iv) Partnership comprising EnergyAustralia and International Power (Retail), with EnergyAustralia continuing to individually hold an SA licence. The EA-IPR Retail Partnership was issued with a licence on 15 June 2005.

### **2.3 Number of Transfers to Market Contracts for Electricity**

Table 5 and Figure 1 (below) provide the number of completed small customer transfers to a market contract for electricity, either with AGL SA or an alternative retailer, for the 32 months to 31 August 2005.

Table 5 shows that so far for calendar year 2005, the number of completed monthly transfers of small customers to market electricity contracts has averaged around 12,000 per month, a level of monthly transfers representing around 1.6% of the small electricity customer base of 740,000. This is half the pace of transfers experienced over the period May 2004 to November 2004, when monthly transfers averaged 24,000 per month (monthly 3.2% of customer base). However, as reported in previous Statistical Reports, the latter higher rate of transfers was influenced by the State Government's \$50 Electricity Transfer Rebate (ETR) offer, which ended on 13 August 2004.

**Table 5: Number of Completed Small Electricity Customer Retail Transfers  
South Australia <sup>(i)</sup>  
(January 2003 to August 2005)**

MONTH	NUMBER <sup>(ii)</sup>	CUMULATIVE TOTAL <sup>(ii)</sup>	PERCENTAGE OF CUSTOMER BASE <sup>(iii)</sup>
January 2003	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 2003	1,652	14,362	1.9%
<b>Sub-total</b>	<b>14,362</b>		
January 2004 <sup>(iv)</sup>	5,393	19,755	2.7%
February	6,833	26,588	3.6%
March <sup>(v)</sup>	10,994	37,582	5.1%
April	11,600	49,182	6.6%
May	16,787	65,969	8.9%
June	17,632	83,601	11.3%
July	27,781	111,382	15.1%
August	33,432	144,814	19.6%
September	30,265	175,079	23.7%
October	21,908	196,987	26.6%
November	17,203	214,190	28.9%
December 2004	12,548	226,738	30.6%
<b>Sub-total</b>	<b>212,376</b>		
January 2005	13,851	240,589	32.5%
February	10,811	251,400	34.0%
March	9,837	261,237	35.3%
April	9,964	271,201	36.6%
May	11,720	282,921	38.2%
June	11,939	294,860	39.8%
July	13,986	308,846	41.7%
August	13,352	322,198	43.5%
<b>Sub-total</b>	<b>95,460</b>		
<b>Total</b>	<b>322,198</b>		

- Note: (i) Source: NEMMCO, AGL SA.  
(ii) Numbers relate to completed transfers only. The transfer statistics refer to the number of completed small customer transfers to a market contract for electricity, either with AGL SA or an alternative retailer.  
(iii) Calculated on a SA small electricity customer base of 740,000 (see '2003-04 Annual Performance Report, Performance of Regulated Electricity Businesses', November 2004, Table 3, p29, available on the Commission's website at [www.escosa.sa.gov.au](http://www.escosa.sa.gov.au)).  
(iv) Revisions were made to the 2004 data in the March 2005 Statistical Report, available at [www.escosa.sa.gov.au/webdata/resources/files/050406-R-MarFRCMonStatsReport\\_Final.pdf](http://www.escosa.sa.gov.au/webdata/resources/files/050406-R-MarFRCMonStatsReport_Final.pdf)  
(v) 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.

The current rate of transfers to electricity market contracts is still much higher than that recorded during the first year following the commencement of FRC in the SA electricity market. Monthly transfers averaged 1,700 per month (monthly 0.2% of customer base) during the last six months of 2003, and even lower transfer rates in the first six months following FRC commencement.

**Figure 1: Number of Completed Small Electricity Customer Retail Transfers  
South Australia: 2003 to 2005**

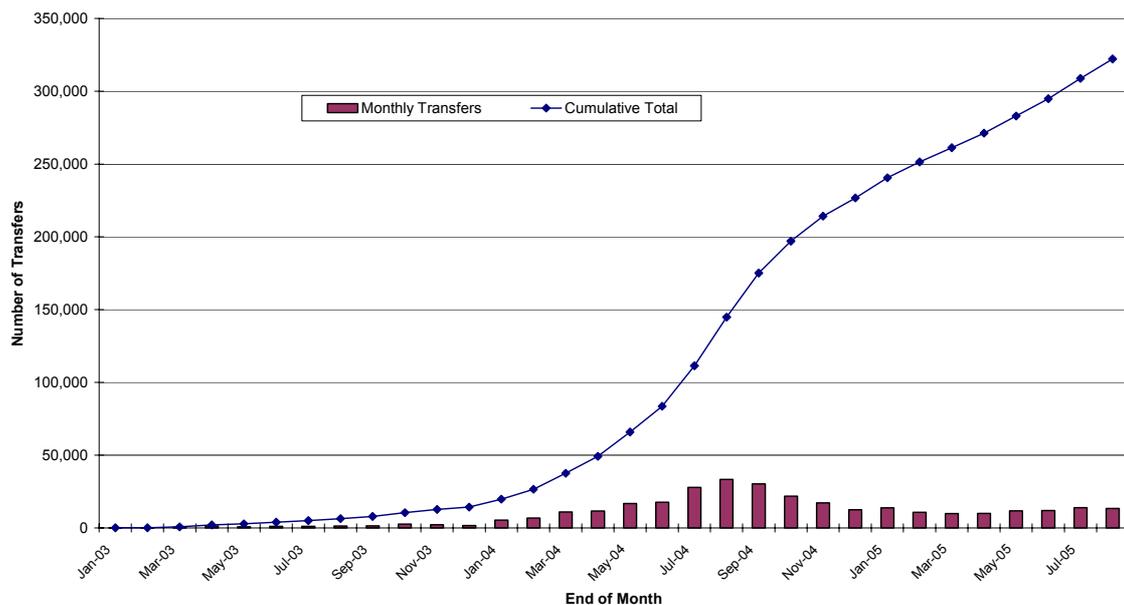


Figure 1 shows the monthly and cumulative total of completed small electricity customer transfers, with Table 5 providing the underlying data. As at the end of August 2005, there had been around 322,000 small customer completed transfers, representing around 44% of the small customer base of 740,000.

This aggregated transfer data combines NEMMCO<sup>13</sup> small customer transfer data, with AGL SA data on the number of its standing contract 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 contracts<sup>14</sup>). The combination of the AGL SA and NEMMCO data shows the overall extent to which customers are exercising choice in moving to market contracts.

<sup>13</sup> 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).

<sup>14</sup> 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.

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 progress<sup>15</sup>. Around 17,000 small customer transfers were in progress at the end of August 2005, representing a further 2% of the small customer base.

As noted in earlier Statistical Reports, customer switching can be defined in a number of ways, as follows<sup>16</sup>:

- ▲ 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 SA there is only one incumbent/local retailer in this sense, AGL SA) and can measure the loss of market share of the incumbent/local retailer; and
- ▲ multiple switching refers to those customers who have changed retailer more than once and can be an indicator of the extent to which customers are willing to continue to seek savings through switching.

The term switching tends to be used in terms of customers changing retailer, rather than moving to a market contract that could be with the same retailer (in the case of AGL SA standing contract customers moving to market contracts with AGL SA). For data confidentiality reasons, the Commission is not currently in a position to be able to report on the level of switching on this basis, as it has been argued that the publication of data indicating market share could impact on the commercial position of AGL SA<sup>17</sup>, as the single incumbent retailer in SA. The Commission intends to commence a review of this matter in the first quarter of 2006 (refer section 5.1 of this report).

Over time, the extent of multiple switching would be expected to increase, as some customers continue to switch retailers in search of the best deal available. Accordingly, the gross transfers as a percentage of the small customer base statistic that has been published to date will be less able to be used as an indicator of the percentage of the small customer base no longer on standing contracts. To date the gross transfer figures have been compared (divided by) the small customer base to give some context to the level of transfer activity occurring, given that most people would not be familiar with the total number of small SA electricity customers.

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<sup>15</sup> 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.

<sup>16</sup> 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](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](http://www.esc.vic.gov.au/apps/page/user/pdf/FinalReportBackgroundFRC_June2004.pdf)).

<sup>17</sup> Refer Commission Position Paper "Monitoring the Development of Electricity Retail Competition in South Australia – August 2003", p15. available at [www.escosa.sa.gov.au/webdata/resources/files/030807-R-MonitorEffectiveERC-PositionPaper.pdf](http://www.escosa.sa.gov.au/webdata/resources/files/030807-R-MonitorEffectiveERC-PositionPaper.pdf).

As foreshadowed in the March 2005 Statistical Report, the Commission intends publishing an additional statistic in these six monthly Statistical Reports - the total number of small SA electricity market contracts existing at a particular point in time. This comprises the total number of market contracts held by non-AGL SA retailers combined with the number of market contracts held by AGL SA. This figure can be divided by the small customer base to provide a reliable estimate of the percentage of small SA electricity customers with a market contract. It is hoped that the provision of both statistics will improve the usefulness of the transfer information published.

As at the end of June 2005, there were around 270,000 small customer electricity market contracts (all SA retailers combined), indicating that around 37% of the small electricity customer base of 740,000 held market contracts at that time<sup>18</sup>. This compares with the gross transfer figure at the same date of around 295,000 (refer Table 5 above).

As indicated above, multiple transfers would result in a difference between the gross transfer figure and the number of market contracts. However, caution should be exercised in interpreting the difference between these figures (25,000) as the level of churn (extent to which customers are continuing to change retailers) that is occurring. As discussed in the March 2005 Statistical Report, these transfer statistics include a number of transfers related to what is termed "move-ins"<sup>19</sup>.

## **2.4 Number of Transfers to Market Contracts for Gas**

Table 6 and Figure 2 (below) provide the number of completed small customer transfers to a market contract for gas, either with Origin Energy or an alternative retailer, for the 13 months to 31 August 2005<sup>20</sup>.

Figure 2 shows the monthly and cumulative total of completed small gas customer transfers, with Table 6 providing the underlying data. As at the end of August 2005, there had been around 117,000 small customer completed transfers, representing around 32% of the small customer base of 365,000.

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<sup>18</sup> It is more precise to say that there were 270,000 NMIs covered by market contracts, with the potential for an individual premise to have more than one NMI. The base of 740,000 is the small customer number reported by retailers, but at the end of June 2005 there were around 777,000 small customer NMIs recorded for SA. However, if the retailer numbers were not used (i.e. the base of 777,000 used instead) then the percentage on market contracts would be 34.8% rather than 36.5%. Given the difference is not considered material the retailer customer base number has continued to be used, as indicating the number of active customers with the potential to move to market contracts.

<sup>19</sup> By way of example, if a customer with retailer 1 shifts house and moves into premises where retailer 2 is the responsible retailer and the customer then signs a new contract with retailer 1 to maintain the previous relationship, then MSATS will treat this as a transfer. In terms of a NMI-based system, then clearly this should be recognised as a transfer (as the retailer financially responsible for the NMI has changed). However, the customer in this example has merely sought to maintain the relationship with their 'current' retailer and has not sought to transfer retailers.

<sup>20</sup> Whilst gas FRC commenced on 28 July 2004, August 2004 is taken as the first month for monitoring purposes.

**Table 6: Number of Completed Small Gas Customer Retail Transfers  
South Australia <sup>(i)</sup>  
(July 2004 to August 2005)**

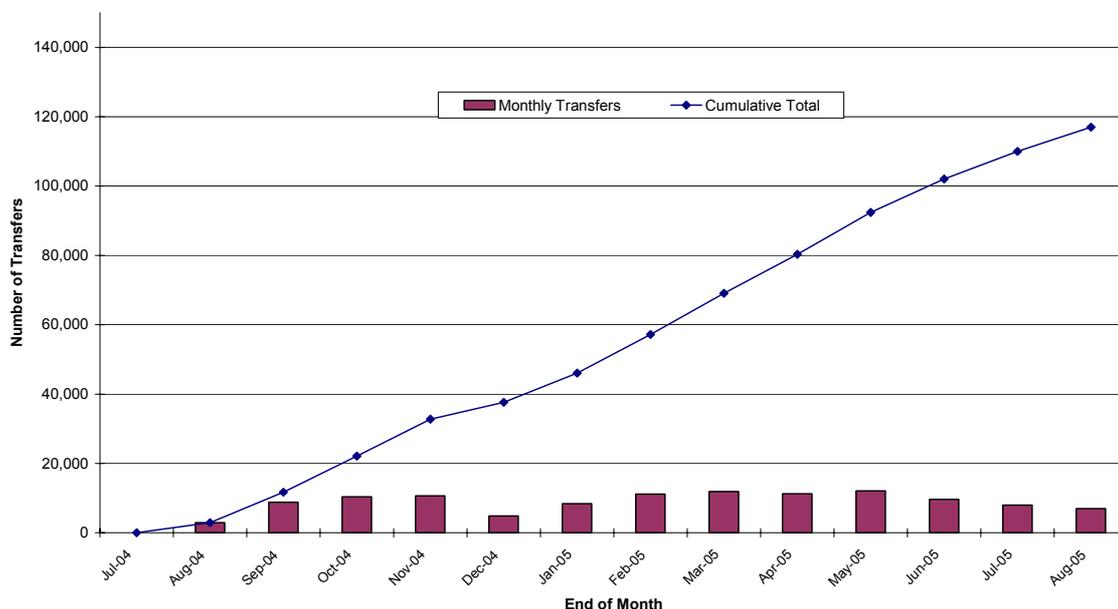
MONTH	NUMBER <sup>(ii)</sup>	CUMULATIVE TOTAL <sup>(ii)</sup>	PERCENTAGE OF CUSTOMER BASE <sup>(iii)</sup> %
<b>2004</b>			
July <sup>(iv)</sup>	0	0	0.0%
August	2,907	2,907	0.8%
September	8,802	11,709	3.2%
October	10,399	22,108	6.1%
November	10,666	32,774	9.0%
December	4,860	37,634	10.3%
<b>Sub-total</b>	<b>37,634</b>		
<b>2005 <sup>(v)</sup></b>			
January	8,411	46,045	12.6%
February	11,127	57,172	15.7%
March	11,876	69,048	18.9%
April	11,257	80,305	22.0%
May <sup>(vi)</sup>	12,081	92,386	25.3%
June <sup>(vi)</sup>	9,655	102,041	28.0%
July	7,970	110,011	30.1%
August	6,972	116,983	32.1%
<b>Sub-total</b>	<b>79,349</b>		
<b>Total</b>	<b>116,983</b>		

- Note: (i) Source: REMCo, Origin Energy.  
(ii) Numbers relate to completed transfers only. The transfer statistics refer to the number of completed small customer transfers to a market contract for gas, either with Origin Energy or an alternative retailer.  
(iii) Calculated on a SA small gas customer base of 365,000.  
(iv) Note that gas FRC commenced in the last few days of July 2004.  
(v) Note that this schedule incorporates revisions made in earlier schedules for 2005 data, to incorporate revised numbers received by the Commission.  
(vi) Numbers revised upwards from those reported in the August 2005 Schedule, to incorporate revised numbers received by the Commission.

This aggregated transfer data combines REMCo<sup>21</sup> small customer transfer data, with Origin Energy data on the number of its customers transferring to market contracts with Origin Energy. The REMCo data only records transfers occurring between retailers and not within a retailer (e.g. transfers away from Origin Energy as the 'incumbent' retailer, but not those customers who have moved from an Origin Energy standing contract to an Origin Energy market contract). The combination of the Origin Energy and REMCo data shows the overall extent to which customers are exercising choice in moving to market contracts. This is the equivalent approach adopted in reporting small electricity customer transfers.

<sup>21</sup> REMCo was formed by market participants in SA and WA in early 2003 for the purpose of establishing and administering the gas Retail Market Rules (RMR) required to support gas FRC in both States.

**Figure 2: Number of Completed Small Gas Customer Retail Transfers  
South Australia: 2004 to 2005**



The number of completed gas transfers reported as at 28 February 2005 has been revised up from the 55,729 reported in the March 2005 Statistical Report to 57,172, to incorporate revised numbers received by the Commission.

Table 6 shows that, apart from the slower activity previously reported for December 2004 and January 2005, the strong start in the number of completed small gas customer transfers experienced after the commencement of gas FRC was maintained up until May 2005, falling away a little in recent months.

As indicated in Table 6, after 13 months gross small customer gas transfers as a percentage of customer base was 32%. After 13 months of electricity FRC, the equivalent gross transfers as a percentage of customer base was 2.7% (January 2003). It was not until January 2005 (25 months after electricity FRC), that the percentage of gross electricity transfers reached 32%. As this demonstrates, the level of activity in the gas retail market to date has been much greater than that experienced in the electricity market. This might be expected, given the greater level of public awareness at the time of gas FRC commencement and promotions designed to result in customers having both fuels (gas and electricity) with the same retailer.

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 progress<sup>22</sup>. Around 13,000 small

<sup>22</sup> 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.



customer transfers were in progress at the end of August 2005, representing a further 3.5% of the small customer base.

## **2.5 General Indicators of Activity**

The May 2004 Statistical Report reviewed the performance of NMI Discovery data as a lead indicator of transfer activity.

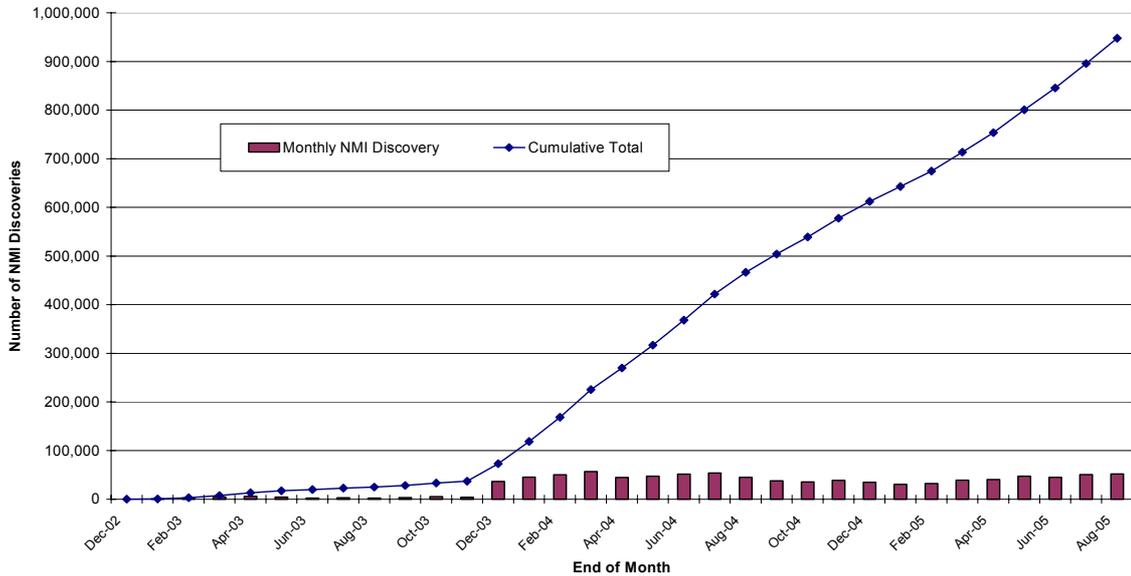
NEMMCO, through its MSATS system, routinely collects data on NMI discovery. NMI Discovery is a function in MSATS that enables a prospective retailer to 'discover' sufficient information about a potential customer's NMI to be able to provide a quotation for a market contract. Similar data are currently routinely collected and reported to the Commission by Envestra for gas – MIRN Discovery.

The review of NMI Discovery data undertaken for the May 2004 Statistical Report generally found that the NMI Discovery data did not provide any better lead indicator than the transfer in progress statistic, which is reported with each six monthly Statistical Report. It was proposed to continue to monitor the NMI Discovery data, but not report them unless they start to represent a better lead indicator than the transfers in progress statistics that are routinely reported.

It is now some time since the last review of the performance of NMI Discovery. Also, MIRN Discovery statistics have now been collected for 12 months. Consequently, it was considered appropriate to review the performance of NMI Discovery and MIRN Discovery data for this Statistical Report. If the MIRN Discovery data was not deemed useful then it would be appropriate to advise Envestra that regular reporting to the Commission of this data was not required.

Figure 3 (below) plots NMI Discovery data for SA customers since December 2002. It shows that, as at the end of August 2005, the number of NMI Discoveries since the commencement of electricity FRC in SA total around 950,000.

**Figure 3: Number of NMI Discoveries  
 South Australia**



**Figure 4: Number of Completed Small Electricity Customer Retail Transfers  
 Plotted Against the Number of NMI Discoveries  
 South Australia**

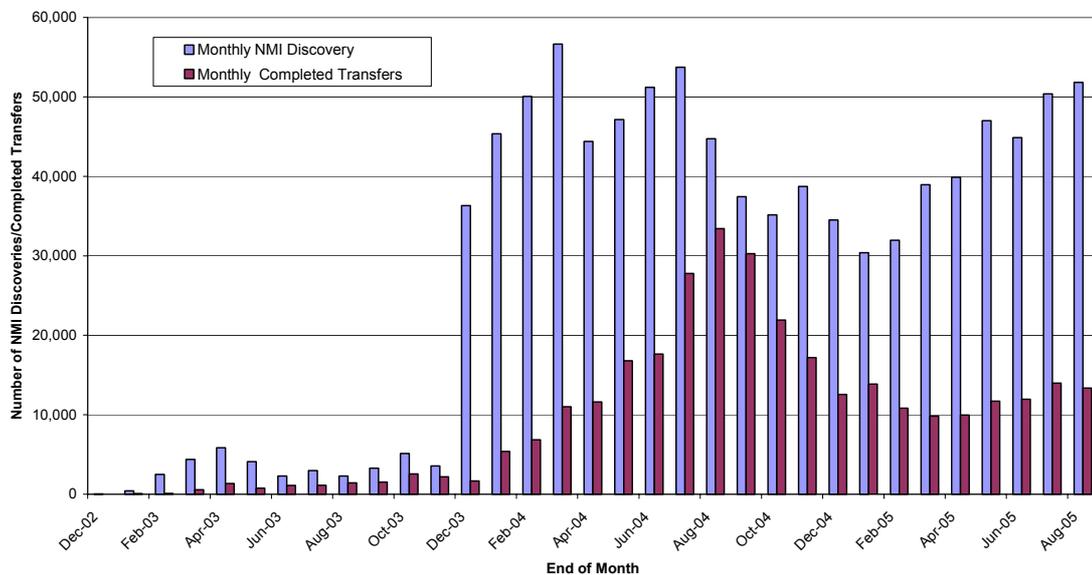


Figure 4 (above) shows a plot of completed small electricity customer transfers against NMI Discovery data, on a monthly basis, designed to see the extent of any predictive power of future customer transfers the NMI Discovery data might have. Whilst the

intention would be to apply more sophisticated statistical analysis at a future date, the approach for this Statistical Report has been to apply a visual analysis.

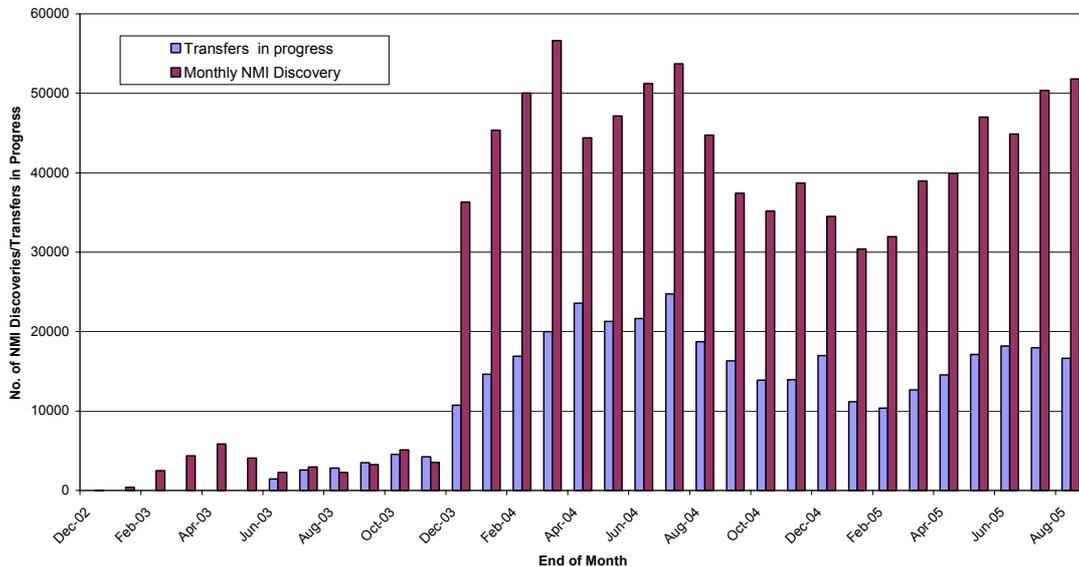
It would generally be expected that there would be a lag between a change in the level of NMI Discovery and any change in the level of completed transfers, as completed transfers can take up to three months to occur following the signing of a contract, with NMI Discovery normally the precursor to any contract. However, Figure 4 suggests that there is a close relationship in movements between the two data sets, with trend movements in completed transfers perhaps lagging NMI Discovery by one to two months.

Reviewing Figure 4 also suggests four distinct cycles, as follows:

- ▲ Cycle 1 - December 2002 to November 2003: characterised by low flat activity. This is likely to reflect retailers testing systems and gearing up to make offers etc.
- ▲ Cycle 2 – December 2003 to July 2004: characterised by high levels of activity, with the level of transfers increasing each month. This reflects the major level of activity experienced during 2004, influenced by the State Government's Electricity Transfer Rebate (ETR) offer, which ended on 13 August 2004. Whilst NMI Discovery experienced a very significant increase for December 2003, the level of monthly transfers did not show a significant increase until January 2004 (i.e. a one month lag).
- ▲ Cycle 3 – August 2004 to February 2005: characterised by a trend down in the level of activity. This is likely to reflect the end of the ETR offer, but activity levels are still significantly higher than experienced during Cycle 1. Whilst NMI Discovery showed a notable decline in August 2004, completed monthly transfers did not start to decline until September 2004, having reached a monthly peak in August 2004 (i.e. a one month lag).
- ▲ Cycle 4 – March 2005 to - present: characterised by a new upward trend in the level of activity. This would suggest a new effort amongst one or more retailers. Whilst NMI Discovery started to increase from March 2005, it was not until May 2005 that monthly completed transfers showed any significant increase (i.e. a two month lag). However, it is noted that in August 2005, whilst completed transfers declined from the previous month, the level of NMI Discovery increased.

The Commission also reports a small customer transfer in progress figure with each Statistical Report. Figure 5 (below) compares the monthly NMI Discovery data presented in Figure 4 with small customer transfer in progress data for the relevant month. Considering data from December 2003, there are only three periods (April-May 2004, Feb 2005 and June-August 2005) where the monthly directional change in NMI Discovery data does not match the monthly directional change for the small customer transfer in progress data. Thus, as reported in the May 2004 Statistical Report, both NMI Discovery and transfer in progress data provide similar predictive ability for monitoring trends in the level of completed transfers of small customers to electricity market contracts, although the divergence in recent months is of interest.

**Figure 5: Number of Small Electricity Customer Retail Transfers in Progress  
 Plotted Against the Number of NMI Discoveries  
 South Australia**



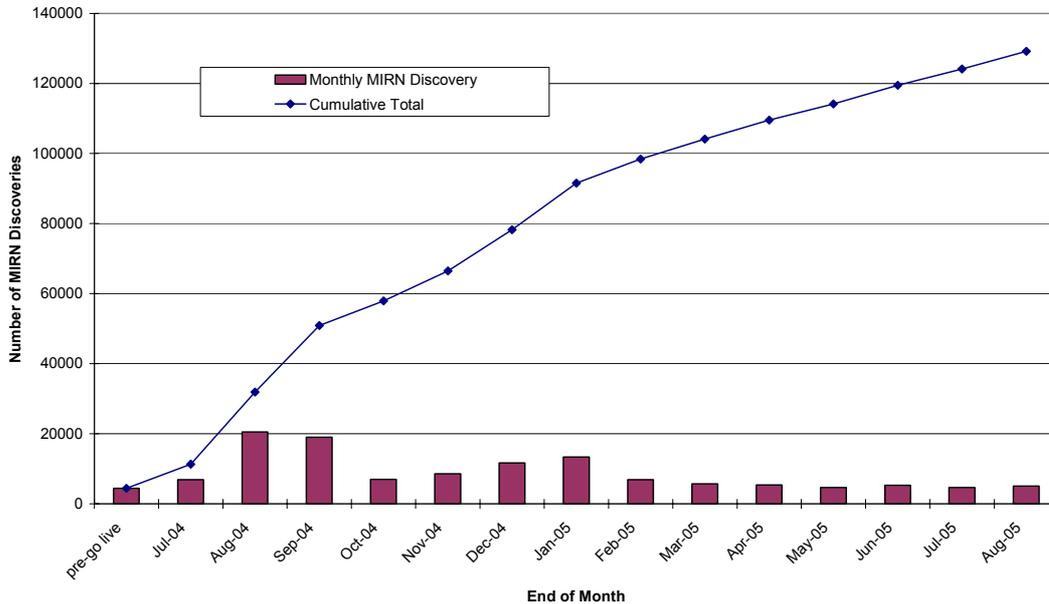
However, NMI Discovery is a recognised indicator and NEMMCO regularly publishes this information for NSW and Victoria. Aside from its possible predictive uses, NMI Discovery also indicates the overall level of activity in the market, whereas transfers in progress indicate a success rate that in any case is ultimately reflected in the number of completed transfers. For these reasons the Commission now proposes to report on the level of NMI Discovery in future Statistical Reports. However, the Commission will also continue to report transfers in progress with each Statistical Report.

Figure 6 (below) plots MIRN Discovery data for SA customers since just before gas FRC commencement, effectively replicating Figure 3 for NMI Discovery. It shows that as at the end of August 2005, the number of MIRN Discoveries had exceeded 120,000.

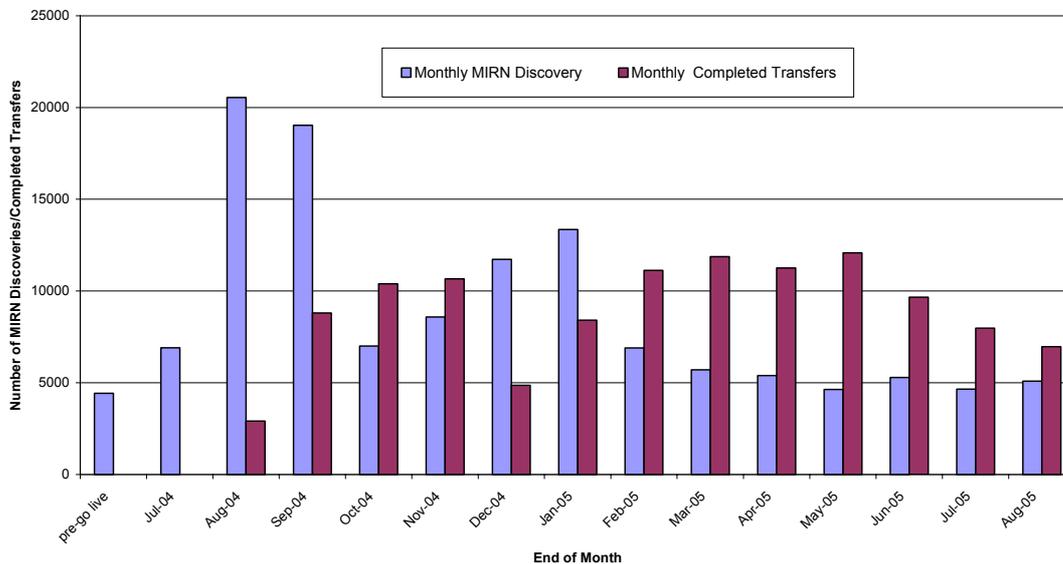
Figure 7 (below) shows a plot of completed small gas customer transfers against MIRN Discovery data, on a monthly basis, designed to see the extent of any predictive power of future customer transfers the MIRN Discovery data might have. This is a similar exercise to that performed above for electricity, using Figure 4.

The relationship between MIRN Discovery and completed transfers is less obvious than was the case with the equivalent electricity review above. The level of activity in the gas retail market for the first year since commencement of FRC has been much greater than that achieved in the electricity retail market over the same period, in terms of completed transfers. This is reflected in the high MIRN Discovery in the first few months following commencement of gas FRC.

**Figure 6: Number of MIRN Discoveries South Australia**



**Figure 7: Number of Completed Small Gas Customer Retail Transfers Plotted Against the Number of MIRN Discoveries South Australia**



For electricity, from December 2003, the level of monthly NMI Discovery to date has always exceeded the level of completed transfers (refer Figure 4). However, in the case of gas, from February 2005 the level of monthly gas transfers has exceeded the MIRN Discovery count. It may have been the case that there had been an accumulation of MIRN Discovery details in the early part of the year, which were accessed later in the year

when gas retailers were in a position to offer contracts. However, it may also be the case that some retailers are not seeking customer details by way of MIRN discovery in offering gas contracts. This might be an option for those retailers only seeking to target their own electricity customers, in offering gas contracts.

It is interesting to compare the level of 'discoveries' per completed transfer across electricity and gas. For electricity the number of NMI discoveries/completed transfer is 2.9, whereas the equivalent number of MIRN discoveries/completed transfer is 1.1. This suggests that gas retailers might be placing a lower level of reliance on MIRN Discovery.

It is worth noting that it is only one year since the commencement of gas FRC and that the relationship between NMI discovery and completed electricity transfers was not as strong for the first twelve months, as it appears to have been since then. This suggests that it may be useful to continue to collect and report MIRN Discovery data for at least the next twelve months and review again at the end of this period. There is also likely to be merit in applying more sophisticated statistical techniques to determine the extent of any relationships that can be drawn from the data.

## **2.6 *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. The Commission is aware of several entities operating as aggregators in SA.

At this stage, the Commission is performing an information intermediary function in its provision of the Estimator service (see section 4.1).

With all offers and information available, it is important that consumers make their own assessment of potential savings, having regard to their individual circumstances and the range of offers and incentives available. Consumers should take note of the assumptions used in any savings comparisons made for relevance to their circumstances and preferences.

## **2.7 *Emerging Issues***

In the March 2005 Statistical Report, the Commission advised that it intended to monitor the area of market contract terms and exit fee levels, and include some analysis in this Statistical Report. Questions relevant to this issue were asked of retailers in the 2005 Retailer survey, with the results assessed in section 3.3 of this report.



## **2.8 Summary**

In summary:

- ▲ There are currently 14 electricity retailers and 6 gas retailers licensed to operate in South Australia.
- ▲ Six 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 31 August 2005, there had been 322,000 small customer completed transfers to electricity market contracts since commencement of electricity FRC in January 2003, representing 44% of the small customer base of 740,000. A further 17,000 (or 2%) transfers were in progress at that time.
- ▲ As of 31 August 2005, there had been 117,000 small customer completed transfers to gas market contracts since commencement of gas FRC on 28 July 2004, representing 32% of the small customer base of 365,000. A further 13,000 (or 3.5%) transfers were in progress at that time.

### **3 RETAILER SURVEY RESULTS**

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A survey of retailers was carried out in August 2005, following a similar survey undertaken in August 2004 and September 2003.

The 2004 Retailer Survey sought information on the extent to which retailers had offered in the previous year, or would seek to offer during 2004/05, 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 SA energy retail market exist for retailers, which might limit the potential for active competition.

The 2005 Retailer survey replicated the first two questions of the 2004 survey, but did not repeat the 'barriers to entry' question as this is intended to be asked every two years. The 2005 Retailer survey also requested information in two other areas. The first area was foreshadowed in the Emerging Issues section of the March 2005 Statistical Report (p.13), concerning the term of market contracts and the level of early termination or exit charges.

The other area of additional information sought was foreshadowed in the Commission's 2004 electricity Annual Performance Report ("2003-04 Annual Performance Report – Performance of Regulated Electricity Businesses, November 2004", p.47), which reported on the Commission's Consumer Advisory Committee (CAC) suggestion that data should be collected on the level of additional fees levied by retailers for items such as meter testing, late payments, dishonoured payments and reconnections.

Survey forms were sent to all thirteen licensed electricity retailers and five licensed gas retailers, as at the end of July 2005. Completed survey forms were received from 11 licensees (85% response rate), covering all licensees selling to small customers, including all gas licensees. Completed survey forms were not received from two of the electricity licensees that have indicated previously that they deal only with large customers, and as this year's survey was targeted at small customers, these outstanding survey forms were not pursued.

The EA-IPR Retail Partnership took over the customers of EnergyAustralia (and International Power) from July 2005. Consequently, the EA-IPR Retail Partnership survey form is used for questions covering current activity or 2005/06 intentions, with the EnergyAustralia survey form used for questions covering 2004/05. This avoids the potential for any double counting of responses.

#### **3.1 Level of Participation**

In relation to the information sought on participation, consistent with previous surveys, the only statistic requested was the extent to which the retailer offered in 2004/05, or intended to offer in 2005/06, 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 SA licensed retailers, i.e. SA small customer retailers and SA large customer retailers.

**Table 7: Number of Retailers Participating in Small Customer Market by Category of Electricity & Gas Customer<sup>(i)</sup> South Australia**

CATEGORY	ELECTRICITY		GAS	
	2004/05	2005/06	2004/05	2005/06 <sup>(ii)</sup>
<b>Residential</b>				
* metropolitan Adelaide	5	6	4	4
* rural & regional	5	6	1	2
<b>Small Business</b>				
• annual consumption of 0 to 80MWh (electricity) or 0 to 0.5TJ (gas):				
* metropolitan Adelaide	6	6	4	4
* rural & regional	6	6	1	2
• annual consumption of 80 to 160MWh (electricity) or 0.5 to 1.0TJ (gas):				
* metropolitan Adelaide	6	6	4	4
* rural & regional	6	6	1	2

Note: (i) Source: Commission. Survey of retailers licensed to operate during August 2005.

(ii) One retailer has indicated an intention to offer contracts in some regional areas, on the basis that current impediments (haulage rates and access) can be satisfactorily resolved.

Table 7 indicates that in 2004/05, there were six (6) retailers offering market contracts to small business and five (5) retailers offering market contracts to residential customers in the SA electricity retail market, although not all of these retailers operated for the whole of 2004/05.

Comparing the actual outcome with the 2004 Retailer Survey intentions for 2004/05 (refer Table 5 of the September 2004 Statistical Report) shows one additional electricity retailer operating in rural and regional areas than predicted by this indicator. However, Table 5 of the September 2004 Statistical Report only indicated the number of retailers intending to offer contracts in 2004/05 for those retailers who at the time of the August 2004 survey were in a position to indicate a clear intention.

Looking to 2005/06, the number of active electricity retailers looks like being at least maintained across all customer categories, with at least one additional retailer intending to operate in the residential market. It should be noted that only licensed retailers as at the end of July 2005 were surveyed and that, as advised in Section 2.1 of this paper, the Commission has received applications for an SA electricity retailer licence from other companies, which if granted could result in additional active retailers operating in 2005/06. Also, since July 2005 a licence has been granted to South Australia Electricity Pty Ltd, which has indicated an intention to sell to small electricity customers.

As indicated in Table 7, four (4) gas retailers were selling gas to small customers in the metropolitan Adelaide area during 2004/05, with Table 7 showing the same number indicating they would offer market contracts in 2005/06. This compares with five (5) retailers indicating an intention to offer market contracts to metropolitan Adelaide small gas customers in the 2004 Retailer Survey (refer Table 5 of the September 2004 Statistical Report).

Of some concern is that only two retailers have indicated an intention to offer gas contracts to small customers in at least one of the four rural and regional gas distribution areas during 2005/06, with only one retailer indicating that they had made offers during 2004/05. This compares with three (3) retailers indicating an intention to offer market contracts to rural and regional small gas customers in the 2004 Retailer Survey (refer Table 5 of the September 2004 Statistical Report).

It is worth noting that the gas market operates differently to the electricity market in a number of respects. For the gas retail market there are five geographical pricing zones: Adelaide (and Peterborough), Mount Gambier, Port Pirie, Riverland and Murray Bridge, and Whyalla. Gas lateral pipes feed the areas other than Adelaide, with retailers required to negotiate transmission costs with the relevant pipeline operator for each area (whereas electricity customers on the distribution network pay the same 'wires' charge regardless of location and retailers are not required to separately negotiate 'wires' costs for regional customers). Accordingly, the gas standing contract price for each pricing zone is different and reflects differences in transmission costs. Thus retailers operating outside the Adelaide region are not competing against the Adelaide standing contract price, but the standing contract price for the relevant region.

However, the Adelaide region comprises over 90% of the relevant SA gas retail market sales and revenue<sup>23</sup>, with the remaining four rural and regional areas sharing the balance. Accordingly, new entrant retailers may have some incentive to target, at least initially, the Metropolitan Adelaide region given the size of this segment of the gas retail market and the need to separately negotiate gas transmission costs to enter into the remaining small rural and regional) segments of the market.

The Commission has made an initial approach to some of the licensed gas retailers serving small customers, to determine what the issues are from a retailer perspective, in relation to making offers in rural and regional areas. The initial response received is that it results from the difficulty that some retailers are having in gaining access to the gas lateral pipes in these areas, and for some retailers it is also not considered economic to retail in regional areas. In addition to the two retailers identified in Table 7, a third retailer indicated that it is examining ways in which it might be able to price gas competitively into some regional areas, but was not included in Table 7 as the retailer was not able to place a timetable on when this development might occur.

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<sup>23</sup> Refer Commission paper 'Gas Standing Contract Price Path, Final Inquiry Report and Final Price Determination', June 2005, pA100, available at [www.escosa.sa.gov.au/webdata/resources/files/050628-GasStandingContractPricePathFinalInqReport.pdf](http://www.escosa.sa.gov.au/webdata/resources/files/050628-GasStandingContractPricePathFinalInqReport.pdf).

As with electricity, it should be noted that only licensed retailers as at the end of July 2005 were surveyed and that, as advised in Section 2.2 of this paper, the Commission has received applications for an SA gas retailer licence from other companies, which if granted could result in additional active retailers operating in 2005/06. Also, since July 2005 a licence has been granted to South Australia Electricity Pty Ltd, which has indicated an intention to sell to small gas customers. However, it is not known if any of these companies have an intention to sell to small gas customers in rural and regional areas.

### **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 offered, including<sup>24</sup>:

- ▲ varying price options, including percentage and fixed discounts, upfront rebates, rebates over the life of the contract (e.g. loyalty rebates), dual fuel rebates, direct debit rebates, rate restructure, one-off credits to accounts, credits to electricity bill for dual fuel accounts maintained at same address for defined period and accounts paid on time, and provision of rate discounts to members of selected organisations;
- ▲ 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);
- ▲ non-price benefits and promotions, including shop vouchers, limited period free dial-up internet, free DVD players, part refunds of sporting club membership fees, free 2 year magazine subscriptions to certain magazines;
- ▲ varying terms, including some contracts with fixed terms and others that are on-going (i.e. no set term or 'evergreen'); and
- ▲ range of 'green energy' products.

Retailers were also requested to identify which of their innovative offerings were introduced within the past 12 months. The response indicates that a number of retailers were very active in the past 12 months in introducing innovative products to their offerings.

Whilst not specifically referred to in the completed surveys received, other innovations previously reported that are still known to exist, include dual fuel options, tariff structures that do not include a seasonal peak tariff, and varying payment options. In relation to the last, one of the retailers advised that a product that previously incorporated a mandatory payment method was no longer available.

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<sup>24</sup> Note that some of the innovative products identified may have only been offered for a limited time.

### 3.3 Early Termination Charges for Market Contracts

The Energy Retail Code contains some requirements in relation to the levying of termination charges (refer clause 1.6.1(d) of Part A of the Energy Retail Code), such that a retailer may only impose an early termination charge if the market contract includes details of the amount or manner of calculation, and then only if the amount of the charge is a genuine reflection of the retailer's associated administrative costs (that is, the amount does not reflect a "penalty"). The 2005 Retailer Survey asked a number of questions to enable the Commission to gain an understanding of current practices in this area, covering residential customers only.

There is a considerable range of early termination or exit fees<sup>25</sup> currently operating in the SA energy retail market, ranging from one retailer that does not charge any exit fee for any of its contracts, to another retailer that charges an exit fee of \$150 for the cancellation of one of its three-year contracts within the first year.

For those contracts for which there is an exit fee, generally those contracts with a fixed term, three retailers have a fixed single exit fee that applies across all contracts and regardless of which year into the contract cancellation occurs. Across these three retailers, the fixed exit fees range from \$48, \$75 to \$80 (with the \$80 exit fee due to have been increased to \$95 from late August 2005).

Two other retailers employ a declining exit fee<sup>26</sup>, with the highest level of exit fee applying to termination within the first year of the contract term. For a three year contract, both of these retailers have two scales of exit fees targeting specific contracts. Across the two retailers, the scale of exit fees for a three year contract range from \$75 (yr 1), \$50 (yr 2) and \$25 (yr 3) to \$150 (yr 1), \$100 (yr 2) and \$50 (yr 3)<sup>27</sup>. Depending on the retailer, customers having separate electricity and gas contracts with the same retailer could be required to pay a separate exit fee for each contract.

Retailers were also asked to provide the basis for the exit fee set. As is generally the approach adopted by the Commission in FRC reporting on retailer specific information, retailers were advised that any information provided would be suitably masked so that individual retailer details would not be identifiable when reporting the survey results. Accordingly, the advice received from retailers on the basis for setting the exit fee is reported without identifying the retailer making the comment. This approach was also adopted in reporting the scale of exit fees above, although in this latter case the retailer price factsheets each retailer is obliged to publish in accordance with the Energy Price Disclosure Code are required to contain details on exit fee levels (see section 4.2 of this report for a discussion of the Energy Price Disclosure Code requirements).

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<sup>25</sup> The terms 'early termination charge' and 'exit fees' are used synonymously in this paper.

<sup>26</sup> One of these retailers does not include exit fees in their Seniors' offers. One of the retailers surveyed that charges exit fees indicated that they were considering marketing offers that did not contain early termination charges.

<sup>27</sup> Understood that the retailer concerned has offered few contracts in SA at this upper bound, with the general exit fee structure for a three year contract being \$90 (yr 1), \$70 (yr 2) and \$50 (yr 3).

Advice from retailers on the basis for the exit fee set was as follows (each line provides the advice received from an individual retailer, with repetition occurring on occasions):

- ▲ protecting contract positions and recovery of contract administration and associated cost from processing cancellations;
- ▲ cost of customer acquisition. Amount not fully recovered where a customer exits a contract within one year, but setting a flat fixed fee takes account of administrative costs associated with setting a variable charge;
- ▲ cost of exit to the business, cost of acquisition and loss of gross margin; and
- ▲ are charged to recoup financial loss, with fees set based on cost of acquisition, loss of profit and the treatment of pre-purchased energy.

The Commission will be examining this issue as part of its review of energy retail regulatory arrangements applying to small customers, which as outlined in the Commission's 2005-08 Strategic Plan<sup>28</sup> is scheduled to be undertaken during 2005/06. In the interim, stakeholder comments on the level of exit fees and the basis advised by retailers for the current fee levels would be welcomed.

### **3.4 Additional Fees**

This section provides details on the level of additional fees levied by retailers for items such as meter testing, dishonoured payments and reconnections for market contracts. In nearly all cases, the same fee is charged for market contracts as for standing contracts.

Whilst all retailers have schemes in place to assist those customers having difficulty in meeting their energy payments, where these schemes do not succeed for whatever reason, some of the additional fees identified in this section, if charged, could compound an already financially difficult situation.

Table 8 (below) shows the range of fees (GST inclusive) for general items charged for residential customers for electricity items, for the six retailers selling electricity to small customers. These represent the same charges for small business, as apart from market contract exit fees (refer section 3.3), no retailer distinguished between residential and small business in the level of additional fees levied.

A range of additional electricity fees is shown for retailers in Table 8, given the approach to masking individual retailer fees at this stage of the review. This range of fees is compared against applicable distributor charges, with some retailers electing to only pass on the relevant distribution fee, without a retailer mark-up.

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<sup>28</sup> Refer Essential Services Commission of South Australia, "Strategic Plan 2005-2008", available at [www.escosa.sa.gov.au/webdata/resources/files/050728-O-2005\\_08-ESCOSAstrategicPlan\\_Final.pdf](http://www.escosa.sa.gov.au/webdata/resources/files/050728-O-2005_08-ESCOSAstrategicPlan_Final.pdf).

**Table 8: Additional Fees Levied on Residential Electricity Customers  
GST Inclusive**

FEE TYPE	RANGE OF FEES	DISTRIBUTOR CHARGE
Meter Reading Check	DB <sup>(i)</sup> to \$47.30	\$11.00
Meter Data Check	DB/\$11.00	(ii)
Meter Testing	DB to \$122.10	\$71.50
Unscheduled Meter Reads	DB to \$40.26	\$11.00
Dishonoured payments	Bank charge/\$30 <sup>(iv)</sup>	NA <sup>(iii)</sup>
<u>Reconnection</u>		
- retailer fee	\$0 to \$12.87	NA
- distributor fee	DB/\$28.60	\$28.60 <sup>(v)</sup>
- total	\$28.60 to \$41.47	\$28.60 <sup>(v)</sup>

- Note:
- (i) DB refers to the distributor charge, see third column of this table.
  - (ii) No specific distributor charge set.
  - (iii) NA = not applicable.
  - (iv) One retailer specified a \$30 charge, whilst other retailers stated the bank charge was passed on.
  - (v) Reconnection charge only, would need to double to include a disconnection charge.

It is important to note that some retailers may also charge a disconnection fee in addition to the reconnection fee, resulting in a combined disconnection plus reconnection fee of nearly double that for the level of reconnection fees indicated in Table 8<sup>29</sup>. The reconnection fee quoted in Table 8 also assumes that the reconnection is requested during normal business hours (i.e. customer advises before 4.00pm on the same day), with after hour's reconnection fees advised by some retailers ranging from \$73.70 to \$117.15.

The meter testing fee is one of the highest individual fees charged. However, as required in the Energy Retail Code (clause 7.8.5 of Part A), any such fee paid would be fully refundable should it be determined that there was a problem with the meter.

There are also a range of other fees charged by some retailers, as follows:

- ▲ only one retailer charges an account establishment fee (\$33.66) with a pensioner concession (\$18.92), although another retailer charges a connection fee (\$28.60);
- ▲ one retailer applies a late payment fee on a reminder notice due date (\$12.21); and
- ▲ one retailer advised that it charges a late payment fee where one of its officers calls to collect the late payment (\$29.26).

<sup>29</sup> That is, the retailer component would be expected to be the same, with the distribution component doubling with two \$28.60 charges (one for reconnection and the other for the initial disconnection).

Table 9 (below) shows the range of additional fees (GST inclusive) charged to residential gas customers, for the four retailers selling gas to small customers. These represent the same charges for small business, as apart from market contract exit fees (refer section 3.3), no retailer distinguished between residential and small business in the level of additional fees levied.

As was the case for Table 8, a range of fees is shown for retailers in Table 9, given the approach to masking individual retailer fees at this stage of the review. This range of fees is compared against applicable distributor charges, with some retailers electing to only pass on the relevant distribution fee, without a retailer mark-up.

**Table 9: Additional Fees Levied on Residential Gas Customers  
GST Inclusive**

FEE TYPE	RANGE OF FEES	DISTRIBUTOR CHARGE
Meter Reading Check	DB <sup>(i)</sup> to \$19.80	\$8.58
Meter Data Check	DB	\$8.58
Meter Testing	DB to \$167.75	\$156.20
Unscheduled Meter Reads	DB/\$19.80	\$19.80
Dishonoured payments	Bank charge	NA <sup>(ii)</sup>
<b>Reconnection</b>		
- retailer fee	-\$44.00 to \$0 <sup>(iii)</sup>	NA
- distributor fee	DB to \$73.15	\$61.60 <sup>(iv)</sup>
- total	\$16.50 to \$73.15	\$61.60 <sup>(iv)</sup>

- Note:
- (i) DB refers to the distributor charge, see third column of this table.
  - (ii) NA = not applicable.
  - (iii) One retailer subsidises the reconnection cost.
  - (iv) Reconnection charge only, may need to double to include a disconnection charge, if passed through.

It is important to note that some retailers may also charge a disconnection fee in addition to the reconnection fee, resulting in a combined disconnection plus reconnection fee of nearly double that for the level of reconnection fees indicated in Table 9<sup>30</sup>. The reconnection fee quoted in Table 9 also assumes that the reconnection (and earlier disconnection) was a 'soft' disconnection. That is, the distributor charge for a cut off of service in the street (when disconnection is intended to be longer term) is \$251.90, with the corresponding reconnection charge \$275.

<sup>30</sup> That is, the retailer component would be expected to be the same, with the distribution component doubling with two \$61.60 charges (one for reconnection and the other for the initial disconnection).

The meter testing fee is one of the highest individual fees charged. However, as outlined above for electricity, as required in the Energy Retail Code (clause 7.8.5 of Part A), any such fee paid would be fully refundable should it be determined that there was a problem with the meter.

There is also a range of other fees charged by some retailers, as follows:

- ▲ only one retailer charges an account establishment fee (\$33.66), although another retailer charges a connection fee (\$8.36);
- ▲ one retailer applies a late payment fee on a reminder notice due date (\$12.21); and
- ▲ one retailer advised that it charges a late payment fee where one of its officers calls to collect the late payment (\$29.26).

Retailers were also asked whether there was any present intention of introducing new additional fees within the next six (6) months. Aside from proposed changes in early termination fees (refer section 3.3), only one retailer responded to this question advising of an intention to introduce a late payment fee of \$8.80 to apply on the issuing of a disconnection warning and a credit card service fee of 1% of the payment amount to apply to all credit card payments made by telephone.

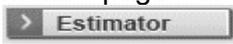


## 4 ENERGY PRICE COMPARISONS

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As was indicated by the findings of the 2004 small customer survey (refer September 2004 Statistical Report), price is a key factor in the decision to switch retailers. This section reports on available independent price comparison services, retailer information disclosure requirements, and an indication of the potential savings from moving to a market contract.

### 4.1 Commission Price Comparison Services

As reported in previous Statistical Reports<sup>31</sup>, the Commission has developed the Estimator web-based price comparison service for residential electricity and gas retail offers, to assist customers to compare market offers. This easy, user-friendly application is available from the link on the home page of the Commission's website [www.escosa.sa.gov.au](http://www.escosa.sa.gov.au), by clicking on the  icon.

The Commission also manages a free-call (1800 226 100) energy retail telephone information service, which provides callers with access to information about retail competition, energy contracts with retailers, metering, and consumer protection.

With the Estimator, users enter information from their recent energy bills, and are provided with an estimate of their energy costs under electricity and gas standing contracts and under other market contracts available from licensed energy retailers. This allows users to compare retail offers and determine which might be the best for them.

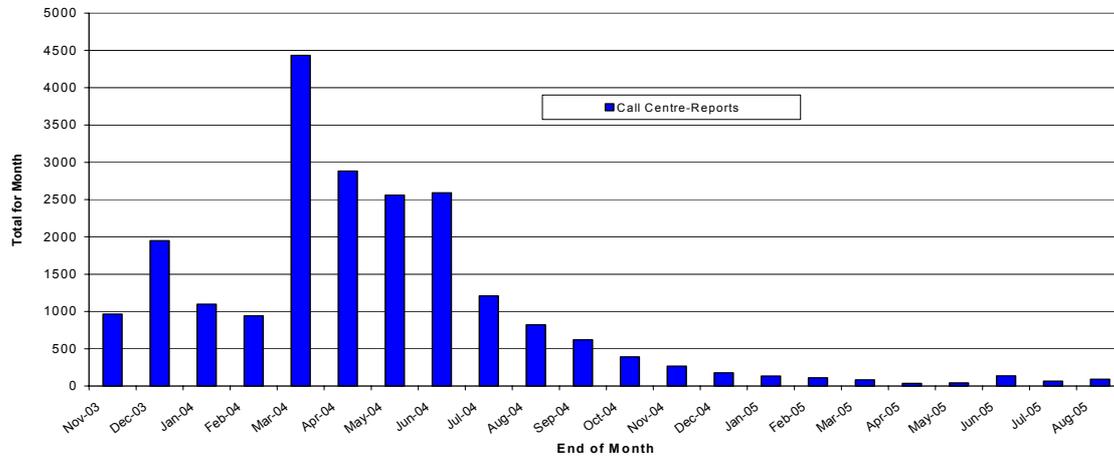
Both the Estimator and telephone information service appear to have been well patronised at varying times. Figure 8 shows the number of price comparison reports issued as a result of consumers using the telephone information service, since its commencement in November 2003 until the end of August 2005 (totalling around 22,000).

The number of price comparison reports issued has declined markedly over the past 12 months, and consequently the Commission took over the service from the DAIS operated call-centre on 4 April 2005, in order to reduce the costs of providing this service. The Commission intends to continue this service in its current form, mainly to meet the needs of people without access to the Internet.

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<sup>31</sup> For a detailed discussion, refer to publication "Monitoring the Development of Electricity Retail Competition in South Australia, Statistical Report", November 2003, section 5, available at [www.escosa.sa.gov.au/webdata/resources/files/031121-R-MonERCompStatRpt\\_Nov.pdf](http://www.escosa.sa.gov.au/webdata/resources/files/031121-R-MonERCompStatRpt_Nov.pdf).

**Figure 8: Number of Price Comparison Reports Issued  
2003 to 2005**



## 4.2 Price Information Disclosure

As advised in previous Statistical Reports, 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 energy offers with greater ease. An Energy Price Disclosure Code was made and released in January 2005, to have effect on and from 1 January 2005<sup>32</sup>. The Energy 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 off peak hot water) and estimated annual cost of 1.5MWh of off-peak hot water; the estimated annual cost for a range of nominated annual gas consumption levels; 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, which assists the Commission in maintaining its Estimator service (refer section 4.1 of this report).

The Commission has recently checked the websites of retailers actively selling to small customers and has found that each retailer is publishing factsheets, although they are not always easy to locate on retailer websites.

<sup>32</sup> The Commission issued the Energy Price Disclosure Code pursuant to section 28(1) of the *Essential Services Commission Act 2002*, section 24(2)(d) of the *Electricity Act 1996* and section 26A(2)(d) of the *Gas Act 1997*. A copy of the Code is available on the Commission's website at [www.escosa.sa.gov.au/webdata/resources/files/041223-D\\_EnergyPriceDisclosureCode.pdf](http://www.escosa.sa.gov.au/webdata/resources/files/041223-D_EnergyPriceDisclosureCode.pdf).

The ESCV has recently released an Energy Product Disclosure guideline, along with an accompanying Final Decision paper<sup>33</sup>. Research commissioned by the ESCV indicates the difficulty some internet users can face in gaining access to the detail of alternative offers<sup>34</sup>.

Whilst the Commission considers that the price factsheets required under the SA Energy Price Disclosure Code can provide useful comparative information, it is important that customers be able to readily access such information. It is noted that clause 3.3.2 of the Commission's Ports Industry Guideline No.1<sup>35</sup> requires that "(a) *Regulated Operator* must publish its price information kit on a readily accessible part of its website ...". The ESCV approach is to require that a specified retailer provide a link on the home page of their internet site, to enable customers to easily access product information. The Commission will consider whether a clause along these lines should be inserted into the Energy Price Disclosure Code, at the next review of the Code.

### **4.3 Price Comparisons for Residential Offers**

The Commission will continue to review how it might best assist consumers to reap the benefits of any competitive offers. In addition to the services identified above, the Commission has undertaken a review of electricity market contracts on offer for residential customers in previous Statistical Reports, across differing consumption levels, using the information supplied by retailers for use in the Estimator (refer sections 4.1 and 4.2 of this report).

Analysis presented in the November 2003, May 2004 and September 2004 Statistical Reports showed the potential for savings to be achieved across the full range of consumption levels, generally increasing in absolute dollar (\$) terms with increasing levels of consumption. The September 2004 Statistical Report also presented analysis of the level of potential savings from moving to a market contract for a residential customer using a mid-range annual consumption level of 5,000 kWh (with and without off-peak hot water) and compared these with the level of savings at the time of the May 2004 Statistical Report. This analysis was updated in the March 2005 Statistical Report and this report presents a further update, in Table 10 (below).

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<sup>33</sup> Refer "Final Decision: Publication of Price and Service Information by Energy Retailers on the Internet", August 2005, Essential Services Commission of Victoria (ESCV), [www.esc.vic.gov.au/attachmentviewer4075.html](http://www.esc.vic.gov.au/attachmentviewer4075.html) and "Guideline No.19, Energy Products Disclosure Electricity and Gas, Issue 1", August 2005 [www.esc.vic.gov.au/attachmentviewer4076.html](http://www.esc.vic.gov.au/attachmentviewer4076.html).

<sup>34</sup> Refer "Essential Services Commission report on Energy Retailers Website Review & Analysis of Market Offers", prepared by brandstorm Marketing Pty Ltd, May 2005, [www.esc.vic.gov.au/attachmentviewer3829.html](http://www.esc.vic.gov.au/attachmentviewer3829.html).

<sup>35</sup> Refer "Ports Industry Guideline No.1, Access Price Information", January 2005, available at [www.escosa.sa.gov.au/webdata/resources/files/041207-D-PortsGuideline1.pdf](http://www.escosa.sa.gov.au/webdata/resources/files/041207-D-PortsGuideline1.pdf).

**Table 10: Improvement in Potential Savings from Moving to a Market Contract**

ANNUAL CONSUMPTION  (kWh)	POTENTIAL SAVINGS <sup>(i)</sup>	
	5,000 KWH P.A. NO HOT WATER (\$)	5,000 KWH P.A. INCLUDING HOT WATER (\$)
May 2004 Statistical Report <sup>(ii)</sup>	7.9%	6.1%
September 2004 Statistical Report <sup>(iii)</sup>	7.2%	6.9%
March 2005 Statistical Report <sup>(iv)</sup>	8.4%	10.4%
September 2005 Statistical Report <sup>(v)</sup>	9.3%	9.6%

- (i) An assumption of 26.5%<sup>36</sup> summer consumption and 73.5% non-summer consumption has been made to deal with summer tariffs<sup>37</sup>.
- (ii) Assessment used market contract rates on offer from AGL SA, Origin, TXU and EnergyAustralia, as at 31 March 2004, using a price estimator model developed by ESCOSA.
- (iii) Assessment used market contract rates on offer from AGL SA, Origin, TXU and EnergyAustralia, as at 25 August 2004, using a price estimator model developed by ESCOSA.
- (iv) Assessment used market contract rates on offer from AGL SA, Origin, TXU, EnergyAustralia and Country Energy, as at 24 March 2005, using the Commission's Estimator package.
- (v) Assessment used market contract rates on offer from AGL SA, Origin, TRUenergy, EA-IPR Retail Partnership and Country Energy, as at 6 September 2005, using the Commission's Estimator package, available on the Commission's website (refer section 4.1 of this report).

The analysis in Table 10 factors in direct debit and loyalty rebates on offer<sup>38</sup>. Any other rebates available have not been incorporated and represent potential additional savings. The price comparison only deals with the price components of retail energy contracts. It does not deal with non-cash rewards, like vouchers, discounts on other products or services. These other items should be taken into account in assessing the full benefits of alternative offers (refer section 3.2 of this report). The level of exit fees that may exist with particular contracts is also not considered. Accordingly, the analysis presented in this section should be considered a guide only to the level of potential savings available, with the primary purpose of the analysis being to indicate that there are potential benefits to consumers in seeking out market contract offers.

Comparing the September 2005 and March 2005 results in Table 10 shows an improvement in the level of potential savings for customers with peak-only consumption (i.e. no off-peak hot water) and a reduction for customers using the assumed level of off-peak hot water.

<sup>36</sup> 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](http://www.escosa.sa.gov.au).

<sup>37</sup> 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.

<sup>38</sup> 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. The level of loyalty rebate used is that applying to the first anniversary of the contract, noting that for some contracts the level of annual loyalty rebate increases over the term of the contract.

A residential customer with an annual all peak (i.e. no off-peak hot water) consumption of 5,000 kWh would have the potential to save up to 9.3% (\$96 p.a.) on their annual electricity bill by taking out the cheapest available market contract. Including off-peak hot water still provides potentially higher savings on peak-only consumption, at 9.6% (\$81).

The net result of the Commission's recent electricity pricing decisions<sup>39</sup> has seen a reduction in the annual AGL Standing Contract cost (around \$45 for the level of consumption used in the price comparison example), since the last price comparison undertaken for the March 2005 Statistical Report.

Similar analysis was undertaken to identify potential savings in moving to a gas market contract, using the Commission's on-line Estimator package. An average annual residential gas consumption of 24,700 MJ was assumed<sup>40</sup>, along with the preparedness of the customer to accept direct debit arrangements and hence be eligible for this rebate. This analysis indicated that, in the metropolitan area, moving to a gas market contract could achieve a potential saving of 2.3% (\$13)<sup>41</sup> on the equivalent standing contract price.

This is a marked reduction from the potential gas market contract savings reported in the March 2005 Statistical Report of 7.6% (as at 14 March 2005). However, the March 2005 Statistical Report noted that some gas market contracts were withdrawn from offer in April 2005 and that the level of savings reported would no longer be available.

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, as indicated above, this analysis has not modelled all the potential benefits on offer (e.g. does not include vouchers or rebates other than direct debit and loyalty rebates, or other types of offers).

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<sup>39</sup> Refer to Commission's reports 'Electricity Standing Contract Price, Price Determination', December 2004 [www.escosa.sa.gov.au/webdata/resources/files/041223-DET\\_Final\\_ElecStandingContractPrice.pdf](http://www.escosa.sa.gov.au/webdata/resources/files/041223-DET_Final_ElecStandingContractPrice.pdf) and '2005-2010 Electricity Distribution Price Determination, Part B – Price Determination', April 2005 [www.escosa.sa.gov.au/webdata/resources/files/050405-EDPD\\_Part\\_B\\_PriceDetermination\\_Final.pdf](http://www.escosa.sa.gov.au/webdata/resources/files/050405-EDPD_Part_B_PriceDetermination_Final.pdf) as varied by 'Electricity Distribution (Variation) Price Determination', June 2005 [www.escosa.sa.gov.au/webdata/resources/files/050602-R-ElectricityDistributionVariationPriceDetermination.pdf](http://www.escosa.sa.gov.au/webdata/resources/files/050602-R-ElectricityDistributionVariationPriceDetermination.pdf).

<sup>40</sup> Refer to the Commission's report '2003-04 Annual Performance Report, Performance of Regulated Gas Businesses', November 2004, Table 5, p22, where 24,700 MJ was the average annual gas consumption recorded for residential customers in 2003/04.

<sup>41</sup> The assessment reported above used market contracts on offer as at 6 September 2005.



## 5 INTERSTATE AND OVERSEAS EXPERIENCE

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This section briefly 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.

It is intended that a more comprehensive examination will be undertaken comparing SA FRC activity with interstate and overseas experience next year, to be reported in a subsequent Statistical Report.

### 5.1 *Electricity Transfer Activity Comparisons*

Section 2.3 reported that the gross transfer rate<sup>42</sup> of small customers in the South Australian electricity market as at the end of August 2005 was 44%, some 32 months after electricity FRC was introduced in January 2003.

Electricity FRC commenced in Victoria and NSW in January 2002, and 32 months later (August 2004) the gross transfer rates based on the NEMMCO MSATS small customer transfer statistics<sup>43</sup> were 24% and 10% respectively<sup>44</sup>. Even though these Victorian and NSW statistics only record transfers occurring between retailers and the SA statistics cover this as well as those AGL SA customers switching to market contracts with the incumbent retailer, the comparison still indicates that the SA electricity retail market continues to perform well in terms of the level of transfer activity.

Whilst the Commission receives NEMMCO transfer data on a comparable basis to that published by NEMMCO for NSW and Victoria, given the confidentiality considerations (refer section 2.3 of this paper), the Commission is not in a position to report such direct comparisons. If stakeholders consider such comparisons are important, then the Commission would welcome being advised of such views. It may be an appropriate time in the development of the SA energy market for the Commission to re-engage the relevant retailers to see if any remaining confidentiality concerns could be addressed in some manner, to enable more direct comparisons to be made with interstate retail activity. The Commission would intend commencing a review of this matter in the first quarter of 2006.

Whilst, as indicated in the introduction to this section, the Commission intends to undertake a more comprehensive benchmarking review of the SA electricity retail market performance next year, it is aware of at least one international study that has rated the SA

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<sup>42</sup> That is, total number of customer transfers divided by small customer base of 740,000.

<sup>43</sup> 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.

<sup>44</sup> "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 31 August 2004 the total number of completed electricity small customer transfers was 541,437 for Victoria and 270,351 for NSW.

performance highly. A Nordic research team has established the Peace Software & VaasaEmg Utility Customer Switching Research Project to monitor and analyse utility customer switch rates and trends in competitive energy retail markets and rank the world's most active markets. It ranks active markets according to four categories of 'hot', 'active', 'slow' and 'dormant', having analysed over 30 competitive energy retail markets since the project commenced in 2004. In a June 2005 publication, the research team reported that "by a clear margin the world's 'hottest' energy retail markets are Great Britain and the Australian states of South Australia and Victoria"<sup>45</sup>.

## **5.2 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. However, as indicated in section 2.4 of this report, gas FRC commenced strongly in SA, with the gross transfer rate<sup>46</sup> of small customers in the SA gas market as at the end of August 2005 recorded at around 32%, some 13 months after gas FRC was introduced.

The experience of the development of the Victorian gas retail market is that after the first 13 months following commencement of FRC, completed transfers represented around 12% of Victorian gas customers<sup>47</sup>.

As with electricity, even though it is understood that these Victorian statistics only record transfers occurring between retailers and the SA statistics cover this as well as those Origin Energy customers switching to market contracts with the incumbent retailer, the comparison still indicates that the SA gas retail market is performing well in terms of the level of transfer activity.

As indicated in section 2.4 of this report, the level of gas activity to date in SA has significantly exceeded the level of activity in the early stages of the development of the SA electricity retail market.

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<sup>45</sup> "Utility Customer Switching, Research Project, World Retail Energy Market Rankings", Peace vaasaemg, June 2005, p3.

<sup>46</sup> That is, total number of customer transfers divided by small customer base of 365,000.

<sup>47</sup> "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 November 2003 there had been around 168,000 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).

## 6 SUMMARY

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This report shows that as at the end of August 2005, there had been around 322,000 small customer completed transfers to electricity market contracts in the South Australian electricity retail market. These completed transfers represent 44% of the South Australian small customer base of around 740,000 electricity customers. In addition, around 17,000 small electricity customer transfers were in progress at the end of August 2005, representing a further 2% of the small customer base.

The rate of completed transfers to electricity market contracts has slowed from September 2004, which coincided with the expiry of the Government's Electricity Transfer Rebate (ETR) on 13 August 2004. However, the current rate of transfers to electricity market contracts is still much higher than that recorded during the first year following the commencement of FRC in the South Australian electricity market.

FRC has now operated in the South Australian electricity retail market for over two and a half years. As noted in section 5 of this report, experience interstate suggests that the South Australian retail electricity market continues to develop well in the Australian context.

SA currently has six retailers actively operating in the small customer electricity retail market, with the expectation of additional retailer(s) commencing operation this year. As indicated in section 4.3 of this report, retailers continue to offer cheaper prices compared to the standing contract rates, and so an incentive for customers to take out market contracts exists.

Gas FRC has commenced strongly since its opening on 28 July 2004, in terms of the number of completed transfers to market contracts. The commencement of gas FRC should enable retailers to compete for dual fuel accounts, potentially being able to pass on some efficiency gains to consumers.

This report shows that, as at the end of August 2005, there had been around 117,000 small customer completed transfers to market contracts in the South Australian gas retail market. These completed transfers represent 32% of the South Australian small gas customer base of around 365,000 customers. In addition, around 13,000 small gas customer transfers were in progress at the end of August 2005, representing a further 3.5% of the small customer base.

The analysis of retailer market offer intentions for 2005/06 indicates strong competition is expected in the electricity retail market across all the identified customer categories and also a high level of competition is expected in the gas retail market (from a lower number of gas retailers) for customers in metropolitan Adelaide. However, in rural and regional areas, there is currently no competition, with the prospects for some competition if retailers are able to overcome some issues in gaining access to gas lateral pipelines.



The level of potential savings in moving to an electricity market contract for most electricity consumers remains strong, with the potential level of savings in the order of 9%. However, the potential level of savings in moving to a gas market contract are much lower, and on the case study used in this report, are of the order of 2%. However, the analysis used in this report has not modelled all the potential benefits on offer (e.g. does not include vouchers or rebates other than direct debit and loyalty rebates, or the range of other incentives that may be on offer).

There is a considerable range of market contract exit fees, ranging from one retailer that does not charge exit fees for early termination of market contracts, through to one retailer that charges up to \$150 should a residential customer exit from a particular three year contract within the first year.

Clearly the level of any exit fees is an important consideration for customers to bear in mind when assessing the merits of market offers. The Commission will be examining this issue as part of its review of energy retail regulatory arrangements applying to small customers, which as outlined in the Commission's 2005-08 Strategic Plan is scheduled to be undertaken during 2005/06. In the interim, stakeholder comments on the level of exit fees and the basis advised by retailers for the current fee levels would be welcomed.

This report has also identified the level of additional fees that may affect customers who have billing issues, including experiencing the disconnection of supply. Whilst the Energy Retail Code requires retailers to provide a range of assistance to financially disadvantaged customers, some of these additional fees could have a major impact on affected customers, should the 'safety nets' fail. However, it is worth noting that some retailers have elected to only pass on the distributor's charge for the required services being performed, without any retailer mark-up.

The Commission commenced reporting monthly electricity and gas customer transfer statistics on its website from February 2005, in accordance with the reporting framework outlined in the September 2004 FRC Monitoring Final Decision paper.

The next report in this series is scheduled to be released in March 2006.