# The nature of competition in retail markets

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## Introduction

This is an important and timely topic. Currently there are discussions amongst governments on retail energy market reform and detailed work is underway on considering the transfer of retail and distribution regulatory responsibilities from the states to the new national regulation and rule making bodies.

The AER and the ACCC will play a role - yet to be fully defined - in the proposed further liberalisation of retail gas and electricity markets.

Full Retail Competition (FRC) is a complex topic. This presentation focuses on a number of issues raised by Catherine Waddams-Price in her presentation. It does not attempt to deal with the full range of FRC related issues. My comments are structured as follows

- History and current state of play in Australian retail energy markets
- The AER and the ACCC in retail reform
- Objectives and context for energy market reform
- How do findings from UK research on customer willingness to exercise power of choice translate to Australia?
- Is energy a homogenous product?
- Distributional impacts
- Assessing costs and benefits of retail market deregulation
- Should policy-makers seek to reduce the search costs or switching costs for consumers?
- Government supported provision of information including price monitoring and price comparison services
- Streamlining regulatory compliance costs.
- Responsibility for search for information and impact of privacy laws
- Development of a brokering function.

## History and current state of play in Australian retail energy markets

Firstly, some brief comments on the recent history and current state of play. A fuller description is set in an Attachment.

- Full Retail Competition for electricity was introduced in January 2002 in Victoria and New South Wales, and January 2003 in South Australia. Queensland has decided not to implement FRC.

- Standing contract prices are regulated to protect small customers who choose not to enter into a market contract with a retailer.

- The application of regulation for standard contract prices varies between states and hence there are differences in the degree of "competitive headroom" to attract new entrants. In New South Wales, retail competition is further affected by Electricity

Tariff Equalisation Fund (ETEF). For these and reasons there is not really a single unified Australian retail market but a number of state markets.

- As in the UK, the retail market is dominated by a relatively small number of incumbent players but similar to the UK market in its early years of development there are new players coming and going from the market. In recent times there has been an increase competitive activity as new players enter the Victorian and South Australian markets.

- The Essential Services Commission (ESC) undertook a review of effectiveness of retail competition in Victoria in June 2004. The review found that that the market had performed well in a number of significant sub markets of the small customer sector. The review stated "markets are generally effective in delivering price and non price benefits to customers."

- South Australia is notable because of significant electricity price rises that occurred during the contestability process. Latest figures (June 2005) show that 40% of the small electricity customers have switched in the 2.5 years since contestability and 27% of small gas customers have switched in less than a year since market start. The level of switching for electricity was encouraged by a pension rebate scheme funded by the South Australian government

As a very broad generalisation the Australian retail energy market has behaved in line with early experience in the UK, albeit the performance of each state market is affected by the details of the retail price regulation arrangements in that state.

## The AER and the ACCC in retail reform

The exact approach and role of the AER for next stage of retail market deregulation will be determined by current deliberations of the Ministerial Council of Energy. The Council of Australian Governments (COAG) may also play a role.

As in the UK, government's political and policy concerns will be important in shaping the overall response and the role of the AER's and other agencies as part of that response.

Briefly, some important decisions and initiatives that affect how these roles might be determined are:

Firstly, *The Australian Energy Market Agreements* that was entered into between the States and Commonwealth in June 2004. This includes

- An *objective for retail energy market reform* (see below)

- A proposal to establish a *National framework for retail regulation* to be implemented before the AER assumes responsibility for non price retail regulation

- Individual jurisdictions having the option to confer *retail price regulation* functions on the AER by agreement with the Commonwealth.

Secondly, the Commonwealth very recently raised the possibility of the states agreeing to phase out retail price regulation, within a COAG-agreed timetable.

Thirdly, the ACCC administers the *Trade Practices Act* which has objectives to promote competition and fair trading and provision of consumer protection. A key focus area for the ACCC's Corporate Plan (2004-05) is to "promote vigorous, lawful competition and informed markets" by amongst other things "supporting and protecting competition in recently deregulated markets and markets with rapid technological change".[1]

Catherine noted there may be positive externalities from policies that improve switching rates in other market. Policies adopted in the energy market will affect behaviour in other markets and vice versa. I expect this finding to hold true in Australia also. Thus it seems important to take to take a broader view of policy and regulation affecting customer behaviour not just in the energy market, but in other markets where consumers exercise similar switching decisions.

The involvement of the ACCC as the general competition regulator will help ensure this broader view is taken.

It is clear there is potential for both the AER and the ACCC to be involved in regulation and monitoring, of retail market deregulation. While it is early days, there are some initial observations I can make about this.

First, the AER has been established as a constituent part of the ACCC. This legal construct will deliver the dedicated and specialist focus on energy regulation but without a duplication of resources and blurring of accountabilities of the AER and ACCC that would have occurred under another model.

Second, the AER Members are committed to ensuring there is an effective and cooperative working relationship between the AER and the ACCC in this and other areas of energy sector regulation.

## Objectives of Reform

The next thing I'd like to discuss is objectives – what is it that policy makers are trying to achieve? This is important in assessing the details of reform proposals and assessing their probability of ultimate success.

There seems a significant difference in objectives for retail market reform between the UK and Australia.

Catherine has outlined the context and objectives for retail market reform in the UK. The objective of reform in the UK can be summarised as "customer choice".

While customer choice is also important in Australia there have been decisions in some states to pursue other complementary objectives such as increasing the value of energy services to customers, demand management, technological innovation, energy efficiency and conservation.

The agreed national objective for retail market reform in Australia is:

[1] ACCC Corporate Plan and Priorities, June 2004-05.

> To enhance the participation of energy users in the markets including through demand side management and the further introduction of retail competition, to increase the value of energy services to households and businesses.[2]

However there are significant variation between the states in defining the next level of more detailed objectives and approaches.

These vary between Queensland which, as noted has decided not to introduce Full Retail Competition; through to Victoria, which has decided to mandate the rollout of interval meters, eventually for all customers.

The decision in Victoria mean that in the seven years from 2006 up to 1 million large customers will have interval meters; and as new and replacement meter are required, the remaining 1.3 million meters in Victoria will be upgraded.

The benefits the ESC saw from the mandated roll out of interval meters include

- Effective electricity competition.
- Improved energy efficiency and conservation
- Market efficiency through more demand management
- Technological innovation
- Greater customer empowerment
- Improved security of supply associated with smoothing the load profile
- Reduced ability for generators to exercise market power.

## Context for Reform

There are also some important difference in the context between Australia and the UK.

**Load shape**: Australia and in particular the southern states have an increasingly peaky load shape due primarily to the increasing penetration of air conditioning. A rising proportion of investment is being made in peak and reserve generation and network capacity with very low utilisation rates for that marginal nvestment.

**Significance of Energy Price:** retail energy pricing is a matter of political concern in Australia as it is in the UK but it is worth noting that patterns of energy use and pricing show some important differences:

- Wholesale energy costs are relatively low in Australia and retail energy prices are lower then in the UK.
- Energy expenditures are a lower proportion of total household expenditure - around 3 to 4% on average;
- The significance of energy expenditures for vulnerable customers is less then the UK. ESCOSA states that fuel expenditure for low income groups is around 6%. This compares to the 10 % threshold for defining fuel poverty in the UK
- Retail energy prices are rising in the UK in part due to UK policy on climate change, whereas Australia has not made significant steps down this path (yet).

[2] Australian Energy Market Agreement , June 2004 2.1.b(iv)

## How do findings from UK research on customer willingness to exercise power of choice translate to Australia?

Catherine sets out an Investment Model and analysis that helps provide an understanding of the factors that affect customer switching behaviour in the UK gas market.

***Findings on customer switching***

I am unaware of research for Australia in the public arena that is as comprehensive as that presented by Catherine.

The retail energy companies undertake private market research and have a pretty good idea of the factors driving customer behaviour. The ESC and ESCOSA have published reports and reviews on trends retail energy markets since introduction of competition.

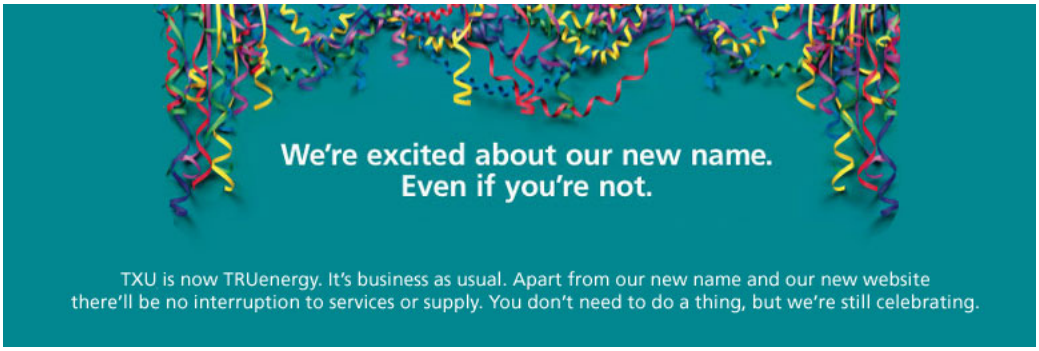
Based on the regulators research and my experience as a consultant working in the industry I suspect that if Catherine's research method was applied here that the findings would be broadly similar.

It is common in the Australian energy retailing industry (as it is in the UK) to talk of retail energy being a "low involvement product". Retailers focus on the high margin "sticky customer."

I expect that research would confirm that a significant majority of customers are not very interested in "shopping around" because of some combination of:

- No significant broadly based complaints about any aspect of the service or price (other than in South Australia where prices increased at deregulation)
- Savings from switching are perceived by many customers not to be large enough to be bothered with
- Low awareness of the possibility of switching
- Lack of familiarity with the various companies and brands
- Possibly, a perception that the switching process involves more effort then it really does

The level of excitement from the average "sticky customer" for customer choice for energy is pretty well summed up by this advertisement by one of the incumbent retailers in Victoria:




I understand that this general lack of consumer engagement means that by far the most successful selling technique is door-to-door selling. However this is a relatively expensive form of marketing and therefore a not insignificant barrier to entry.

I understand that the levels of expenditure to build brand awareness is also significant barrier given the low level of consumer involvement.

The lack of engagement should not be seen as necessarily a permeant feature of the market. Things can change if there are "shocks" to the system such as large price rises or customer service failures.

New Zealand experience provides some indication of what might happen if there is some adverse event that annoys an incumbent's consumers compared to how competitors handle that event.

In 2001 On Energy, a major incumbent retailer, lost large amounts market share in the space of a few weeks when it raised retail electricity prices significantly. This was in response to increases in wholesale market prices caused by low hydro inflows. Its shareholder soon sold the business and suffered a significant loss of value. This indicates that retailers operating in a competitive market should have strong incentives to manage price and service risks that could adversely affect that retailers competitive position.

As shown by Catherine, it seems reasonable that the incumbent would have incentives to keep retail margins high, since the added profit from maintaining high margins more then makes up for the loss of customers to competitors.

As noted, I would add the qualification that this holds true provided incumbent retailers can maintain high margins in a way that does not damage their reputation in the market – for example by raising prices in a high profile way and out of step with competitors.

***Customer response to changed pricing signals***

I discussed above the decision by Victoria to mandate the roll out interval metering.

Catherine's analysis raises interesting questions about the possible response of customers to sharper price signals following the roll out of interval metering. This suggests that while some customers will change behaviour in response to price signals, are the potential savings large enough to motivate changed behaviour for the majority of customers?

The recent Productivity Commission report on energy efficiency made a similar point noting that energy costs are small proportion of household expenditures. What proportion of

households are going to significantly change their day to day behaviour for savings of the order of (say) $100 p.a.?

There will be some customers who could change their day to day energy use behaviour in response to price signals – by managing air conditioning during peak pricing times for example, or switching the dishwasher on at night.

But, in my view the "low involvement" relationship that most customers seem to have with energy consumption suggests it is breakthroughs in technology that are key to reaping the promised benefits of interval metering.

For the promised gains to be achieved, appliance manufacturers and energy retailers need to come up with efficient solutions that still deliver the service that customers needs without the consumer needing to be involved in day to day energy management.

The key issue will be whether it is feasible to influence customers decisions at the time they make a major buying decision – for example, persuading consumers to buy a new "smart" appliance like a dishwasher with a time of use control feature.

## Is energy a homogenous product?

I understand the view in the UK to be that that energy is a homogenous product. Is this the case – or will it be the case - in Australia?

Catherine's research indicates that while suppliers in the UK did attempt to differentiate their product through service quality, early advertising focused entirely on price. This would be a fair characterisation of Australian experience to date.

The proposed introduction of interval metering, liberalisation of price caps and competitive pressure however starts to change this view of energy as a homogeneous product.

As I noted, interval metering may result in innovation in pricing and service offerings.

This gives rise to the concept of "energy services**"** that is highlighted by the jurisdictions in the stated national objective for retail energy market reform.

To the extent electricity is priced based on time of use and is combined with services (eg smart appliances, advice, switching technology etc) that help customers change the timing of use, then there is the possibility of think of a part of the retail energy market as ***heterogeneous*** providing diverse ***electricity services.***

## Distributional impacts of retail energy market deregulation

The potential for phasing out of retail prices caps will give rise to policy questions concerning distributional impacts. Some of these questions include:

(1) What might the distributional impacts be ?
(2) Is a policy response required ?
(3) If a policy response is required, what should this be and what are the roles and responsibilities of regulators and government agencies.

I will discuss questions 1, and 3. Whether a response is required is a question for governments.

My understanding of Catherine's work, is that the evidence on distributional impacts from the UK reforms is mixed. There is some evidence that entrants target moderately affluent households in densely populated areas, but fears that tariff rebalancing would increase prices for vulnerable customers were not borne out in practice. It is not clear whether this is due to informal regulation (fear by the retailers of adverse publicity) or whether it reflected a new understanding of costs.

Understanding distributional impacts in Australia is further complicated by the price rebalancing impact of interval meter roll out. I understand this will generally increase the cost of air-conditioning used "on peak" where on average utilisation may be greater by higher income groups.

In regard to what the overall policy response I would like to highlight two points:

**The regulators role**: OFGEM has taken the approach that the "most definitive contribution to reducing fuel poverty is through ensuring fuel prices are as competitive as possible". Whatever other roles might be provided to the AER to address distributional concerns, a focus on competition will be clearly be central focus for the AER as energy industry regulator.

**Whole of government approach to energy affordability:** In relation to the roles and responsibilities of regulators and government agencies, it is useful to highlight the Essential Services Commissions view[3] that the Victorian governments should take a "whole-of-government policy approach" to addressing such energy affordability problems.

> "Consumer safety net arrangements cannot address affordability problems that are due to income insufficiency, high energy use and poor energy efficiency, and recommends that the Government take a "whole-of-government policy approach" in seeking to address such energy affordability problems.
>
> It is suggested the government examine opportunities for improving the focus and coordination of programs such as the state government's Network Tariff Rebate, the Sustainable Energy Authority of Victoria and the Office of Housing initiatives."

## Assessing costs and benefits of retail market deregulation

Catherine's analysis suggests that the benefits of opening up the energy market in the UK have yet to exceed the costs but that it is premature to suggest price regulation should be reimposed as this would bring new costs and disturbances to the market.

It seems to me that analysis outlined by Catherine is essentially a static **allocative efficiency** analysis. This is obviously appropriate if policy makers objectives for energy market deregulation are to improve allocative efficiency; or the potential for other kinds of efficiency gains are judged to be limited or unavailable.

[3] "Essential Services Commission" Review of Effectiveness of Full Retail Competition, 2004

As I discussed previously, Australia has a peaky load shape with high cost of supply for peak capacity; and policy makers have objectives to promote demand side management and increase the value to consumers of energy services and so on.

These objectives can be classified as **dynamic efficiency** effects which relate to processes for technological and managerial innovation. These benefits are difficult to assess, but need to be taken into account in any assessment of costs and benefits of reform.

**Productive efficiency** also needs to be taken into account in any assessment of retail market deregulation. In comparing deregulation of retail prices with ongoing regulation of retail prices, policy makers need to consider the extent to which incentives for productive efficiency, (for example seeking to minimise retail costs) might be weaker under ongoing price regulation. As has been debated at length in Australia, any regulatory process for setting prices suffers from information asymmetry problems and it is not easy for the regulators to determine reasonable cost allowances or be sure they have set price caps in a way that don't reduce incentives for productive efficiency. Again, these effects are difficult to quantify but they need to be taken into account in any assessment.

## Should policy-makers seek to reduce the search costs or switching costs for consumers?

Important conclusions to be drawn from Catherine's research are:

- there may be benefits in reducing the perception of search and switching costs so that either more customers will switch, (or the incumbents believe they will)
- consumers need to believe that process of switching is not generally beset with difficulty
- there may be a case for subsidising information in some ways to reduce search costs and reducing the cost to new entrants of customer acquisition

I will discuss each of these points further.

## A policy framework for considering search costs or switching costs

Policy decisions will be required to determine the level of effort and the direction for national arrangements for provision of information to customers. There are a range of options ranging from doing nothing; continuing the current level of effort (for example a nationally based price comparison website similar to those offered by the state regulators); through to a range of more proactive options.

A policy framework is required for considering the question of what governments and regulators might do to reduce search and switching costs.

Rod Shogren made the following points at last years ACCC conference which I think provide useful guidance:

- the performance of the retail energy markets should be against a standard of "effective competition" rather then some notion of perfect competition

- the regulators focus should be on economic efficiency, since that will promote the long term interests of consumers and society, but we need to be aware of other government objectives that might be provided to such as the protection of disadvantaged consumers

- governments / regulators should seek cost effective opportunities to reduce barriers to entry

- regulators should be aware of strategies by firms with market power to raise switching costs.

- opportunities to improve the availability of information to consumers may be worthwhile.

## Government supported provision of information

***Current position***

The ESC and ESCOSA provide a range of information to consumers on retail markets and have websites that assist consumers make price comparisons and prepare regular reports to their governments. ESCOSA was particularly active in providing information to customers at the time of deregulation in South Australia given the significant pressures on retail prices.

***Price Monitoring***

One option for managing the transition to a less regulated retail pricing environment would be establishing a more structured price monitoring function.

For example, a price monitoring function, perhaps similar to the one the ACCC carries out for petrol could be considered. The ACCC has compiled data on petrol price cycles in major cities in order to help consumers make decisions on purchasing of petrol. It also provides information on the determinants of petrol prices, country prices and links to other sites on the internet that provide petrol price data. In recent years the ACCC has been asked by the Federal Government to prepare reports on various petrol pricing issues.

***Provision of price comparison information to customers in the UK***

The UK experience provides some useful insights on how provision of price comparison information might evolve.

In the UK, energywatch[4] was established in 2000 to protect and promote the interests of all gas and electricity consumers in England, Scotland and Wales. energywatch provides information and advice to consumers, and also helps resolve complaints.

One of energywatch's function is to oversee a voluntary code of conduct for organisations that provide price comparison services. The code of conduct includes provisions to ensure the service is independent of any gas or electricity supplier. The code provides for example that suppliers can take commissions but this must no influence the provision of information. The energywatch website has links to nine private price comparison services.

This UK approach to fostering price comparison services seems to have some interesting features:

- Voluntary or commercial arrangements for provision of price comparison information to consumers might be better at tailoring information, better meeting customers diverse needs, and better at targeting resources

[4] energywatch's formal name is The Gas and Electricity Consumer Council.

- A code of conduct. The development of this code of conduct appears to reflect a view that there is value in improving the confidence of consumers in the impartiality and accuracy of price comparison information.

**Private provision of comparative information**: As noted by Catherine, consumers needs differ and they have different perceptions and interests. It seems to me that the task of finding out how best to provide information to consumers might better be undertaken by voluntary or private organisations then a regulator. In Australia, for example there are organisations that assistance with connection to utilities as a part of a house moving service (although presently they do not provide price comparison information). Obviously, the time of moving house is a key opportunity for consumers to exercise choice in energy retailer. Another opportunity for a price comparison or advisory service would be one that targets disadvantaged customers. On the other hand it seems clear that there is a segment of consumers who are not very responsive to even large amounts of well targeted information and are therefore very difficult and expensive to engage with. It makes sense to use voluntary or commercial processes to target information to those customers that might find that information valuable.

**Code of Conduct**: A voluntary code of conduct and a body to oversight compliance with the code of conduct could enhance consumer confidence in these comparative information services

***Other Considerations***

Some thoughts on other possible considerations to inform policy discussion on the provision information to consumers:

**Better understanding of the consumers point of view**. Policy decisions need to be made taking into account the consumers point of view. For example I suspect research is required to better understand which groups of customers are most likely to considering switching if they were provided with the appropriate information; what their level of understanding is; whether more useful information could be provided; and how consumers respond to different parties (regulator, retailers, government agencies, consumer associations etc) providing information. Research has already been undertaken by state regulators but this may need to be updated and extended. In addition consideration needs to be given to whether research should take account of externalities with other switching decisions.

**In the short to medium term, there should not be a "one size" fits all solution across jurisdictions.** While it seems desirable to have some common framework for the provision of information of customers nationally, it is clear that in the next few years, the types of pressures and needs for information are likely to vary across jurisdictions. For example it appears that in some states total energy costs are tending to rise, while in others costs are falling; states are in different stages of deregulation; and some are introducing interval meters while others are not.

**Promoting e-commerce solutions.** It is clear that e-commerce can significantly reduce the costs of searching for information, switching and management of the ongoing consumer – retailer interface. All these trends should ultimately benefit consumers. Not all consumers at the moment can or want to use e-commerce but it is reasonable to think that part of the solution to increased retail competition will be, over time, more consumers being comfortable with e-commerce as part of their daily lives. Policy makers and regulators concerned with retail energy market reform therefore need to have people with the right

policy and technical skills to ensure that that e- commerce processes are cost efficient; and that if there are any bottlenecks issues for IT processes and systems and that these do not create coemption problems. There is also a need to interface with government's broader policy for e-commerce in respect of issues such as customer education, acceptance and security.

## Streamlining retailing regulatory compliance costs.

A major driver for the creation of the new national arrangements is the gains from streamlining of the regulatory arrangements for the retail market.

This provides an important opportunity to

(a) review the detailed regulatory arrangements for the retail market, draw on experience to date and ensure the arrangements are efficient and effective

(b) improve productive efficiency through reducing regulatory costs and enabling capture of available economies of scale and scope in retailing.

We should cautious about this process on its own encouraging significant long term increase in competition. Rather, I suspect that the benefits would be primarily be in lowering costs. As Catherine's research reminds us, in the long term, the "sticky customer" is likely to remain a predominant issue.

## Responsibility for search for information and impact of privacy laws

The Privacy Act requires that customers provide informed consent to the release of information to a retailer during the search process. This means that the present "selling" model in the retail energy market requires either the retailer to approach customers and gain customer approval to obtain relevant information (notably consumption data); or for customers to take the initiative to approach retailers and provide the relevant information.

As a result, the retailing process involves a level of human involvement that increases the costs of search and switching.

It is recognised that privacy concerns are important. But there may be a case to carefully review the way in which privacy provisions operate and see if there is scope to strike a different balance between competition and privacy.

For example an option might be to enable "open access" by retailers to certain customer data particularly consumption profiles. This could enable new entrants to undertake "data mining" and send customers a competitive pricing offer without the significant cost of a human interaction to enable informed consent for release of the data that underpins that data.

Consumers privacy might be addressed in other ways, (perhaps an upfront option to decline the receipt of such competitive offers).

## Development of a brokering function

One issue that might be debated is whether there is an enhanced role for a brokering function in the retail energy market.

The role of a broker is to analyse data, provide advice on the best product that meets a customers needs. Possibly a broker can also arrange sign up. Brokers provide value to customers by simplifying the work the customer needs to undertake and they could provide value to competitive retailers by reducing selling costs.

The emergence of a brokers has been an important competitive development in the mortgage industry, albeit the savings to consumers in choosing the best mortgage product are higher then for energy.

Brokers may have a greater role in the future to the extent retail energy products and services become more complex as a result of introducing interval metering.

It is not clear to me whether there are barriers to the development of a brokering industry, or whether the value and margins at present are simply too low for brokers to be viable. Incumbents are not likely to be keen on brokers since they can interfere with their relationship with consumers and this may be a factor.

As I discussed previously, e-commerce may be a key element in encouraging a commercially viable brokering industry.

## Conclusions

The AER was established at the end of June 2005 and so it is very early days for in considering its possible role in the next stages of retail energy competition.

The AER is keen to engage with governments and stakeholders in this process. I hope this presentation has been useful in informing debate that will help decisions on these important questions.

# Attachment
# Full Retail Competition – State of Play

| State | FRC Date | Regulated Tariff | Review | Form of regulation | Customer Transfers | New, active retailers in small customer market since FRC | Innovative Retail products |
|---|---|---|---|---|---|---|---|
| **South Australia** | Gas (FRC since July 2004) | Applies to any gas consumer who consumes below 1TJ of gas and who have not entered into a market contract with the retailer of their choice. | Essential Services Commission of South Australia (ESCOSA) | No residential customers can experience a tariff increase greater than CPI + 7% after the 2005/06 regulatory period.<br><br>Standing contract price path differs between residential customers and small to medium business enterprises. The side constraint, rebalancing mechanism differs as between these groups of customers. | As at the end of June 2005 around 100,000 of the small gas customer base of 365,000 had taken up market contracts. (ESCOSA data) | Energy Australia has entered the small customer market as a new retailer.<br><br>Other license holders at the date of FRC are Origin and TruEnergy | Retailers are requested to answer a yearly survey which provides, inter alia, information as to types of products offered.<br><br>Last year's responses on this subject – which were predominantly electricity retailer comments – revealed the following innovative products.<br><br>Many of these products would be offered by these companies providing them which also operate in Vic and NSW:<br><br>• Green energy products,<br>• Dual fuel options<br>• Lifestyle tariff structures<br>• Varying price options (including fixed prices for a period of time)<br>• Various types of rebates (loyalty rebates, duel fuel rebates etc) |
| | Electricity (FRC from Jan 2003) | Applies to small customers (<160MWh) who opt to stay on standing contracts. | ESCOSA | Network (N) component decided in distribution review is passed on by retailer. The Retail (R) component is described in the | Since FRC, as at the end of December 2004 ESCOSA's best estimate was that approximately 294,850 market contracts had | Pre FRC – AGL<br>Post FRC -<br>Energy Australia<br>Country Energy<br>Origin Energy<br>TruEnergy<br>PowerDirect | |

| State | FRC Date | Regulated Tariff | Review | Form of regulation | Customer Transfers | New, active retailers in small customer market since FRC | Innovative Retail products |
|---|---|---|---|---|---|---|---|
| | | | | Determination as an average retail tariff. This tariff has a side constraint that there can only be a maximum CPI plus 4% change which may be made to any one customer's bill. | been entered into by the estimated 740,000 small customers. (ESCOSA data) | The first four are all 'local retailers' in other jurisdictions. | • Varying payment options<br>• Varying contract terms (including fixed term)<br>• Non priced based benefits such as product vouchers and offsets against club memberships.<br>(from ESCOSA half yearly report) |

| State | FRC Date | Regulated Tariff | Review | Form of regulation | Customer Transfers | New, active retailers in small customer market since FRC | Innovative Retail products |
|---|---|---|---|---|---|---|---|
| **Victoria** | Gas (FRC since Oct 2002) | Is applicable to those customers who consume less than 10TJ who 'opt' for the standing offer contract. | By ESC if referred by government.<br><br>Otherwise review by Department of Infrastructure | A four year price path was agreed between the government and local retailers – these price paths were gazetted in October 2003 | 565,633 basic customer transfers from one retailer to another since the advent of full retail competition (VenCorp data)* | One 'non-franchise' retailer is known to already have a significant customer base in the Victorian small customer market post FRC. | Dual Fuel offers<br><br>Electricity products:<br><br>Origin offer $50 off football membership for people who switch to Origin.<br><br>Red Energy offer renewable energy at no extra cost; $50 off the first bill, no fixed term contracts. |
| | Electricity (FRC since Jan 2002) | The price path is applicable to domestic or small business customers (<160MWh) who join with or remain with an incumbent retailer on a deemed contract. | By ESC if referred by government.<br><br>Otherwise review by Department of Infrastructure. | Price path agreed to between the government and retailers. Tariffs were gazetted.<br><br>From January 1st 2004 a four year price path for incumbent retailers was set at a level below inflation to ensure real price decreases. A side constraint was also imposed in terms of the maximum allowable % changes in price for any one customer category. | As at 30 June 2005, the cumulative total of small customer transfers was 917,638. (Data on NEMMCO website)* | Amongst small customers, one example of a 'new' retailer is Red Energy.<br><br>'Local' retailers from other jurisdictions have sought market share (e.g.. Energy Australia).<br><br>As in NSW, existing local retailers have pushed for market share within other local retailer's traditional areas. | |

| State | FRC Date | Regulated Tariff | Review | Form of regulation | Customer Transfers | New, active retailers in small customer market since FRC | Innovative Retail products |
|---|---|---|---|---|---|---|---|
| **NSW** | Gas (FRC since Jan 2002) | For small gas customers (consuming under 1 TJ) who 'opt' for a standard form customer supply contract | Independent Pricing and Regulatory Tribunal (IPART) | Negotiated voluntary transitional pricing agreements were entered into which allow for tariffs to be raised over a four year period by an amount by and large not exceeding CPI, with a side constraint as to a maximum increase of 5% on any one residential customer's bill. | Completed customer switches for the year ended 30 June 2005 was 54,214<br><br>At that time the total delivery points installed were 1,108,521 (data on GMCO website)* | Active gas retailers to small customers in NSW are listed as AGL, Country Energy, Energex, Origin and TruEnergy. (IPART website)<br>Pre FRC AGL was the monopoly retailer. | Green balance products<br><br>Duel fuel – one bill products<br><br>*Electricity:*<br><br>Jack Green advertise minimum levels of renewable energy sourcing without having to pay an additional premium. |
| | Electricity (FRC since Jan 2002) | Applies to those small customers not on a non standard form supply contract, i.e. those not opting to participate in the competitive market. | IPART* | The Network (N) component, decided in the distribution charge review must be passed on. A Rebalancing driven approach minimising large changes has been adopted for the retail (R) component. A limit is placed on the change in *cumulative revenue* (change in CPI plus 2.5% – 3%) from the R *but* also there is a side constraint, a maximum CPI plus 5% change which may be made to *any one customer's* bill. | *(*As at 30 June 2005, the cumulative total of small customer transfers was 408,904. (data on NEMMCO website)* | One known example amongst small customers, is Jack Green.<br><br>'Local' retailers from other jurisdictions (e.g. Origin).<br><br>Power Direct, a second tier Victorian retailer has expanded to NSW and SA. | |

| State | FRC arrangements |
|---|---|
| Queensland | Gas<br><br>Full retail competition has not been introduced for customers that consume less than 1 TJ yearly (from 100TJ as of 1 July 2005) |
| | Electricity<br><br>FRC has not been introduced for small customers who consume less than 100MWh per year. |

**Notes**

*, **The number of transferred customers provides a figure of the number of times that customers have changed retailers whereas the number of market contracts taken up provides a figure as to the number of customers who have moved on to a market contract from a standing/default contract (these customers may remain with the same retailer).