



SACOSS Energy Market Research Report No. 1

June 2013

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Introduction

As the peak body for the community services sector in South Australia, SACOSS has had a long-standing interest in the delivery of essential services. The cost of basic necessities, like energy, impact greatly and disproportionately on vulnerable and otherwise disadvantaged people.

SACOSS is supported by the Minister for Resources and Energy to research and advocate for the interests of these consumers in South Australia following the removal of retail price regulation for electricity and gas from February 1st 2013.

Naturally, SACOSS has a particular focus on those households in the lowest three income quintiles with the least capacity to pay for the energy they need to maintain a healthy home. However, this is not an exclusive focus and many of the issues relevant to advancing the interests of these households will also lead to advancing the interests of all consumers.

Competition in the South Australian retail energy market

The energy 'mass market' in South Australia delivers electricity and gas to households, small businesses and various community and government facilities around the state.

This market has a turnover of over 1.5 billion dollars each year from over 800,000 customers as detailed in Table 1.

Small Customers		N ^o customers (Dec 2012)	2011-12 turnover \$m
Electricity	Residential	735,535	1,086
	Small Business	93,422	337
	Electricity subtotal	828,957	1,423
Mains Gas	Residential	384,025	251
	Small Business	8,252	33
	Gas subtotal	392,277	284
			\$1,707m

Table 1: The Small Customer Market of the South Australian region of the NEM

[Source: ESCOSA Annual Performance Report at (<http://www.escosa.sa.gov.au/electricity-overview/market-information/annual-performance-reports.aspx>; 'Energy Retail market time series data 00-01 to 2012' at http://www.escosa.sa.gov.au/library/130606-APR_2012-13RetailEnergyMarketTimeSeriesData_00-01to12-13.xlsx accessed 21.06.2013]

The removal of price regulation is premised on the basis that effectively competitive markets offer the best long-term mechanism for setting the price of electricity and gas. Deregulation in February 2013 came on the 10th anniversary of the introduction of contestability to the electricity market (and over eight years for gas).

Consistent with the National Electricity Objective (NEO) being about the long-term interests of consumers, success of the energy market reform program needs to be assessed against outcomes for consumers. The level of active competition in the retail market should therefore be an important metric in the ongoing monitoring of retail deregulation and energy market reform overall.

This first of a series of Energy Market Research Reports focuses on data available to show trends in customers moving between electricity retailers. This activity is taken as an indicator of the health of competition. As long as retailers are exposed to the forces of competition, the discipline of the market will ensure consumers are only paying efficient prices for these essential services.

Discussion – market share and switching

The principal data source is market transfer information published by the Australian Energy Market Operator (AEMO) and the Annual Performance Reports of ESCOSA. The AEMO information only distinguishes between Tier and Tier 2 retailers, that is, AGL Energy as the first-tier or incumbent retailers and the aggregate group of other retailers that have competed to erode AGL's 100% market share from January 2003. The data segments customer movements to AGL, from AGL and between the second tier retailers.

A key indicator for consumers in the South Australian market is the market share of AGL. AGL (including wholly owned Powerdirect) has retained over half of the small customer market after the first decade of competition. As owners of significant electricity generation capacity, AGL is a vertically integrated '*gentailer*' and one of Australia's largest market participants.

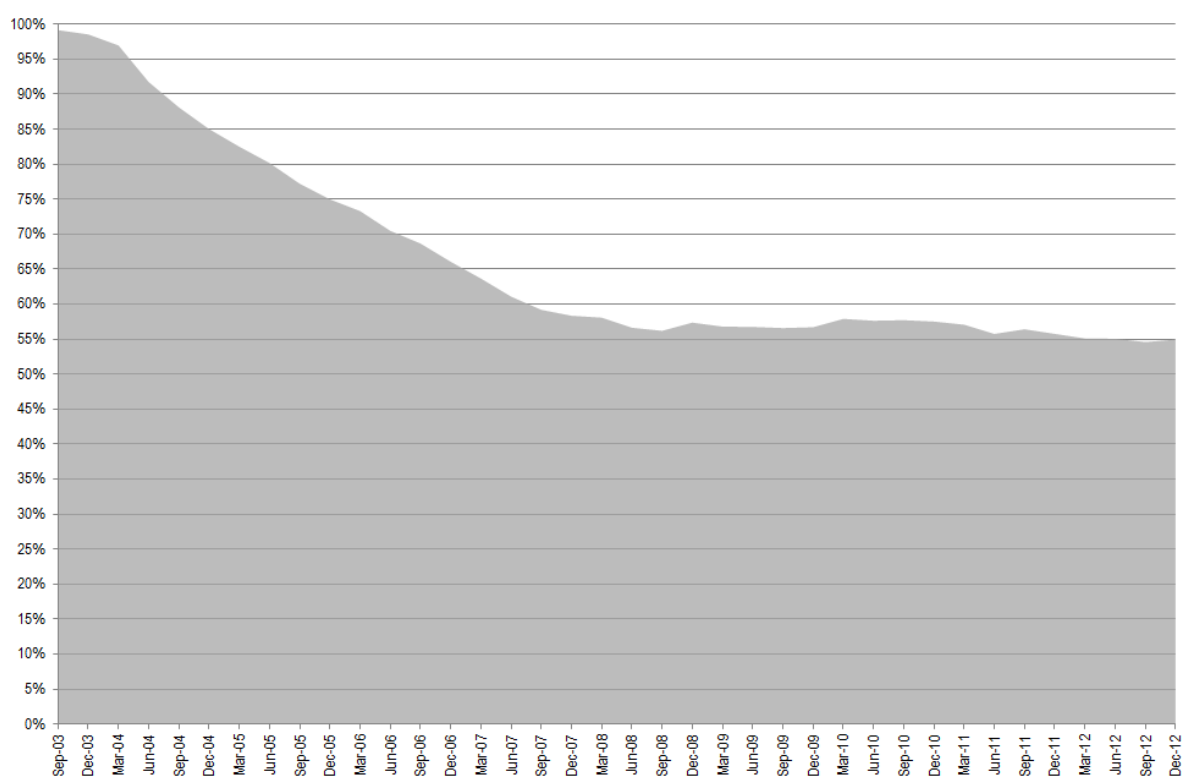


Figure 1: AGL Small electricity customer market share (Standing and Market Contracts, residential and small business. Includes Powerdirect Pty Ltd)

[Source: ESCOSA Annual Performance Report at <http://www.escosa.sa.gov.au/electricity-overview/market-information/annual-performance-reports.aspx>; 'Energy Retail market time series data 00-01 to 2012' at http://www.escosa.sa.gov.au/library/130606-APR_2012-13RetailEnergyMarketTimeSeriesData_00-01to12-13.xlsx accessed 21.06.2013]

Figure 1 shows the combined market share of AGL in South Australia. The figures include residential and small business customers and include the customer base of wholly owned Powerdirect (2.1% of the residential market, 14% of small business for 3.4% of the total market).

The South Australian market for small electricity customers at the start of 2013 was dominated by five energy retailers. These are the only five to have more than 5% of the 830,000 customers. The combined market share exceeds 98% as shown in Figure 2.

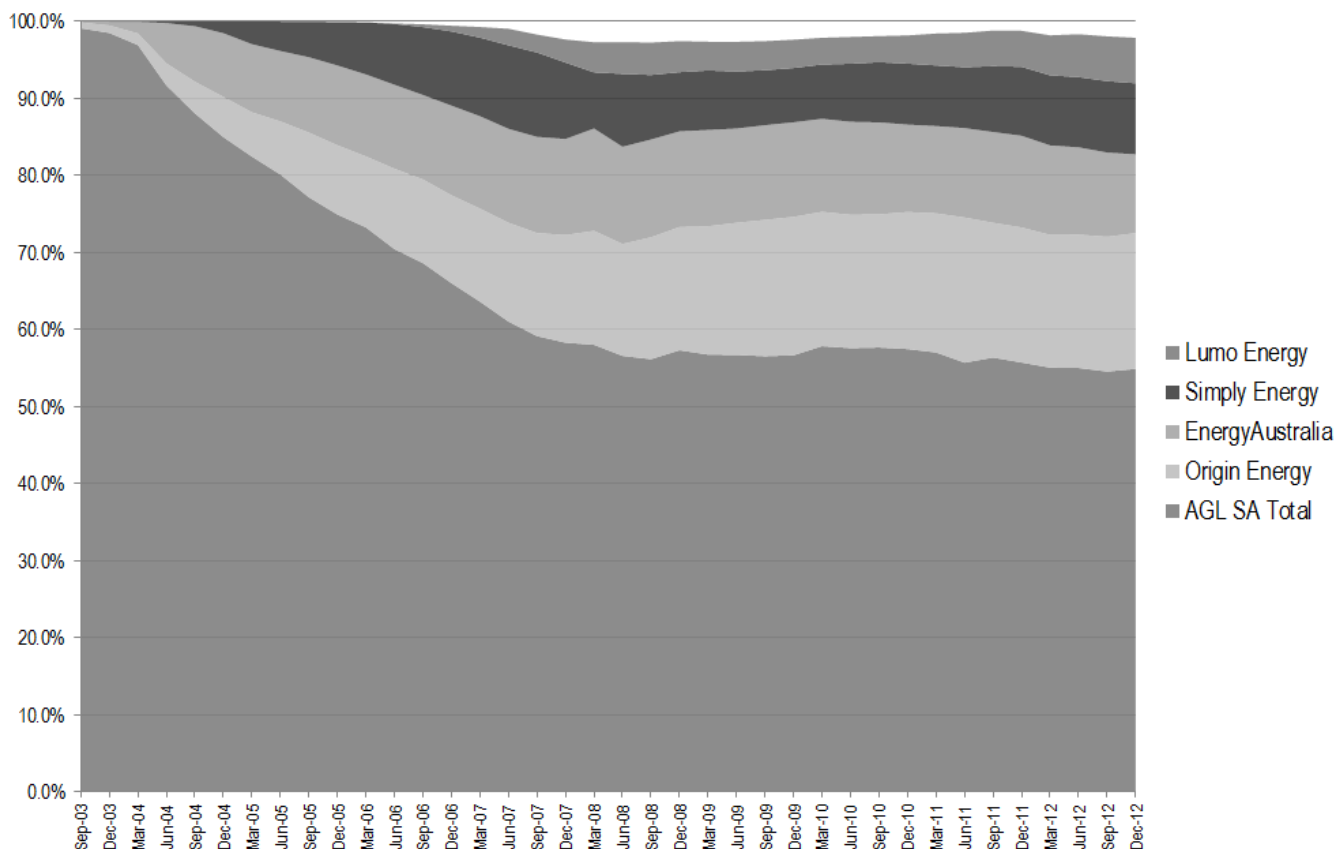


Figure 2: Small electricity customer market share, Major Retailers, South Australia 2003-12

[Source: ESCOSA Annual Performance Report at <http://www.escosa.sa.gov.au/electricity-overview/market-information/annual-performance-reports.aspx>; 'Energy Retail market time series data 00-01 to 2012' at http://www.escosa.sa.gov.au/library/130606-APR_2012-13RetailEnergyMarketTimeSeriesData_00-01to12-13.xlsx accessed 21.06.2013]

As can be seen, AGL started with 100% of the market in 2003 and saw this steadily eroded to below 60% by the end of 2007. The five years since has seen AGL manage to maintain a majority share of the small customer market and only fell below 55% at the start of the 2012-13 financial year.

By way of contrast, the Victorian small customer market (2.3m residential, 300,000+ small business) sustains 7 retailers in the top 95% of the market¹. Switch rates in the Victorian region are higher than elsewhere as shown in this chart from AEMO:

¹ Essential Services Commission Victoria – Retail Performance Report 2011-12 <http://www.esc.vic.gov.au/Energy/Energy-retail-performance-reports>

Historical Monthly Annualised Transfer Rate

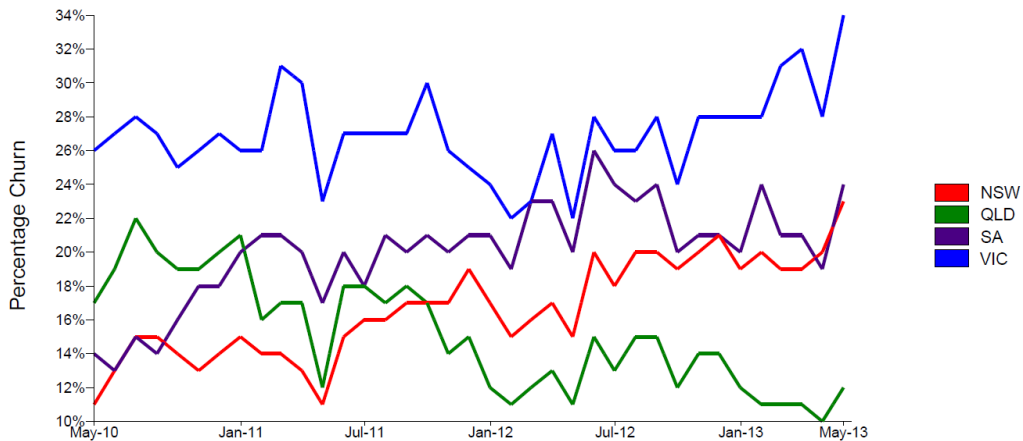


Figure 3: Historical Monthly Annualised Transfer Rate

[Source: AEMO (2013) NEM Monthly Retail Transfer Statistics at <http://www.aemo.com.au/Electricity/Data/Metering/Retail-Transfer-Statistical-Data> page 2]

Figure 4 and Figure 5 illustrate the different electricity market share outcome in Victoria compared to South Australia.

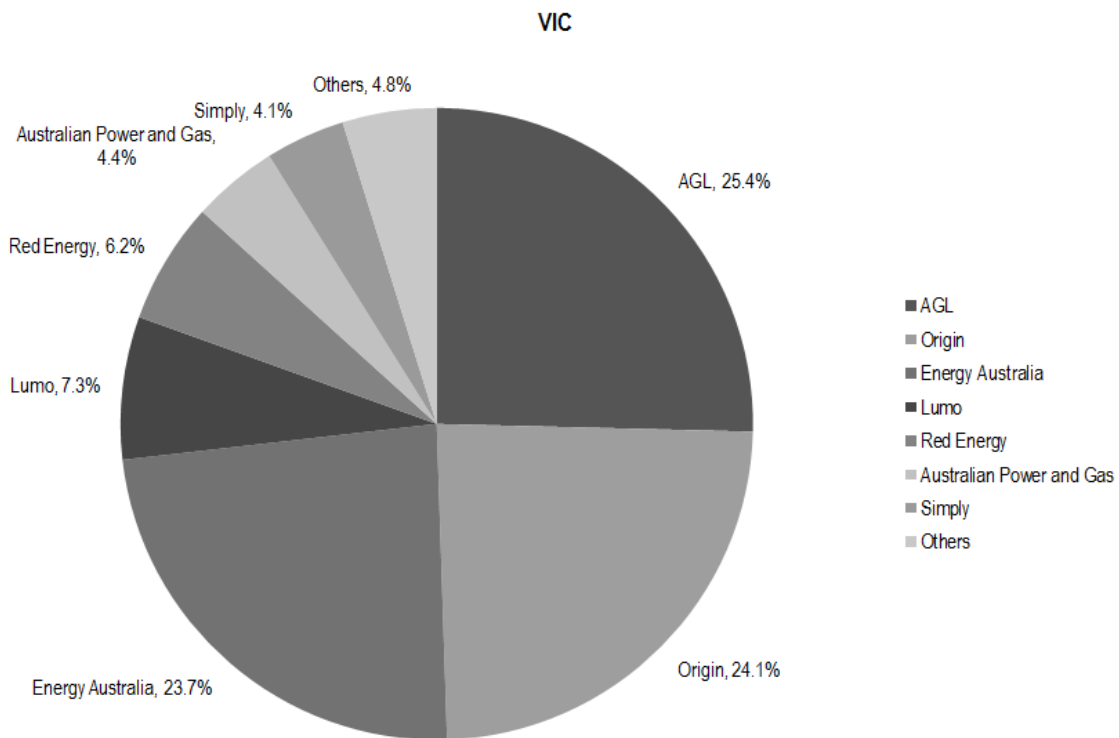


Figure 4: Small electricity customer market share, Victoria June 2012

[Source: Essential Services Commission Victoria – Energy Retailers Comparative Performance Report – Customer Service 2011-12, Table 1.1 at <http://www.esc.vic.gov.au/Energy/Energy-retail-performance-reports>]

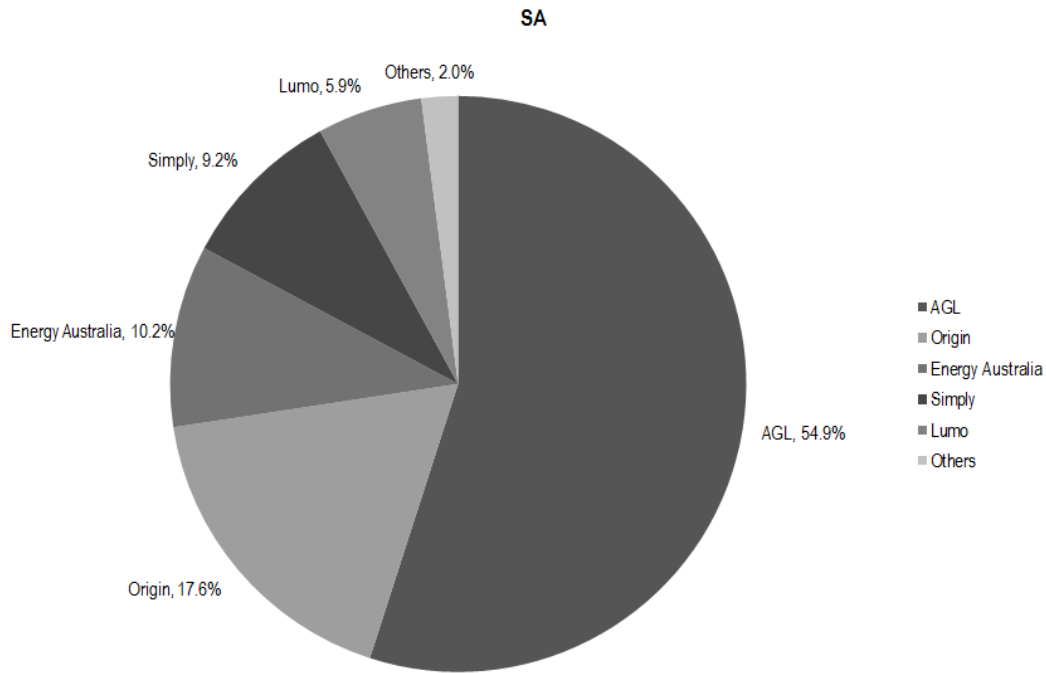


Figure 5: Small electricity customer market share, SA Dec 2012

[Source: ESCOSA Annual Performance Report at (<http://www.escosa.sa.gov.au/electricity-overview/market-information/annual-performance-reports.aspx>)]

Figure 6 and Figure 7 illustrate the different gas market share outcome in Victoria compared to South Australia.

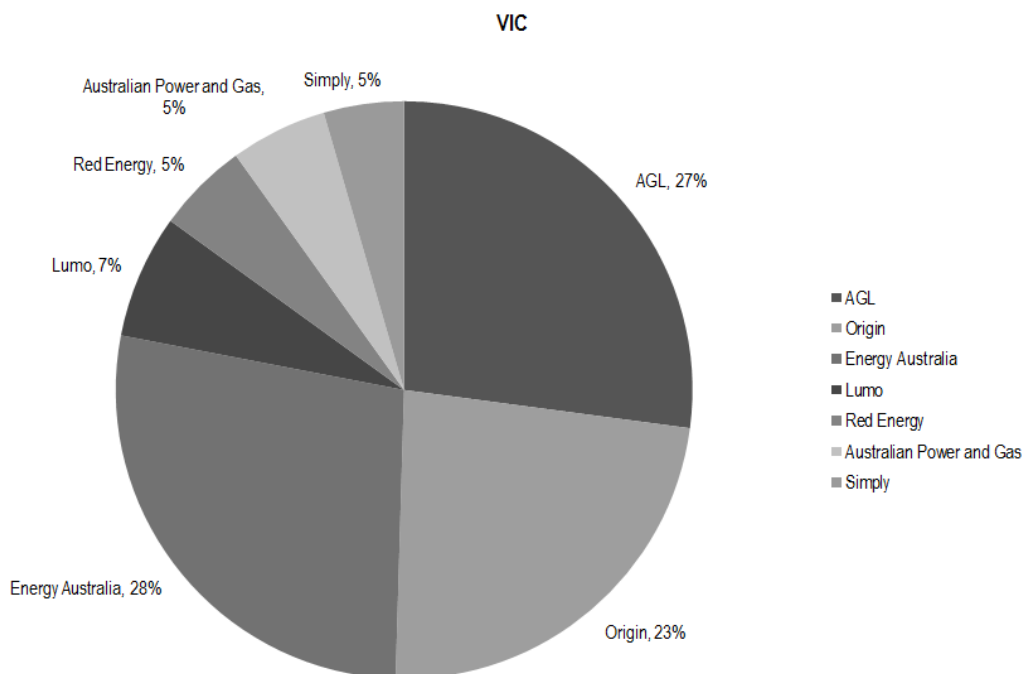


Figure 6: Small gas customer market share, VIC Jun 2012

[Source: Essential Services Commission Victoria – Energy Retailers Comparative Performance Report – Customer Service 2011-12, Table 1.3 at <http://www.esc.vic.gov.au/Energy/Energy-retail-performance-reports>]

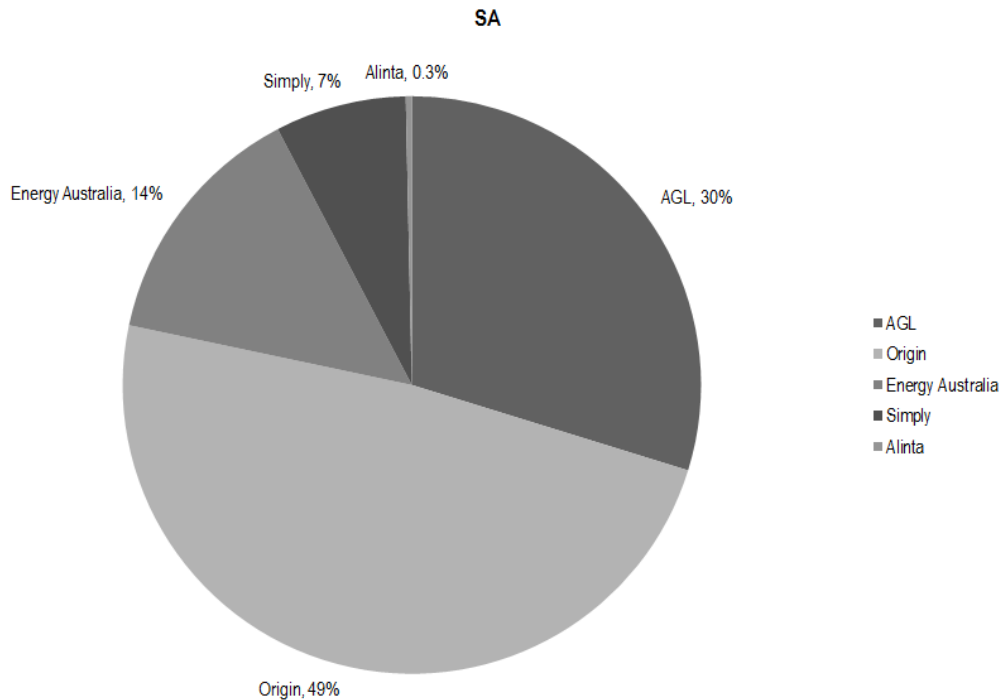


Figure 7: Small gas customer market share, SA Dec 2012

[Source: ESCOSA Annual Performance Report at <http://www.escosa.sa.gov.au/electricity-overview/market-information/annual-performance-reports.aspx>]

An obvious question is whether deregulation will see these market shares reduce further. To investigate this, AEMO data for the monthly switching of small customers between retailers has been analysed. Figure 8 illustrates the monthly switching of small customers between retailers for January 2009 to May 2013. The following observations can be made:

- The average rate of switching has increased from around 10,000 per month in 2009 to around 15,000 per month presently. This represents around 1.8% of customers per month or around 21% each year.
- AGL has a record of attracting customers back (represented by '2 to 1') at around the same rate as losing them ('1 to 2') but since about October 2012, has seen a reduction in the number of customers it is winning back. This is not being offset by increases in Powerdirect's customer base.
- At the same time, the number of customers moving between the second tier retailers has largely shown signs of growth (from 2,000 per month in January 2009 to around 6,000 per month currently)
- Net churn from AGL since Jan 2009 to Dec 2012 = 43,000 (around 900 per month) (Powerdirect net churn over same period = +900 in total). Since January 2013, net churn away from AGL has been over 2000 per month.
- To reduce AGL's market share from around 55% to 33%, AGL would need to shed around 180,000 customers. At current rates of 2,000 per month, this process would take 7-8 years.

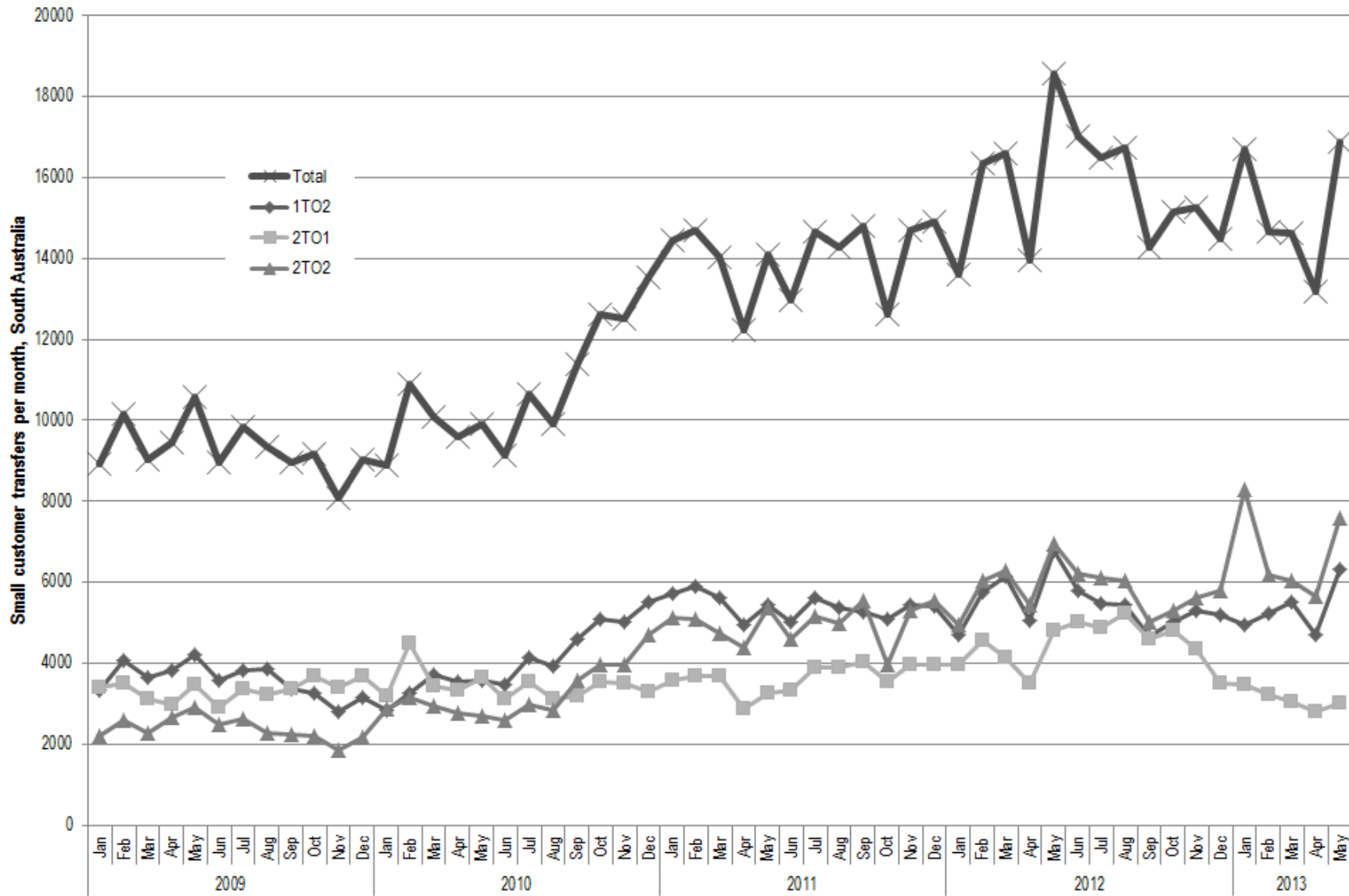


Figure 8: Monthly small customer transfer data, South Australia

[Source: AEMO Retail Transfer Statistical Data <http://www.aemo.com.au/Electricity/Data/Metering/Retail-Transfer-Statistical-Data> Consolidated Data Files Jan 2009 - May 2013]

Summary

This Research Paper has presented a brief analysis of the South Australian 'mass market' for electricity and gas.

South Australia has levels of market switching comparable to other regions albeit below that of Victoria. The rate of switching does not appear to have increased or decreased as a result of de-regulation and has continued on a pattern of slow growth from around mid-2012.

Retail price deregulation means relying on the forces of competition in the market to deliver efficient prices. A feature of the South Australian market is the level of market concentration compared to Victoria. In both electricity and gas, incumbency has led to sustained market shares for AGL in electricity and for Origin with gas.

Based on initial electricity switching data since price de-regulation in South Australia, it is evident that AGL is having some of its market dominance eroded. However, the rate of change is incremental and, at current rates, would not see AGL reduced to its current Victorian market share (25%) for around 10 years.