



Review of the Effectiveness of Competition in Electricity and Gas in South Australia – Fact sheet

20 March 2008

About the AEMC

The Australian Energy Market Commission (AEMC) was established in July 2005 by the Council of Australian Governments (COAG), through its Ministerial Council on Energy (MCE), to be the Rule maker for national energy markets. The AEMC is currently responsible for Rules and policy advice covering the National Electricity Market (NEM). From 1 January 2008, this role was expanded to include electricity distribution. The role does not include retail regulation.

The AEMC's key functions under the NEL are to:

- consider Rule change proposals and the effect that such proposals may have on the national energy market;
- conduct energy market reviews and inquiries for the Ministerial Council on Energy (providing analysis and recommendations to inform policy making by the MCE); and
- provide policy advice to the MCE as requested or on AEMC initiative.

About the South Australian Review

The AEMC, in accordance with the terms of the Australian Energy Market Agreement (AEMA) and the request for advice from the MCE, is reviewing whether competition in electricity and gas retailing to small customers¹ in South Australia is effective (South Australian Review). If competition is found to be effective, the AEMC is required to provide advice to the MCE on ways to phase out retail price regulation. Where competition is found not to be effective, the AEMC's advice is required to identify ways to develop competition. The AEMC is required to finalise the South Australian Review by 31 December 2008.

Full retail competition (FRC) was introduced in South Australia in January 2003 for electricity customers and, in practical terms, in July 2004 for gas customers. The objective of FRC is to deliver efficient prices and services to energy customers and the opportunity for customers to exercise choice among competing retailers and their price and service offerings. Rivalry between retailers and the exercise of choice by customers maintains competitive pressure on retailers to manage their input costs effectively, to offer more cost-reflective prices and to improve and diversify the retail services they offer in order to better meet the preferences of customers.

¹ The Request for Advice requires that the South Australian Review focus on "small customers"; that is, customers who consume less than 160MWh of electricity per annum or less than 1TJ of gas per annum.

Where competition is effective in promoting efficient prices and services, there is generally no need for price regulation. Regulation is costly, in terms of both administration and compliance costs and possible distortions to competitive market processes. It is only justified where markets are not effectively competitive, regulation can improve market outcomes and the benefits of regulation exceed the costs.² This view is reflected in clause 14.11(a) of the AEMA, which requires jurisdictions to phase out retail price regulation where competition is determined to be effective.

The publication of the Issues Paper marks the formal commencement of the South Australian Review. A copy of the Issues Paper is available from the AEMC website at www.aemc.gov.au. The findings made and the advice given by the AEMC during the Review will play an important role in informing policy decision making for the regulatory frameworks that will apply to electricity and gas retailing in the future.

Input from stakeholders during the South Australian Review is vital to ensure the AEMC's assessment of the effectiveness of competition is robust, and submissions to the Issues Paper will be an important input to the AEMC's analysis. To this end, the Issues Paper invites informed comment, supported by evidence, from stakeholders about the effectiveness of retail competition in South Australia. Submissions are required by **5pm Friday, 11 April 2008**.

To assist stakeholders in the preparation of submissions, the Issues Paper expressly identifies a number of "Issues for comment". The Issues for comment are reproduced below.

Issues for Comment

Market structure and conditions for entry, expansion and exit

In relation to each of electricity and gas retailing:

1. Have the structural conditions for energy retailing in South Australia supported or hindered the development of effective competition? Are these structures likely to support or impede further improvements in competition in the future?
2. Are there barriers to entry that impact on the development of effective competition? Have these barriers dissuaded prospective energy retailers from entering or can they be overcome? Are these barriers likely to persist or abate?
3. Are there barriers to expansion or exit that impact on the development of effective competition? Have these barriers dissuaded prospective energy retailers from entering or can they be overcome? Are these barriers likely to persist or abate?
4. Are there unique or specific features of the South Australian electricity or gas retailing environments that may support or impede the development of competition?

² This is not to say, however, that other regulatory frameworks are not required in order to overcome other market failures and thereby support competitive market processes and outcomes, e.g. prudential regulation and consumer protection provisions.

Retailer rivalry

In relation to each of electricity and gas retailing:

5. To what extent do retailers compete with each other to acquire new customers and retain existing customers? What does the current level of rivalry between retailers indicate about energy retailing in South Australia?
6. Has retail price regulation encouraged or impeded tariff innovation, product differentiation and service competition?
7. On what basis, and to what extent, might retailers be expected to compete in the future?
8. What does the nature and extent of marketing activity indicate about the level of competition? What do the types of marketing activities undertaken by retailers indicate about the level of competition?
9. Is there evidence of retailers engaging in mis-selling and other anti-competitive marketing practices?
10. Are retailers able to recover their efficient costs at current standing and market offer contract tariffs? Are future expected profit margins likely to be sufficient so as to encourage new entry and increase competition or insufficient such that new entry is deterred?
11. What effect, if any, does retailer exposure to fluctuations in wholesale electricity and gas price have on retailers' ability to offer competitive product and service offerings?

Customer participation and experience

In relation to each of electricity and gas retailing:

12. What motivates customers to switch from a standing offer to a market contract or to switch retailer? For those customers who are not willing to participate in the competitive market, what underpins their decision to remain on a standing offer?
13. Do retailers actively compete to offer the products, services, prices and other conditions of supply which are most attractive to customers? Do retailers respond to changes in consumer taste by offering new, different or better products in a timely manner?
14. Are customers able to access information that is easy to understand, relevant and up to date, and enables competing offers to be compared? Do customers rely on this information when deciding whether to switch? If not, why not?

Equitable access to the benefits of competition

In relation to each of electricity and gas retailing:

15. Are there classes of customers who are unable to access the benefits of competition? If so, what factors contribute to the difficulties experienced by these customers?
16. What steps, if any, do retailers take to assist customers experiencing difficulties in participating in the competitive market? Are these initiatives effective in assisting these customers?

The AEMC notes that interested parties may wish to raise other matters that may be relevant to the South Australian Review, for example, the AEMC's approach to public

consultation or its framework for analysis. The AEMC encourages interested parties to address these matters in submissions made in response to the Issues Paper.

Given the important contribution that the South Australian Review will make to the debate about the future of energy policy, the AEMC encourages all interested parties to make submissions to the Issues Paper and to participate in the opportunities for public consultation. Informed contributions from stakeholders will assist in ensuring that the AEMC's findings and advice concerning the future of retail price regulation are informed by stakeholder views and experience, relevant factual market information and rigorous, evidence-based analysis.

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