30 June 2014

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The Research Director
State Development, Infrastructure and Industry Committee
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Submission No. 015 11.1.20

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11.1.21

Electricity Competition and Protection Legislation Amendment Bill 2014 and National Retail Law (Queensland) Bill 2014

Origin Energy (Origin) appreciates the opportunity to provide a response to the Queensland Government's Electricity Competition and Protection Legislation Amendment Bill 2014 and the National Energy Retail Law (Queensland) Bill 2014.

Origin supports the work of the Queensland Government in its retail energy market reforms, which aim to increase competition in the retail electricity market and provide greater community engagement about energy. In particular, Origin commends the introduction of the National Energy Retail Law in Queensland to provide a nationally-aligned customer protection framework and the proposed transition from price regulation to a market monitoring regime.

The retail electricity market in South East Queensland has evolved considerably since the introduction of full retail competition on 1 July 2007, and there is now clear evidence of a mature robust market.

The decision to introduce a market monitoring regime will further enhance the South East Queensland electricity market by providing customers with more efficient prices, greater product offerings and a robust customer protection framework.

Customer education is crucial to achieve optimal customer outcomes from the market monitoring regime. For this reason, Origin welcomes the Government's plan to establish a consumer engagement strategy to support the introduction of the market monitoring regime and looks forward to actively participating in this process.

Origin will also continue its engagement with the community to assist consumers to better understand their energy options and to make educated decision about how to use energy more efficiently.

Origin looks forward to an opportunity to further assist the Committee by providing additional information and data if required to address any outstanding concerns.

Should you have any questions or wish to discuss this information further, please contact Heidi Cooper on (07) 3867 0877.

Yours sincerely,

Tim O'Grady
General Manager, Public Policy & Government Engagement

Response to the State Development, Infrastructure and Industry Committee:

Electricity Competition and Protection Legislation Amendment Bill 2014

and

National Energy Retail Law (Queensland) Bill 2014

30 June 2014

Contents

1 Executive Summary

Origin Energy (Origin) considers that the Queensland Government's proposed legislative package to apply the National Energy Customer Framework (NECF) to the sale of electricity and gas to retail customers in Queensland and the replacement of regulated electricity prices with a market monitoring regime is a positive outcome for the South East Queensland (SEQ) electricity market from both an industry and customer perspective and should be passed by Parliament in its current form.

The retail electricity market in SEQ has evolved considerably since the introduction of full retail competition (FRC) on 1 July 2007. There is now clear evidence that the entry of third party retailers has resulted in active competition between retailers with the emergence of a growing choice of products and services.

Moreover, there is evidence that customers are responding to this competition with over 70 per of customers in SEQ having now entered into market contracts to access more efficient prices and service offerings.

If the constraints of price regulation are removed and market monitoring is introduced, competition for market share will put further pressure on retailers to provide product offerings desired by customers at efficient prices with greater customer engagement and service.

To ensure the transition to market monitoring operates as intended, it is also necessary to empower customers with the knowledge to make the right decisions and to have appropriate protections in place for those customers least able to benefit from a competitive market.

The adoption of the NECF will provide higher levels of consumer protection than currently exists for customers in SEQ. This framework will provide a robust, nationally-aligned customer protection regime that has been developed with extensive input from consumer groups and Government.

Customer education is crucial to achieve optimal customer outcomes from the market monitoring regime. Customers who are informed are better able to make decisions about their energy usage and to obtain the most effective product offering. For this reason, Origin welcomes the Government's plan to develop a consumer education strategy to support the introduction of the market monitoring regime.

Origin also has in place initiatives directed at engaging with the community about energy. In particular, Origin's Energy Explorer website and customer portal provides information and resources to assist consumers to better understand their energy options and to make educated decisions about how to use energy more efficiently.

Origin looks forward to working cooperatively with the Government to ensure that the market monitoring regime delivers a viable, sustainable and competitive electricity industry in SEQ.

2 Background

In May 2012, the Government established the Interdepartmental Committee (IDC) on Electricity Sector Reform to examine all aspects of the sector that impact on the cost of electricity.

The IDC made a number of recommendations to address cost pressures and build a more competitive market while reducing risks to customers, industry and Government.

In June 2013, the Queensland Government endorsed the IDC's high level strategies to:[1]

1. stop building unnecessary infrastructure and improve the efficiency of network businesses;
2. maximise the benefits of competition while protecting customers; and
3. develop a more effective role for Government.

Following the IDC's recommendations, the Government recognised that the need for a regulated price-setting approach in the SEQ retail electricity market had diminished and may even have become detrimental to the further development of competition in the region.[2]

In response, the Government indicated that it would remove regulated price-setting for the SEQ retail electricity market and replace it with price monitoring by 1 July 2015, subject to certain preconditions being met.

On 20 May 2014, the Government introduced into parliament the Electricity Competition and Protection Legislation Amendment Bill 2014 and the National Energy Retail Law (Queensland) Bill 2014 (together the legislative package).

The legislative package will apply the NECF to the sale of electricity and gas to retail customers in Queensland, and will replace regulated electricity prices with a market monitoring regime to apply in SEQ.

When commending the Bill to Parliament, the Minister for Energy and Water Supply stated that the objective was to deliver greater competition in the market and increased consumer protections.[3]

The purpose of this submission is to provide information to the Committee to assist in its consideration of the proposed legislative package.

Specifically, our submission provides information on the following matters:

- the rationale for removing price regulation and the experience of this process in other jurisdictions;
- evidence of the current competitiveness and performance of the SEQ retail electricity market since FRC;
- the proposed monitoring framework put forward in the legislative package;
- the effectiveness of the NECF in providing customer protection; and
- the importance of customer engagement to complement the market reforms.

[1] Department of Energy and Water Supply, *The 30-year Electricity Strategy - Powering Queensland's Future*, Discussion Paper, September 2013, p. 7.
[2] Department of Energy and Water Supply, *The 30-year Electricity Strategy - Powering Queensland's Future*, Discussion Paper, September 2013, p. 9.
[3] Queensland Parliamentary Debates, Legislative Assembly, 1st session of the 54th Parliament, 20 May 2014, pp. 1152-1153.

3 Rationale for Removing Price Regulation and Experience in Other Jurisdictions

3.1 Rationale for Removing Price Regulation

Price regulation is usually undertaken to protect customers against excessive pricing arising from the exploitation of market power. The main rationale for price regulation is:[4]

- to act as a proxy for competition – the regulator aims to set an efficient price in the absence of sufficient competition in the market; and
- to prevent abuse of market power through excessive pricing – where there is insufficient competition, customers may not be able to switch away from an unfavourable offer.

Regulated prices ensure that, regardless of the level of competition, all customers can obtain prices for electricity and gas that are considered reasonable by the regulator. To do this, the regulator must estimate all the costs retailers will face in supplying electricity to their customers to determine a maximum price retailers can charge.

The Australian Energy Market Commission (AEMC) considers that regulated prices will always be an imperfect substitute for prices determined by the competitive process of a market, and are likely to impose costs and distortions that would not otherwise be present. Specifically, since regulated businesses have better cost and market information than regulators, there is a risk that regulated prices will either be set:

- too low, deterring investment and innovation; or
- too high, to the detriment of customers.

In the case of monopolies such as electricity distribution and transmission, price regulation has a vital role to play in protecting customers. However, in sectors where competition is feasible, price regulation is considered to be temporary rather than permanent. As competition develops, price regulation may become unnecessary because competition should protect customers more effectively. Indeed, continuing with price regulation in markets that are considered competitive carries some risks around the misallocation of resources.[5] This issue was also highlighted by the IDC.

It is important to note that retail prices faced by customers are made up of a number of different cost components, including wholesale energy costs, network charges and retailer operating costs. These costs fluctuate over time and are passed through by retailers to customers.

Whether retail price regulation remains in place or not will have limited bearing on these costs. If the underlying costs increase, retail prices will also increase. Therefore retail price regulation does not protect customers from increases in these costs.

Consequently, removing price regulation should not expose customers to any greater likelihood of rising prices than would otherwise occur. Where competition is effective and price regulation is removed, market forces should prevent retailers from charging inefficiently high prices as profit margins should approach efficient levels.

3.2 Price Regulation in Other Jurisdictions

FRC was introduced in Victoria in 2002, in both New South Wales and South Australia in 2003 and Queensland in July 2007.

One of the key features of FRC when it was introduced in each jurisdiction was that retailers could make competitive market offers, but the host retailer was required to provide a standing offer

[4] AEMC, *2014 Retail Competition Review*, Approach Paper, 17 January 2014, p. 6.
[5] AEMC 2013, *Review of Competition in the Retail Electricity and Natural Gas Markets in New South Wales*, Draft Report, 23 May 2013, p. 94

price to all customers who elected not to enter into a market contract. That is, the standing offer price was subject to price regulation.

At the time, it was considered that independent oversight of retail pricing was important to safeguard the interests of consumers until there was confidence that the market was operating as intended.

In 2004, all jurisdictions signed the Australian Energy Market Agreement (AEMA) and committed to remove retail energy price regulation where effective competition can be demonstrated.

Under the AEMA, the AEMC is responsible for assessing the state of competition in electricity and gas retail markets.

Following a series of reviews, the AEMC concluded that effective competition existed in the electricity retail markets of Victoria, South Australia and New Sales Wales.[6]

Subsequently, Victoria removed regulation of retail prices in January 2009 and South Australian removed controls in February 2013.

New South Wales has recently removed retail price controls effective from 1 July 2014.

3.3 Victorian Experience

On 1 January 2009, regulatory price controls over the default standing offer retail price were removed. Under this arrangement, each retailer (including new entrants) is required to publish a non-regulated standing offer tariff for those customers who have not entered into a market contract.

Given that regulatory price controls in the Victorian market were removed over five years ago, this market provides a useful indicator of how markets can respond to the removal of price regulation.

3.3.1 Retailer Entry and Activity

At the commencement of FRC in 2003, there were three host retailers (Origin, AGL and TRUenergy) holding 100 per cent of the Victorian market.

By 2012, the largest market share held by any one retailer was approximately 25 per cent with the total market shared between 17 retailers.[7]

In 2013, Victoria's economic regulator, the Essential Service Commission (ESC), undertook a market concentration test using the Hirschman-Herfindahl Index (HHI) as part of its review of the progress of electricity retail competition in Victoria.

The HHI is a commonly used measure of market concentration and is used by the ACCC for the purpose of merger assessment under the *Competition and Consumer Act 2010* as well as by the Queensland Competition Authority (QCA) in assessments of market power of network monopoly businesses.

The analysis undertaken by the ESC demonstrates that since the removal of price regulation, the level of concentration in the Victorian retail market has displayed a downward trend with the levels in the last two years of the analysis (2011 and 2012) achieving the lowest market concentration since the introduction of FRC in 2003.[8]

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[6] See AEMC Effectiveness of Competition Reviews for Victoria (Second Final Report, February 2008); South Australia (Final Report, September 2008); and 2013 New South Wales (Final Report, October 2013).
[7] ESC, *Progress of Electricity Retail Competition in Victoria*, Research Paper, May 2013, p. 16 and 19.
[8] ESC, *Progress of Electricity Retail Competition in Victoria*, Research Paper, May 2013, p. 20.

3.3.2 Customer Activity

By 2007, 50 per cent of residential customers and 70 per cent of small businesses had switched to a market contract. Those customers remaining on standing offers tended to do so because they liked their current retailer or they considered the choice between retailers to be unimportant to them. Irrespective, the AEMC considered that it could not be assumed that those customers were not receiving benefits from competition.[9]

The ESC also undertook analysis of churn rates and customers switching between retailers. The ESC analysis reveals that in each of 2011 and 2012, 17 per cent of customers switched retailers. In addition, the ESC found that churn rates in both of these years was 27 per cent.[10] These switching and churn rates place Victoria's customer switching activity as some of the highest in the world.[11]

3.3.3 Customer Experiences

In 2013, the ESC commissioned Wallis Consulting Group to undertake a survey of residential customers consuming less than 160MWh per annum of electricity and 5TJ per annum of gas to understand consumers' experience of the Victorian electricity and gas markets.

Some of the key findings from this study included:[12]

- while the majority of Victorians had switched retailer since the introduction of full retail contestability in 2002, most do not switch often. When they do switch, it is more likely to be due to a retailer contacting them, rather than being proactive in seeking a new retailer;
- while the slight majority of Victorians continue to purchase electricity from first tier retailers, the proportion dealing with second tier retailers has increased since 2007;
- around a third of those who have not changed retailer since 2002 have nonetheless negotiated new purchasing arrangements with their current retailer;
- price is the principal motivator (by quite some margin) to switch retailer or enter a new agreement with the existing retailer; and
- Victorians were generally satisfied with the arrangements they had entered into, and provide reasonable ratings of the process of entering agreements. Only one in ten who had entered a market contract had encountered issues when entering these agreements.

3.3.4 Conclusion - Victorian Experience

The ESC concluded that competitive activity had picked up rapidly after the introduction of FRC and the pace of competitive entry had increased further following the removal of price regulation.

There was evidence that customers were 'shopping around' to obtain the best deal and by doing so were imposing competitive pressures on retailers.

However, the ESC has also noted that retailers can do more to engage with their customers and emphasised the importance of retailer compliance with industry regulations and codes of conduct.

3.4 South Australian Experience

Given that price regulation in South Australia was only removed in 2013, limited data is available to assess the performance of the market.

However, there has been some assessment of the price performance of the South Australian market since deregulation.

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[9] ESC, *Progress of Electricity Retail Competition in Victoria*, Research Paper, May 2013, p. 12.
[10] ESC, *Progress of Electricity Retail Competition in Victoria*, Research Paper, May 2013, pp. 22-23.
[11] Refer Figure 5.4 of this submission for reference.
[12] Wallis Consulting Group, *Victorians' Experience of the Electricity Market*, ESC Commissioned Report, August 2013, Reference Number: WG4092, p. I.

In August 2013, the Essential Services Commission of South Australia (ESCOSA) published its first Ministerial Pricing report (which is similar to the intended price monitoring arrangements proposed in SEQ).

The ESCOSA Pricing report provides an annual comparison for electricity and gas retail prices for South Australian residential and small business customers.

The ESCOSA report concluded that market offer prices are generally much lower than standing offer prices, and that all customers remaining on standing offer prices could have accessed significant savings by switching to a market offer.

4 Performance of the SEQ Retail Market since FRC

FRC was introduced in Queensland energy markets on 1 July 2007. Since that time, the market has matured considerably, with increased retail competition and customer activity.

The key objective of having regulated prices at the commencement of FRC was to facilitate the development of competition in the SEQ retail electricity market and to provide a transition to price deregulation.[13]

The Government has indicated that a pre-condition for removing price regulation in SEQ is a positive review by the AEMC regarding the effectiveness of retail competition in SEQ and its possible future development.[14]

Recognising that the AEMC will conduct its own independent review, Origin has nevertheless compiled data in order to assist the Committee in its understanding of the performance of the SEQ market and to assist it in its consideration of the legislative package.

Our analysis has focused on what we consider to be key performance attributes of an effective market, namely whether:

- tier 2 retailers are entering the market;
- tier 2 retailers are active in acquiring market share;
- retailers are competing by offering price discounts;
- consumers are responding to retail competition and are entering market contracts.

4.1 Retailer Entry and Activity

In a well functioning competitive retail electricity market, most customers will actively participate by exercising choice to ensure they obtain the price and conditions that best meets their individual requirements.

The number of active retailers and the relative size of their respective customer bases provide an indication of the competitiveness of the electricity market. The greater the number of retailers and the smaller the market share of an individual or small group of retailers, the less likely it is that an individual retailer can use their market power to influence prices.

There are 13 active retailers currently supplying residential and small business customers in SEQ.[15] This current level of retailer participation is commensurate with levels in the deregulated markets of Victoria (17)[16] and South Australia (12)[17] and also NSW (12)[18] where the AEMC has concluded that effective competition exists. These figures represent licensed retailers that are active in the market, not just license holders.

In terms of market share, data compiled by the QCA demonstrates that the market share of second tier retailers in SEQ has generally increased. The QCA data, shown in Figure 5.1, demonstrates that

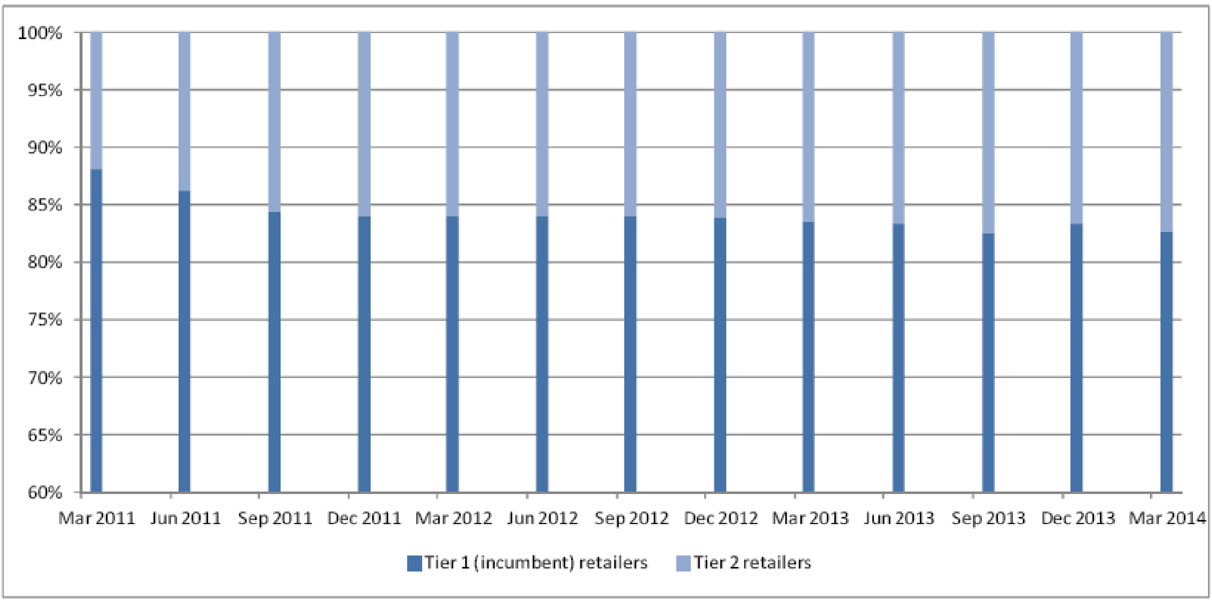
[13] QCA, *Regulated Retail Electricity Prices 2014-15*, Final Determination, May 2014, p. 30.
[14] Mr Benn, Acting Deputy Director-General, Energy, Department of Energy and Water Supply, Public Hearing—Inquiry into the National Energy Retail Law (Queensland) Bill 2014 and the Electricity Competition and Protection Legislation Amendment Bill 2014, Transcript, Wednesday 4 June 2014, p. 11.
[15] http://comparator.qca.org.au/Price-Comparator/Electricity-Retailers
[16] ESC, *Progress of Electricity Retail Competition in Victoria*, Research Paper, May 2013, p. 12.
[17] ESCOA, *Energy Retail Prices in South Australia*, Ministerial Pricing Report, August 2013, p. 7.
[18] AEMC 2013, *Review of Competition in the Retail Electricity and Natural Gas Markets in New South Wales*, Draft Report, 23 May 2013, p. ii.

the tier 2 market share has increased from 16.6% in June 2013 to 17.4% in March 2014, even with the recent acquisition of tier 2 retailer APG by tier 1 retailer AGL.[19]

Furthermore, the impact on competition from the Government's decision to freeze tariff 11 in 2012-13 is difficult to determine, although this policy decision did coincide with a flattening in customer switching activity. In addition, the subsequent move to more cost reflective prices saw a rebound in switching activity to current observed levels.

It is also worth noting that QEnergy indicated that it was not actively seeking customers in SEQ because notified prices were too low and that Alinta Energy was only making offers to large unregulated business customers for the same reason.[20] Removing price regulation will better allow retail businesses to manage their risks and therefore encourage similar retail businesses to enter the market.

Figure 5.1: Market shares between Tier 1 and Tier 2 Retailers in Queensland

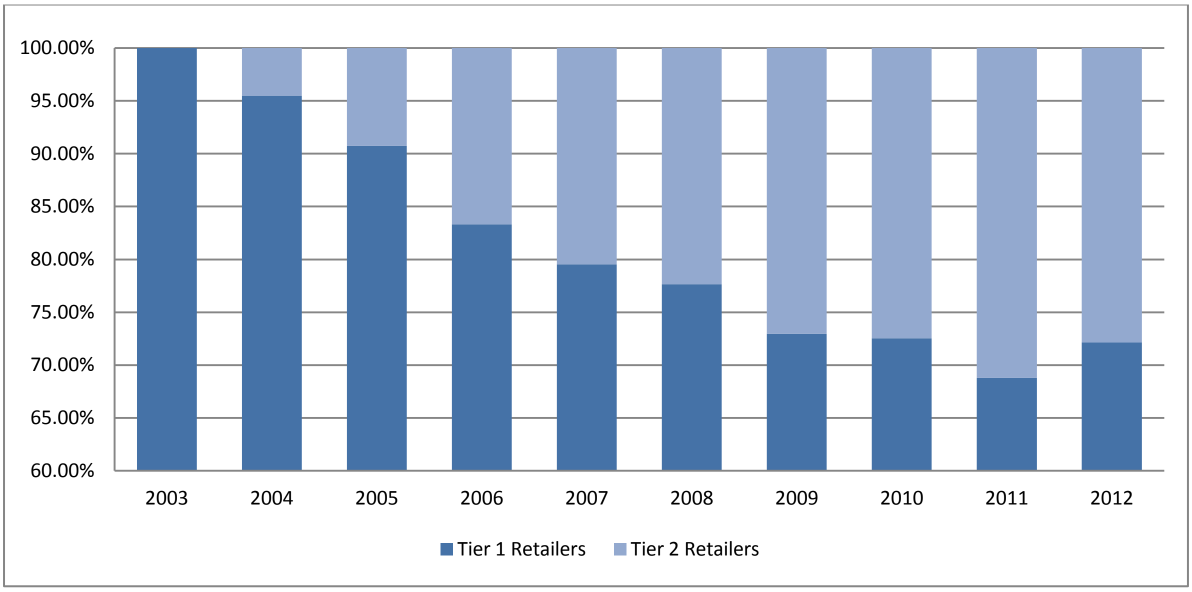


Source: *Queensland Competition Authority, Final Determination Regulated Retail Electricity Prices 2014-15.*

By way of comparison, Figure 5.2 demonstrates the market share between tier 1 and tier 2 retailers in Victoria since the introduction of FRC. In the more mature Victorian market, tier 2 retailers achieved a market share of 27 per cent by 2012. This also includes the acquisition of tier 2 retailers by tier 1 retailers during this time.

[19] QCA, *Regulated Retail Electricity Prices 2014-15*, Final Determination, May 2014, p. 34.
[20] QCA, *Regulated Retail Electricity Prices 2014-15*, Final Determination, May 2014, p. 34.

Figure 5.2: Market shares between Tier 1 and Tier 2 Retailers for Victoria



Source: *Adapted from data in ESC, Progress of Electricity Retail Competition in Victoria, Research Paper*.

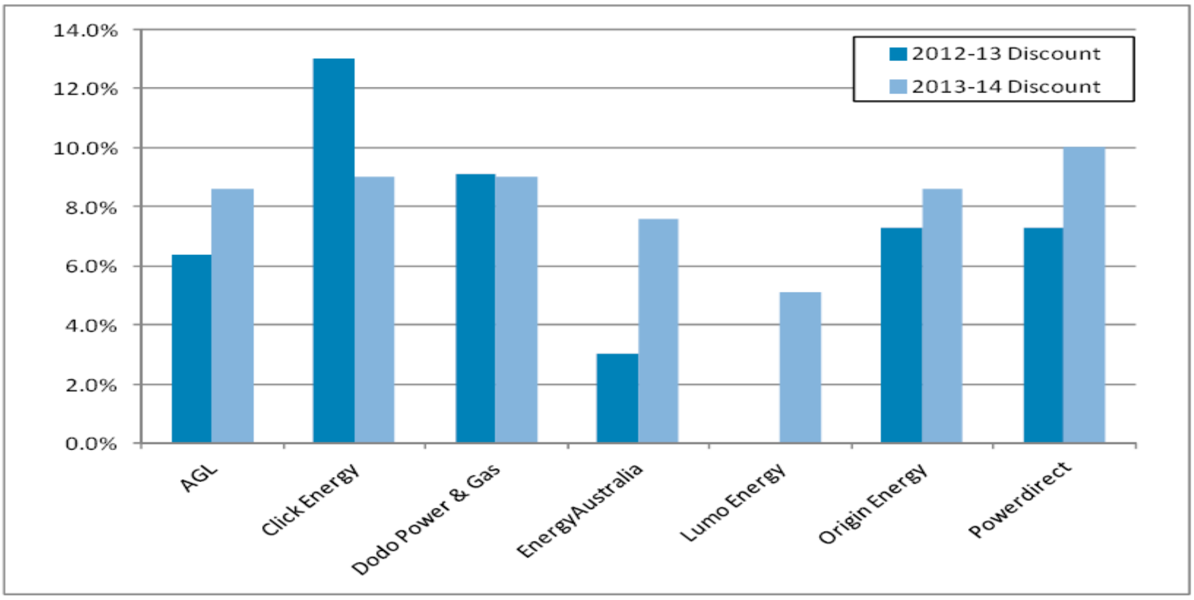
Given that Queensland was subject to price regulation over the same period, the Queensland market has demonstrated a relatively robust ratio of market share between tier 1 and tier 2 retailers.

4.2 Price Discounts

As part of its 2014-15 retail price determination, the QCA identified that as at May 2014, there were 66 supply offers available to residential customers offering a range of contractual terms, conditions and incentives.

A comparison of the best generally available discounts offered by retailers to residential customers in 2012-13 and 2013-14 respectively is presented in Figure 5.3.

Figure 5.3: Discounts offered to residential customers in SEQ (percentage off total bill)



Source: *Queensland Competition Authority, Final Determination Regulated Retail Electricity Prices 2014-15*.

The QCA data highlights that retailers' discounts are generally larger in 2013-14 than 2012-13, notwithstanding that the largest single discount was offered in 2012-13.

Bu way of comparison, in South Australia, the ESCOSA Ministerial Pricing report showed that as at August 2013, a simple average of market offer prices was 6.5 per cent lower than a simple average of standing offer prices. [21]

4.3 Customer Activity

Customer switching rates provide a useful indicator of the level of competition in a market as it demonstrates that customers are responding to competitive offers being tabled by retailers.

The Australian Energy Market Operator (AEMO) maintains data on the switching rates of National Energy Market (NEM) jurisdictions. With respect to Queensland, the AEMO data also contains Ergon Energy data. However, the QCA has separated the Ergon Energy data out of the broader Queensland data set provided by AEMO. This is presented in Diagram 5.4.

Based on the first 10 months of 2013-14, the average switching rate in SEQ is 17%. The average switching rate during 2012-13 was 18%.

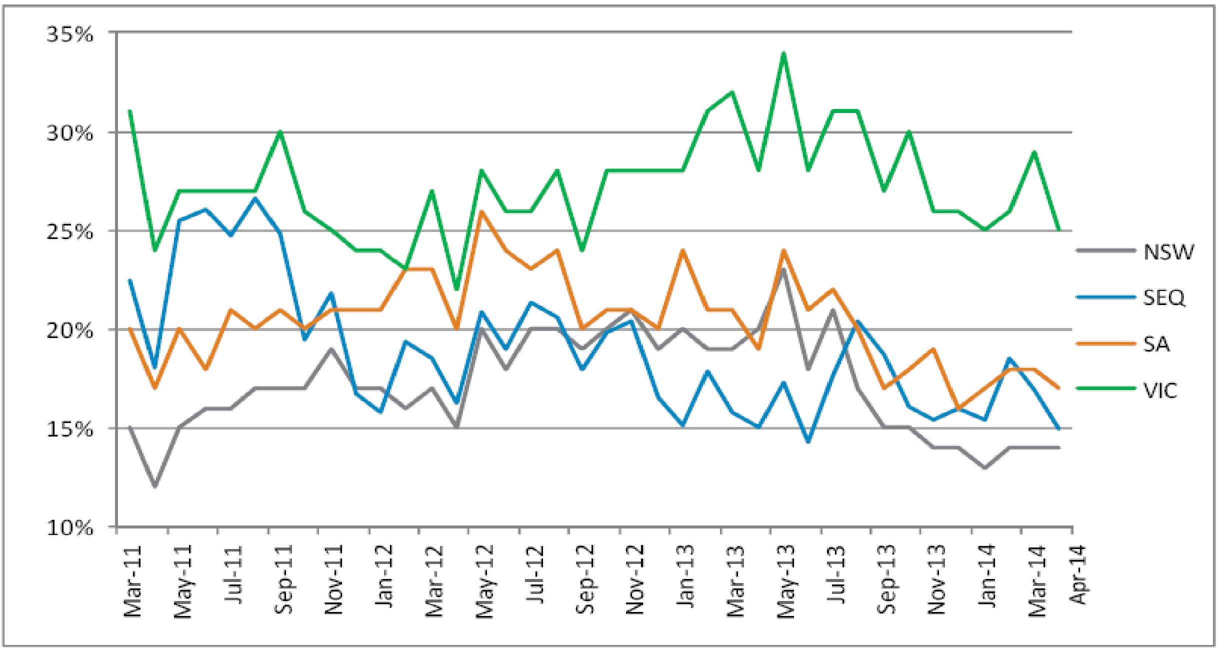
This compares favourably to NSW which recorded a switching rate of 15% in 2013-14, South Australia with a rate of 18% and Victoria with 28%.

As noted by the QCA, at current switching rates, SEQ would be considered a very active market by international standards.[22] Based on the World Energy Retail Market Switching Analysis and Rankings Report published by VaasaETT, SEQ is considered at the upper end of active markets. This comparison is provided in Figure 5.5. When making a direct comparison between the AEMO and VaasaETT analysis it is useful to recognise there are slight definitional differences and the timing is not directly comparable. Notwithstanding, these differences do not diminish the fact that the two agencies have provided consistent conclusions that have been determined independently.

It should also be noted that while switching is an effective indicator of the extent of competition, there is also another layer of competitive activity where retailers look to preserve their existing customer base through counter-offers. While less visible, this activity is a material contribution to the competiveness of the market.

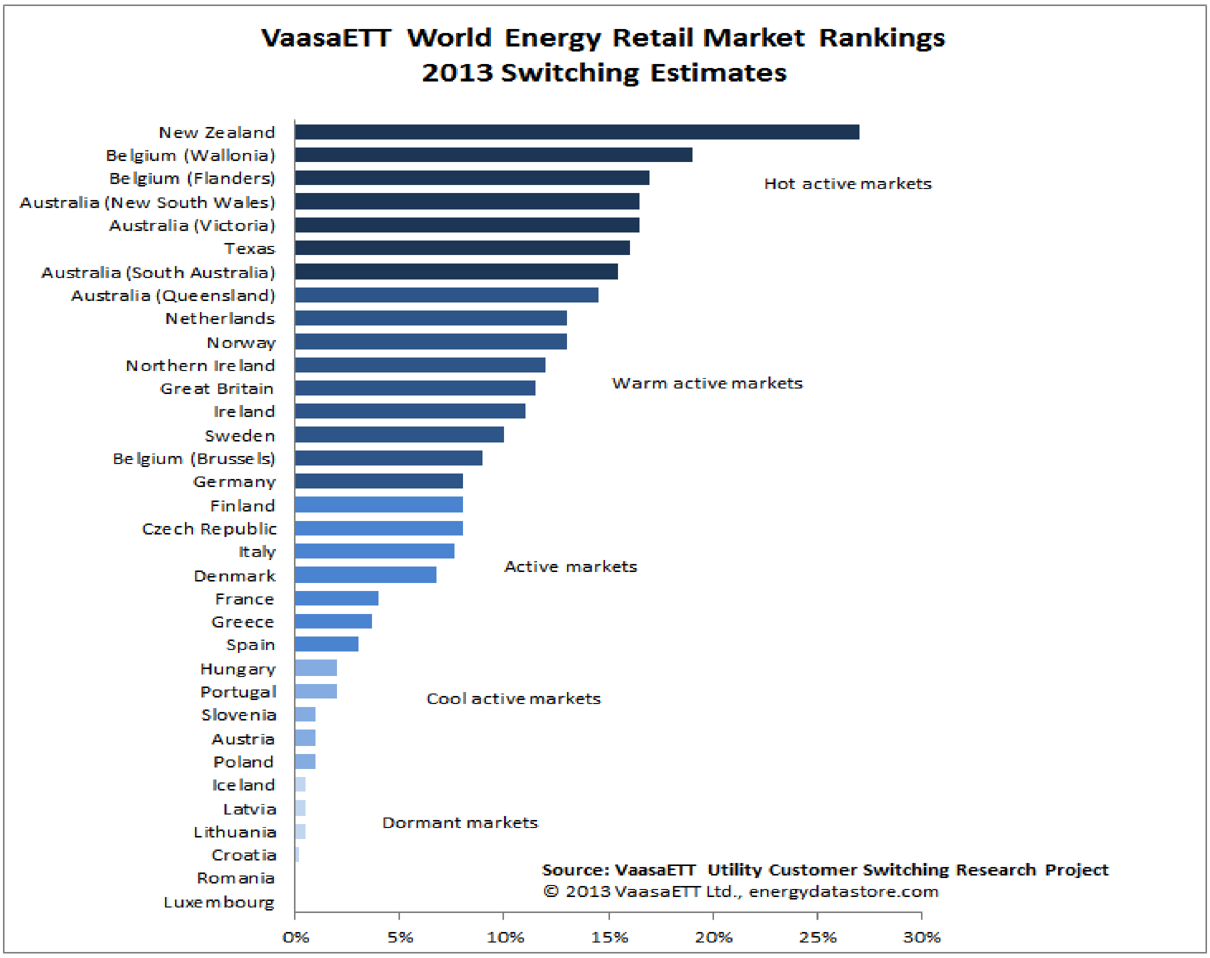
[21] ESCOA, *Energy Retail Prices in South Australia*, Ministerial Pricing Report, August 2013, p. 21.
[22] QCA, *Regulated Retail Electricity Prices 2014-15*, Final Determination, May 2014, p. 29.

Figure 5.4: Monthly Annualised Switching Rates



Source: *Queensland Competition Authority, Final Determination Regulated Retail Electricity Prices 2014-15.*

Figure 5.4: Comparison of International Switching Rates



4.4 Conclusion

Since the introduction of FRC in 2007, the SEQ retail electricity market has matured significantly. There is now considerable third party retailer entry into the market which is generating increased competition.

As a result, customers are responding to the sizable discounts brought about by this competition with over 70 per cent of SEQ customers having now entered into market contracts.

This demonstrates that not only is competition in the SEQ market driving favourable price offerings relative to the current regulated price, but customers are increasingly responding to secure better deals.

With obstacles such as non cost reflective retail tariffs and obsolete tariffs now in the process of being removed, Origin expects that following the introduction of market monitoring, the retail market is likely to expand, providing customers with a greater choice of products and services at the lowest efficient cost.

5 Proposed Monitoring Regime

The proposed legislative package provides the relevant Minister with the power to direct the QCA to monitor and report on the operation of the SEQ retail market.

This includes but is not limited to:

- retailers' prices, charges and fees;
- a comparison and assessment of standing offer prices and market offer prices;
- variations to retailers' standing offer prices and market offer prices; and
- information about any trends in relation to variations to retailers' standing offer prices and market offer prices.

The legislation also provides that the Minister may direct an appropriate entity to conduct a review of the SEQ retail market and provide advice as to whether the Minister should keep, remove or reintroduce price controls.

Origin considers that these arrangements sufficiently empower the Government to obtain information that is independent, relevant and accurate and will allow it to make an informed judgment regarding the effectiveness of competition. The proposed regime also provides Government with the powers to make appropriate policy decisions to remedy any deficiencies in the operation and conduct of the market.

In terms of the most suitable agency to undertake this activity, Origin agrees that the QCA is best placed to undertake the role of price monitoring given their experience and knowledge of setting standing offer prices in the SEQ market in the past.

5.1 AER Performance Reporting

In addition to the proposed market monitoring arrangements, under the National Energy Retail Law (Retail Law), the Australian Energy Regulator (AER) is responsible for reporting on retailer performance.

The AER reporting consolidates quarterly data reported on such indicators as customer service and complaints, energy bill debt, and disconnections and reconnections. It also reports on the number of customers receiving energy concessions, payment of security deposits (and the value of those deposits) and energy affordability.

The aim of the AER report is to highlight examples of good practice, as well as areas of concern. As it develops nationally consistent data, the AER will establish national benchmarks for performance levels.

Through adoption of the Retail Law, the AER report will offer an additional source of information to allow Government to draw a meaningful conclusion about the effectiveness of the SEQ retail electricity market.

6 Customer Protection

The proposed legislative package will adopt the NECF as part of the introduction of market monitoring.

The introduction of the NECF will provide a comprehensive consumer protection regime.

Furthermore, the NECF was developed with the key input and agreement from industry, consumer groups, and governments creating a robust and standard approach to customer protection across all jurisdictions.

The NECF will benefit customers through higher levels of consumer protection than currently exists. In particular, the framework provides enhanced protections in the following key areas:

- contract terms and conditions;
- payment and billing;
- fees, charges and price changes; and
- hardship.

In addition, the proposed legislative package will also ensure residential consumers and small customers will continue to have access to the Energy and Water Ombudsman Queensland.

6.1 Contract terms and conditions

The NECF provides a standard retail contract for small customers. This contract contains minimum prescribed terms and conditions. These conditions cover aspects such as the start and end of the contract, price and price changes, payment and billing, payment difficulty, disconnections, complaints and dispute resolution.

This contract will apply to all customers in SEQ who elect to stay on a standing offer.

In addition, the NECF also provides for minimum terms and conditions for market retail contracts for small customers. Following the transition to market monitoring, where a customer is on a market contract that provides lesser terms than the minimum terms and conditions provided for under the NECF, the NECF conditions are to apply.

In addition, gas customers will get the same level of support as electricity customers, meaning it will be much easier for dual fuel households to understand their rights, and receive better support if they experience financial difficulty.

Origin considers that having in place minimum contract conditions for ***all*** small customers provides a critical protection mechanism that provides enhanced conditions than currently exist. This is a significant and desirable characteristic of the proposed framework for the introduction of market monitoring in SEQ.

6.2 Payment and billing

Origin considers that NECF will provide greater certainty regarding the timing and entitlements around billing.

In particular, the proposed package provides for:

- bills must be issued to consumers on standard retail contracts at least once a quarter with no exceptions;
- customers have the right to ask for their bills to be smoothed to avoid summer peak bills;

- bills must contain relevant information to allow customers to better understand usage and the value of any existing government energy concessions and rebates; and
- retailers have to tell consumers about flexible payment options upfront, such as pay in advance.

Origin considers the NECF will result in simple and transparent billing arrangements and more importantly information and bill formats that customers seek.

6.3 Fees, charges and price changes

Origin agrees that it is important that following the introduction of market monitoring, customers have certainty regarding the price and fees they are paying.
Origin considers the following attributes of the legislative package provide customers with a significant degree of certainty and protection regarding fees and charges:

- exit fees can only reflect reasonable costs;
- for the first year of market monitoring, retailers won't be able to vary their price for consumers on standard retail contracts, unless the price does down;
- for the first 2 years of market monitoring, retailers can't introduce new types of fees and charges for consumers on standard retail contracts;
- once set, standing offer prices cannot be changed within a six month period;
- consumers will get advanced notice of price changes;
- consumers will get advanced warning about the expiry of benefits;
- barriers to retailers lowering standing offer prices for SEQ consumers will be removed (i.e. prices can be lowered at any time);
- retailers must offer at least one market contract with no exit fee; and
- retailers must tell consumers about concessions and rebates in disconnection warning notices.

Origin notes that the Queensland specific amendments include conditions that exceed the protections that are currently in place in SEQ and in many instances exceed the protections that apply in other jurisdictions.

Origin agrees that appropriate safeguards around fees and price changes are necessary and appropriate. However, it is important to also recognise that overly prescriptive mechanisms can, in some instances, be resource and cost intensive.

For example, overly prescriptive requirements regarding price change notifications will deter new entrants because the costs of operating in the market become prohibitive. This in turn will dilute competitive rivalry and lessen the range of innovative products available to customers.

Origin considers that rather than imposing prescriptive mechanisms to retailer conduct, a better response is to empower customers with knowledge and the power to switch retailers. As a result, retailers will be incentivised to better understand the expectations of customers and to therefore respond with the most effective and least cost response, or risk losing market share.

For example, Origin has already removed exit fees from all residential plans. On the one hand, this empowers Origin's customers to switch easily to another retailer without cost, on the other hand it's a response to customer demands for more flexible products which we believe will attract and retain customers.

For these reasons, Origin considers that it would be more effective and cost efficient to allow retailers to determine the mechanism to advise customers of variations in their prices subject to conditions of the National Energy Retail Law (Queensland).

6.4 Hardship

Queensland retailers currently volunteer support to consumers experiencing financial difficulty due to hardship. The NECF will lock in these arrangements and make sure they are being delivered.

The proposed legislative package requires retailers to develop, implement and publish a customer hardship policy. In addition, the NECF sets out the minimum requirements that retailers must meet.

As a result, a retailer's customer hardship policy must include processes to identify customers experiencing payment difficulties due to hardship, offering flexible payment options, processes to identify concessions, financial counselling services, processes to review customers' market contracts and programs to assist customers with their energy efficiency.

Under the NECF, the AER is responsible for approving the hardship policies of Queensland retailers. Origin considers that this provides consumers with confidence that the robustness of retailers' hardship policies are being independently assessed.

6.1 Summary

Origin considers that the enhanced customer protection provisions contained in the legislative package provide significant benefits over and above those that currently exist.

Under these arrangements customers will enjoy better contract terms and conditions, greater certainty regarding billing, fees and charges, better marketing practices and stronger hardship protections.

Origin also considers that it is important to also recognise that overly prescriptive mechanisms can be resource and cost intensive. In some instances, retailers are better placed to understand the expectations of customers and respond with the most effective and least cost response, or risk losing market share.

For these reasons, Origin considers that the customer protection provisions contained within the legislative package are relevant and appropriate.

7 Customer Engagement

The Government's 30 year Electricity Strategy – Powering Queensland's Future noted that customers lacked confidence in their choice of retailer and find it difficult to make an accurate comparison of retailers and their products.

Similar findings were made in NSW that some customers find information too complicated while others find it inadequate.[23]

In response, Origin has been actively engaging with both its SEQ customers and those in the broader market. In response to feedback, Origin recently announced the following initiatives to better service the needs of our customers:

- removing exit fees from all residential plans (commenced 31 March);
- extending call centre hours from 7am to 9pm, Monday – Friday (commenced 5 May);
- opening a series of Customer Service Hubs and a dedicated webpage to listen to customer feedback – www.originenergy.com.au/change;
- an end to all door knocking and cold calling to households (commenced 2013); and
- more flexible payment options which allow customers to pay their bills in weekly, fortnightly or monthly instalments;
- through our website and customer portal we have instructional videos and interactive tools to educate customer on how best to manage their energy consumption to save money;
- a dedicated energy advisor to work with the media to raise awareness of sustainability and energy management. This role has featured in numerous articles in Queensland newspapers (with a circulation list of almost 2 million people) and appeared on the national television program *A Current Affair*.

Ahead of the implementation of the market monitoring regime, we are implementing a number of further initiatives. These are aimed at improving customer engagement in the market to allow consumers to reap the full benefits of increased competition and drive a more responsive sector and include:

- delivering improved electronic billing with web links to allow for easy bill payment;
- helping customers manage their bill by promoting our bill smoothing solution (Easipay) and providing SMS bill arrival and payment reminders;
- making it easy for customers to move home and establish their new connection arrangements;
- managing customer issues through to resolution; and
- improving the quality of customer correspondence by adopting a straightforward tone.

Origin also has in place a number of initiatives directed at engaging with the community about energy so that consumers can better understand their energy options and make educated decisions about how to use energy efficiently. Origin provides information for retail customers through our Energy Explorer website on topics such as understanding electricity bills and natural gas. Further, Origin's most recent campaign 'Energy Made Fresh Daily' is supported by online resources and materials which provide information to the community about energy and the energy industry.

[23] IPART, *Review of Regulated Retail Prices and Charges for* Electricity From 1 July 2013 to 30 June 2016, Final Report, June 2013, p.

We consider these initiatives will complement the Energy Made Easy website maintained by the AER.

Under the National Energy Retail Law, the AER will operate a price comparator website (Energy Made Easy) that will provide residential and small business energy consumers with information about obtaining suitable electricity and gas services.

In addition to these initiatives, Origin welcomes the Government's plan to establish a consumer engagement strategy[24] to support the introduction of the market monitoring regime and looks forward to actively participating in this process.

[24] Department of Energy and Water Supply, *POWERQ: a 30-year strategy for Queensland's electricity sector*, 2014, Action 3.1, p. 33.

8 Conclusion

Origin considers that the retail electricity market in SEQ has evolved considerably since the introduction of FRC. There is now clear evidence that the entry of new retailers has resulted in active competition with the emergence of a growing selection of different products and services.

Moreover, there is evidence that customer are responding to this competition.

This demonstrates that the SEQ market is now delivering the benefits of an effectively competitive retail market.

Origin considers that if the constraints of price regulation are removed, competition for market share will put further pressure on retailers to provide products desired by customers at an efficient price and to deliver high levels of customer engagement and service.

The adoption of the NECF will provide a robust customer protection regime and a consumer engagement strategy to be developed by Government will provide the necessary safeguards to ensure the marketing monitoring regime operates as intended.

For these reasons, Origin considers the proposed legislative package in its current form will achieve the benefits of increased competition in the electricity retail sector and will deliver a viable, sustainable and competitive electricity industry in SEQ.

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