



8 November 2017

2017 Retail Electricity Market Monitoring Review
Independent Pricing and Regulatory Tribunal
PO Box K35
Haymarket Post Shop NSW 1240

Lodged online.

To whom it may concern:

RE: 2017 Review of the Performance and Competitiveness of the Retail Electricity Market in New South Wales

Origin welcomes the opportunity to respond to the Independent Pricing and Regulatory Tribunal (IPART) Draft Report on Performance and Competitiveness of the Retail Electricity Market in New South Wales.

Origin supports IPART's draft finding that competition for residential and small business customers is effective in the New South Wales retail electricity market and that competition continues to improve, with market concentration declining and customer activity increasing. This competition is benefiting customers by providing them with a range of competitive prices, products and services. The end of retail price regulation in 2014 has resulted in a highly competitive retail energy market with healthy rates of customer switching and a large number of retailers active in the market. The highly competitive energy retail market provides a strong incentive for retailers to offer competitive prices, improve customer service and to drive product and service innovation. As we highlight below, customers have benefited from tangible improvements to services as a result of rivalry and competitive tension between retailers. There is also evidence from independent surveys that customers are satisfied with their retailer and are confident of their ability to make choices in competitive energy markets. We are also beginning to see indicators of a much greater level of product innovation in the near future.

We comment on specific issues below.

Barriers to entry and expansion

In Origin's experience, barriers to entry and expansion are generally low in New South Wales and don't impede competition or market entry. The entry of six new retailers in the last twelve months, in addition to the four that entered in the year following deregulation, indicates that barriers to entry are low. Expansion of second tier retailers at the expense of the first tier's customer base will depend in part on whether the latter provide customers with price competitive products and demonstrate to customers the value of their loyalty. As the report points out, first tier retailers (such as Origin) have met the challenge of competition by offering competitive products to retain our customers. Overall, barriers to entry have remained low enough to enable new entrants into the market and this has encouraged incumbents to compete for customer retention.

Customer participation

The results of a survey conducted by the Australian Energy Market Commission (AEMC) suggest that 82% of residential customers and 84% SME customers actively chose their energy plan.¹ The Commission and IPART both point out that reasonable cost savings can be made for consumers who engage in the market.² Origin believes that building customer loyalty is crucial to retaining customers in the face of such competitive offers. From the perspective of customer satisfaction, improvements to billing systems are demonstrating significant benefits. Billing complaints are generally the highest single factor behind complaints to energy ombudsmen in each jurisdiction. However, following the upgrades to billing systems, and concerted effort to improve customer experience, Origin has seen noticeable reductions in ombudsman complaints. In 2013-14, Origin recorded 10,635 complaints to the Energy and Water Ombudsman of New South Wales (EWON), which has fallen 4,867 in 2016-17.³ In addition to lower ombudsman complaints, Origin has seen a four-point increase in its Interaction Net Promoter Score.⁴

Origin believes that intense competition across a number of markets has provided retailers with an incentive to improve customer experience and to ensure that customer service meets their expectations. A key area of engagement between retailers and their customers is billing. Given regulations that govern what must be included on a customer's bill, it is a challenge to design bills that are comprehensible for customers. Despite this, the market provides an incentive for Origin to improve its bills so that customers are satisfied. Origin has conducted an extensive customer research program in order to redesign our energy bills so they are easier to read and understand. Customer feedback was used to focus on the key information and charges customers wanted to know, and helped Origin to reduce the amount of unwanted information. During 2016, we also increased our use of paperless billing, with approximately 1.6 million customer accounts across all markets having taken up e-billing at the end of the last financial year. Both of these improvements to services were achieved in response to competitive dynamics in the market which provide Origin with the incentive to satisfy our customers.

As a result of commitments retailers have made to the Commonwealth Government, a number of changes are occurring that will prompt further engagement by customers. Firstly, the Australian Energy Regulator (AER) is looking at how Energy Price Fact Sheets can be streamlined to facilitate customers comparing offers. Related to this is the potential development of industry comparison rates or reference prices. Origin supports both of these measures; we want customers to be able to make decisions more easily and to lift engagement in the market. Secondly, retailers are also writing to customers that have been on standing or market offers for more than 24 months to advise them that they can receive a better offer. Additionally, Origin is writing to its concession customers to ensure they are on the best market offer. Thirdly, an expedited rule change through the AEMC will require retailers to write to customers prior to their benefits ending, setting out how much a customer has paid, what they would pay without a benefit, and their likely future cost. The end result will be that customers will be prompted to engage at the end of their benefit period, and they should be able to use a simplified EPFS, which will contain a reference or comparison price, to determine which offer is best for them. This will hopefully assist customers to engage in the market by improving pricing information.

The New South Wales Government announced a new Energy Bill Relief Package on 3 September 2017. The package included an increase in the value of energy rebates by around 20 per cent. The

¹ AEMC, 2017 Retail Competition Review, p. 236.

² Ibid, p. 236.

³ EWON, *Annual Report 2016-2017*, p. 58.

<https://www.ewon.com.au/content/Document/Publications%20and%20submissions/EWON%20reports/EWON-annual-report-2016-2017-web.pdf>

⁴ Net Promoter Score (NPS) is a measure of customers' propensity to recommend Origin to friends and family after a recent service interaction with us. See Origin Energy, *Annual Report 2017*, p. 16.

https://www.originenergy.com.au/content/dam/origin/about/investors-media/annual%20review%202017/AnnualReport_FY2017.pdf

Government is also consulting on its *NSW Social Programs for Energy Code* (the Code) as part of this package. The Code is introducing new obligations on retailers to assist customers that receive energy rebates. Origin is working with the Government to develop an optimal framework that delivers information to rebate customers that will prompt their engagement in the market.

Price movements

Origin agrees with IPART that recent price rises in New South Wales reflect changes in the cost of supply. The closure of Hazelwood power station, and the Victorian government's decision to support the continuation of the Portland aluminium smelter, significantly contributed to price rises in the wholesale market. Despite these underlying cost pressures, Origin believes that competition is working effectively and that the benefits of deregulation will continue to develop over time.

Price competition, unlike regulation, drives retailers to discover and secure the lowest possible costs of supply, which in turn places cost pressure on the wholesale market. In a deregulated market, retailers set their own prices, and they are accountable to the market for their decisions because customers can switch—and in New South Wales the levels of customer churn mean that there is a genuine risk of retailers losing customers to other competitors. This places competitive discipline on retailers when offering products to customers.

Rivalry and product diversity

Given the difficulty in establishing effective benchmarks against which price outcomes may be compared, it is important that the Inquiry instead focuses on examining whether there is sufficient price rivalry among retailers. As the former Competition Commission in the UK has stated:

Competition is a process of rivalry as firms seek to win customers' business. It creates incentives for firms to meet the existing and future needs of customers as effectively and efficiently as possible—by cutting prices, increasing output, improving quality or variety, or introducing new and better products, often through innovation; supplying the products customers want rewards firms with a greater share of sales.⁵

It does not mean that all customers will seek this price but, rather, that customers that choose to enter the competitive market looking for a range of offers will be able to access them. This is the case in New South Wales. There are no barriers to customers accessing information on better deals, whether it is from their own retailer or via price comparator websites and other information channels. The fact that a customer can often get a better deal from their own retailer indicates that price rivalry holds retailers to account; this is in the long term interests of customers who choose to find a better deal.

Product innovation and differentiation is a good demonstration of the presence of competitive rivalry in the market. Retailers must develop new products to meet shifting customer needs. The New South Wales energy market is currently evolving to meet different customer expectations about energy. One of the ways Origin has responded to retailer rivalry is its Predictable Plan product for gas and electricity customers. Launched last year, this product enables customers to avoid bill shock by locking in the same cost each billing period for twelve months—regardless of how much customers use. Origin was able to invest the resources necessary to develop these product and services, including system upgrades to facilitate them, and to assume the risks of its success.

Our product innovation is also extending to new products and services for renewable energy and storage systems. Origin's Solar as a Service product enables customers to access solar via a long-

⁵ United Kingdom Competition Commission, *Guidelines for market investigations: Their role, procedures, assessment and remedies*, April 2013, p. 7. Accessed here: http://webarchive.nationalarchives.gov.uk/20140402141250/http://www.competition-commission.org.uk/assets/competitioncommission/docs/2013/publications/cc3_revised_.pdf

term power purchasing agreement, whilst our and Solar Boost product offers customers a higher feed-in tariff along with a different discount. Recently, Origin has moved into the battery market, offering customers a Tesla Powerwall. Origin offers these products because the competitive market provides the incentive and ability to do so by allowing retailers control over how we manage our risk—ultimately by setting our own prices in response to the market, and obtaining the benefit of those risks through additional revenue.

Vulnerable customers

Recent price rises have placed vulnerable customers at the front of the community's mind. Origin has responded by not applying the 1 July 2017 price rises to hardship customers in New South Wales. We will provide customers who are participating in *Power On*, our hardship program, with a credit that reflects the tariff they were on prior to 1 July 2017. This means that customers in *Power On* are paying a lower price than they otherwise would have been. Those *Power On* customers that are also receiving a discount will continue to do so in addition to the credit, meaning that they are receiving a low price in the market.

IPART is concerned about engaging vulnerable customers. Origin does not disagree with this concern; a lack of engagement by vulnerable customers is often the difference between maintaining and losing supply. However, we do not believe that vulnerable customers necessarily have to be less engaged than other customer group. When a customer enters the *Power On* program, our Hardship team assess whether the customer is on the best product for their needs. As part of this process, we offer customers a competitive guaranteed discount. This product is a market offer and is not a pay-on-time discount. As part of this discussion, Origin also offers vulnerable customers more flexible payment options, such as our Easipay product. This product is a form of bill smoothing; it provides customers with a bill estimate based on their usage. Customers can then choose to pay this amount on an ongoing basis in weekly, fortnightly or monthly direct debit instalments. Payment instalments are re-assessed every bill to ensure customers are only paying for what they are likely to use. Easipay is available to all Origin customers but it is particularly useful for vulnerable customers because it provides them with a reasonable estimate of their energy bills and provides them with regular payment opportunities. This in turn helps to mitigate 'bill shock' for these customers and provides them with a reasonable opportunity to plan for their energy bills.

Risks of regulatory intervention

Origin does not believe the current model based on competition between retailers, and founded on customer choice and service, requires change; an increase in regulation will weaken the fierce competition that the New South Wales retail energy market is developing. A customer's price reflects the value they place on a product; those who are motivated will seek out a better deal. Customers will respond to price signals differently; what is important for assessing competition is whether customers are provided the opportunity to choose another deal. As has been stated as part of a review of the energy market in the United Kingdom (UK), "Competition is appropriately seen as a rivalrous discovery process"; examining whether a market functions well is not a

licence to specify a series of features that it would be "nice to have" but that may not be feasible to achieve or that may be achievable only at disproportionate cost, or with unintended consequences that harm customers and competition. Similarly, a realistic approach to assessing effects on consumers, and behaviour of customers, implies setting aside purely theoretical and empirically unsubstantiated assumptions about how consumers might or should behave, and focusing on evidence about how they actually do behave.⁶

⁶ Littlechild, McCarthy, Marshall, Smith, Spottiswoode, *Submission to CMA*, 7 August 2014, p. 3. Accessed here: <http://www.eprg.group.cam.ac.uk/wp-content/uploads/2014/08/Submission-to-CMA-7-Aug-2014.pdf>

Even well-intentioned regulatory intervention is more likely to have unintended consequences, such as increasing transaction costs, and the cumulative impact of them is to increase prices for consumers.⁷ This is particularly the case where this intervention is premised on assumptions of what consumers think, rather than allowing their preferences to become apparent through a well-functioning and efficient market.

IPART Recommendations

Origin supports both recommendations made by IPART.

With respect to improving the Energy Made Easy website, we note the aforementioned work of the AER to improve the presentation of offers and to develop a reference price. Both of these measures will also lead to improvements on Energy Made Easy by providing accessible pricing information that can be more readily used by customers. Additional resources and promotion of the website will also help with encouraging customers to use the website.

In relation to the recommendation on providing caravan park embedded network customers with analogous customer protections to those in competitive markets, Origin generally agrees. Our view is that residential embedded network customers ought to have access to the same customer protections as those in competitive retail markets. Notwithstanding this, it is important to draw a distinction between transient holiday makers in caravan parks and long-term residents. The latter is what IPART should aim to protect. There should not be an overly onerous set of obligations for caravan park holders with holiday makers as these are not customers who are using their caravan as a place of primary residence.

Closing

As a consequence of deregulation, competition will continue to improve around the delivery of services and customers will be provided with broader choices in the market that will reflect the level of service they prefer. This is becoming increasingly important in order to remain relevant and competitive in light of emerging competition from alternative energy sellers and the lowered barriers to entry following the end of price regulation. Similarly, tariff structures will change in coming years, and customers will benefit from a range of choices that may enable them to shift their energy use to their advantage. Energy markets are undergoing technological change and disruption but a deregulated environment provides necessary signals for market participants to react and allows change to be absorbed efficiently by private entities.

Should you wish to discuss the contents of this response, please contact Timothy Wilson, Manager, Regulatory Policy, on (03) 8665-7155 in the first instance.

Yours sincerely

A black rectangular redaction box covering the signature of Keith Robertson.

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⁷ Ibid, p. 3.