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Australian Energy Regulator Retail Market Performance Reporting

Australian Power & Gas (APG) welcomes the opportunity to provide comments on the Australian Energy Regulator (AER) Retail Market Performance Reporting Issues Paper. APG is becoming ever concerned at the level of scrutiny being faced by retailers. We are also concerned that a number of the suggested reporting elements contained in the issues paper are overstepping the boundary of the requirements of a retail market performance report. We would go further to say that some of the suggested elements are potentially outside of scope for reporting on market performance and are delving into areas of individual retailer performance.

APG is also concerned with the lack of evidenced based justification for the proposed reporting requirements. The AER must take into consideration the additional reporting costs that will be created through increasing the performance reporting indicators. Ultimately these costs are passed on to end use customers. Given this it is essential that any reporting requirement is backed by a substantive and transparent cost benefit analysis that demonstrates a whole of market benefit for the reporting requirement. Additionally we are concerned with the broad level of interpretation being applied to a number of statistics, especially those around energy affordability where the AER has failed to take into consideration the wider economic and regulatory constraints that impact on this issue.

APG would also wish to voice their concern with a number of potential reporting requirements set out in the issues paper that would require the disclosure of commercially sensitive information. Particularly the requirement to report on total sales revenue. If enacted this would be an unprecedented reporting requirement the likes of which does not exist in other service industries in Australia. APG strongly objects to the requirement to provide this level of confidential information.



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It is the view of APG that a significant number of the reporting statistics contained in the issues paper are able to be obtained from the market operator AEMO. Where the AER is able to obtain a relevant market statistic from AEMO it should do so in place of seeking it from individual retailers. Obtaining statistics / data from a central point will ensure consistency whilst reducing costs.

APG detailed comments on key areas of the issues paper are contained in the attached. We would welcome any opportunity to further discuss our comments with the AER directly. Should you wish to discuss any aspect of our submission I may be contacted on (02) 8908 2714 or via email: sruddy@auspg.com.au

Yours Sincerely

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AER Retail Market Performance Reporting Review

Number of Retailers & Active Retailers

APG support the view that for reporting purposes there are differing categories of retailers. In the issues paper these differing categories are referred to as authorised retailers and active retailers. In the issues paper the AER makes the distinction between the two on the basis of a retailer commencing marketing activity. That is a retailer should be reported as active in a particular reporting period if it has supplied or marketed energy to consumers at any stage within that period.

APG believes the definition of “Active Retailer” needs to be further defined. The term marketed energy to consumers is too broad. APG holds the view that for the purposes of reporting a retailer becomes an active retailer once they commence to supply consumers with energy and they continue to seek to acquire new customers.

To define a retailer as active on the basis that they may have commenced marketing activity in our view is flawed. A retailer may choose to market itself, for example to build brand recognition, well before it commences supplying customers. This type of marketing activity may occur in the absence of any direct contact with consumers.

We believe the trigger point for where an authorised retailer becomes an active retailer should be when the authorised retailer begins supplying energy to customers and continues to seek to acquire new customers. A retailer carrying out these two activities can be considered as active in the energy market.

We would point out our concern with the opinion expressed in the issues paper where the AER consider an active retailer would remain as an active retailer even where it ceased to acquire new customers. Where a retailer has ceased to acquire customers (and is only managing its existing customer base) it can not be considered to be active in the true sense of the term.

A misrepresentation of a retailer being classed as active when it is not acquiring customers has significant ramifications from a customer service and management perspective. In our own experience APG encountered issues where APG was represented as being an active retailer in a jurisdiction where we had ceased customer acquisition activity. As a result APG continued to receive customer enquiries seeking APG supply them with energy, managing consumer expectations became onerous and costly whilst undermining consumer confidence in the market.

We would urge the AER to carefully consider the classification of retailers and the triggers for establishing which category a retailer resides in. The AER must be mindful of the potential flow on implications from how retailers are classified.

In addition APG does not support the proposed requirement for retailers to report on their status on a quarterly basis rather a retailer should only be required to report a change in status to the AER. To be clear a retailer should only be required to report when it changes from an authorised to active retailer, there is no beneficial basis for a retailer to report periodically on its status if that status has not changed.

Number of Customers

In seeking information on the number of customers held by each retailer the AER needs to ensure that the reporting is carried out in a consistent manner. Differing interpretations on what constitutes a customer combined with the differing ways customers are recorded in retailers customer information systems means there is a probability that information reported may be inconsistent.

The way to ensure consistency in reporting is through data extraction from a central point. The AER in the issues paper has proposed the option for reporting on the basis of metering points registered to each retailer. This would be through the use of the National Meter Identifier (NMI) for electricity and the Meter Installation Reference Number (MIRN) or Delivery Point Identifier (DPI) for gas. The issues paper suggests that a retailer would be required to report on their number of registered metering points in each jurisdiction. Whilst requiring retailers to report on the basis of metering points will provide for definitional consistency a further way to ensure consistency in reporting would be for the AER to request the required information direct from the Australian Energy Market Operator (AEMO), AEMO being the market operator is the central repository for this information and is in the position to provide a concise consistent report.

In the absence of the AER obtaining the required information from AEMO, then APG holds the view that customer number reporting should be based on metering points and not number of customer contracts held by the retailer. The use of metering points would potentially allow for reconciliation with AEMO numbers, where as customer contract numbers would not.

Where a retailer is required to provide this information to the AER the frequency for reporting should be annually. Reporting on this information on a quarterly or 6 month basis will add unnecessary cost for little value. If the AER intent to introduce a greater level of frequency in reporting then it needs to demonstrate through a transparent review process that the benefits to do so out way the costs. Again information on customer activity can be obtained directly from AEMO.

We would again strongly urge the AER that wherever possible to obtain data directly from the market operator AEMO.

Number of Customers with Standard and Market Retail Contracts

As previously stated APG holds the view that wherever possible the AER should seek to use / obtain market data directly from the market operator AEMO. Consistent with that view the AER should be

seeking to obtain differential customer information direct from AEMO. Where existing market systems have limitations on the identification and provision of data these should be addressed.

In differentiating customers on standard and market contracts (where the reporting requirements are to be met by retailers) the reporting must be kept as simplistic as possible to avoid both unnecessary cost and potential inconsistent information.

Whilst APG sees merit in reporting on the number of residential, small market offer and small business customers in each jurisdiction that are on either a standard or market offer contract, we however believe the frequency of such reporting should be on an annual basis. When considering the time period from acquisition to transfer and billing, we believe the quarterly timeframe to be too short a period to provide meaningful insight into the market.

We note the comment in the issues paper regarding the potential benefit of including information on the number of residential customers on a market contract who are on a payment plan or on the retailer's hardship program. The rationale for this is that it may provide an indication as to whether the benefits of competition are being extended to the most vulnerable customers. APG does not agree with this assumption.

We would point out that the timeline is such that a retailer will only identify a vulnerable customer after that customer has transferred too and is being supplied by that retailer. Therefore there is no correlation between customers on market contracts that are on payment plans or in the retailer's hardship program and their access to competitive offers, as the access to the competitive offer comes before the retailer is aware of the potential vulnerability of the customer.

As such we cannot support the inclusion of such a reporting requirement.

Customer Transfers between Retailers

As has been previously stated APG holds the view that wherever possible the AER should seek to use / obtain market data directly from the market operator AEMO. Consistent with that view the AER should be seeking to obtain customer transfer information direct from AEMO. Where existing market systems have limitations on the identification and provision of data these should be addressed.

We note the comment in the issues paper that the use of AEMO data may have the potential to overstate the number of transfers between retailers due to "coincidental" transfers such as those arising from changes in occupancy. APG believe the number of potential coincidental transfers is such a minute percentage of the total number of market transfers that this should not preclude the use of market data from AEMO.

At this time APG does not see there to be a significant level of benefit to be gained from reporting on the number of customer transfers within a particular customer category. Further the use of customer transfer statistics to inform discussion on retail performance has limitations. Customer transfer is not

the only indicator of market performance. To inform discussion on retail performance the AER must take into account a varied number of indicators. We would be concerned if the AER was to focus on transfer statistics as a lead indicator of retail market performance.

Energy Affordability

APG would urge the AER to use extreme caution in attempting to define or determine energy affordability through the isolated use of energy market indicators. To assume energy affordability can be determined through assessing energy price, consumption and available income in isolation of assessing the wider social and economic forces is a far too simplistic approach. There are a number of complex factors some market and some social that impact whether a consumer has the ability to pay for their energy consumption or whether they choose to pay for their energy consumption.

In attempting to assess energy affordability through energy market indicators such as debt levels, direct debit defaults etc, you first have to differentiate between those customers who have the capacity to pay and choose not to and those customers that do not have the capacity to pay but want to. The first classifications of customers, (those who choose not to pay) have to be excluded from any statistical reporting that is to be used in an attempt to determine energy affordability. This is a difficult task as a retailer will not be able to determine this easily. It is only those customers that truly do not have the capacity to pay for their energy consumption that should be included in any statistical analysis being used in an attempt to assess energy affordability.

It should also be considered that the regulatory environment also impacts a customer's choice when they are choosing to pay for multiple services. A consumer on a fixed income is more likely to pay for a service where there is a greater probability that access to that service will be impacted through non-payment.

The regulatory environment for energy is such that retailers have a number of stringent procedures to adhere to prior to carrying out any action that would impact a customer's supply of energy. In comparison the telecommunications industry does not have these same requirements. Therefore as there is a higher likelihood that a customer's access to telecommunications services will be impacted through non-payment (then there is with their energy supply) customers will choose to make payment towards their telecommunications services before making payment towards their energy services.

The non-payment of the energy account does not equate to an issue with energy affordability. Rather there may be inadequate total income to cover all customer requirements, which is an indication of a greater (general) affordability issue that is the social responsibility of the government of the day.

Cost of Energy

APG strongly objects to any requirement being placed on retailers to report on total sales revenue. Collection of information on retailer's total sales revenue is (in our view) not within the scope of the AER retail market performance reporting. Further we believe there is no mandate for the AER to request such information. For publicly listed companies such as Australian Power & Gas this information is commercially (price) sensitive information and any disclosure must be compliant with the disclosure requirements of the Australian Securities Exchange.

At this time we hold the view that if requested to provide such information we would decline the request until such time as the AER demonstrates;

1. It has a mandate that enables it to request such information,
2. It can be demonstrated that the provision of such information will not place retailers (who are publically listed) at risk of breaching the disclosure requirements of the ASX,
3. It can demonstrate and provide retailers with confidence on how the AER will ensure information provided is kept confidential,
4. It can demonstrate through substantiated evidence that there is a beneficial market outcome in providing the information, &
5. It can demonstrate that it is unable to obtain the required market indicators through information already available.

APG holds the view that there currently exists sufficient publicly available information which can be drawn on by the AER to make assessments on the cost of energy. Under the methods posed in the issues paper any derived outcome will be a general assessment at best. APG believes the same outcome can be achieved through utilisation of the publically available information such as that provided by retailers to jurisdiction regulators for use in their on line comparison websites.

The AER should look to this information in the first instance.

Reporting Requirements

APG holds the view that performance reporting should occur on an annual basis. A requirement to report quarterly or six monthly will only serve in creating additional costs on retailers which are ultimately borne by end use customers. We believe these additional costs will far out weigh any potential benefit from reporting more frequently.

Should the AER seek to introduce a reporting timeframe that is more frequent then annually then it must only do so after the completion of a substantive transparent cost benefit analysis that demonstrates a whole of market benefit in doing so.

Energy Debt

Consistent with our comments around Energy Affordability APG would urge the AER to use caution in attempting to use "Energy Debt" as an indicator of affordability. Customers may accumulate energy debt for a number of reasons. Again there is a need to distinguish between customer who chose not to pay their energy account and those who do not have the means to pay their account. Energy debt by itself should not be used as an affordability indicator.