

EFFECTIVENESS OF ELECTRICITY DEREGULATION ON QUEENSLAND SMALL BUSINESS

Enhanced Advocacy on Behalf of Small Business in
South East Queensland

Abstract

To identify whether Queensland small businesses are benefitting from the removal of price regulation in SEQ through lower prices and better service delivery.

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Executive Summary

The Chamber of Commerce and Industry Queensland (CCIQ) entered an agreement with Energy Consumers Australia (ECA) for the provision of advocacy funding to undertake a project to enhance advocacy on behalf of small businesses in South East Queensland (SEQ).

CCIQ is a voice for Queensland small business, advocating on behalf of 25,000 members to influence government policy and to keep public debate focussed on business issues. Small businesses make up 97 per cent of all businesses in Queensland. There are approximately 412,000 small businesses in operation employing over 1 million Queenslanders. Collectively these small businesses contribute 46 per cent of Queensland Gross State Product.

The high cost of electricity has been a contentious issue for Queensland small businesses for the past several years. Energy prices have more than doubled over the past decade for Queensland small businesses. This has had a number of impacts on the business operating environment. Small businesses are often unable to pass costs onto their customers for fear of losing their market share. Electricity is an essential input into nearly every good or service and accordingly its price is a key influence on the competitiveness of Queensland businesses.

Contextually many Queensland small businesses have done all they can do to reduce usage and exercise operational efficiencies and accordingly are exposed to electricity price increases. Recent CCIQ Pulse surveys have shown that increasing electricity prices is currently the most significant business issue with 65% of Queensland businesses surveyed indicating a major or critical concern with the cost of energy.

As such, CCIQ has been actively engaged in advocating for lower electricity prices.

CCIQ believes that this project was a means of uncovering the existing state of play for small businesses in SEQ after the deregulation reforms occurred on 1 July 2016. CCIQ views deregulation of retail electricity prices as an opportunity for small businesses to potentially influence the cost of their electricity bills.

The project sought to provide qualitative and quantitative analysis of the effectiveness of deregulation over a 6-12 month period for small businesses in SEQ. This project sought to sample SEQ small businesses electricity bills pre and post deregulation to measure a number of metrics including price, customer satisfaction, service delivery and ease of switching. CCIQ seeks to use these results to inform advocacy conducted on behalf of small businesses directly relating to their experience with deregulation and its effectiveness or otherwise. The results may also be used as a resource for the State Government to understand the small business experience when implementing retail competition reforms for regional Queensland.

The project involved the collection of small business electricity bills and survey responses to gauge differences in prices and service offering of retailers pre and post deregulation. CCIQ notes that there were a number of difficulties in obtaining bill data, and despite exhausting copious methods, many small businesses were simply unwilling or unable to provide the necessary information. Participants noted that this was mainly due to a lack of time as well as capacity to read their energy bills.

The results of the study clearly show that at this stage it is too premature to draw any conclusions about the effectiveness of deregulation. Rather, this study provides a sound benchmark to work from for future assessment. Important lessons to note for future studies is to engage participants in a way that allows for maximum time efficiencies; and to allow for a longer time frame in which to collect data.

Introduction

Queensland's electricity costs represent a major area where we can either stimulate or suppress ongoing economic growth. As with other 'costs of doing business' CCIQ believes we should champion the need to keep them as low as possible and develop an energy sector that is nationally and internationally competitive. It is pertinent to recognise that many Queensland small businesses have done all they can do to reduce electricity usage and exercise operational efficiencies and accordingly are exposed to electricity price increases.

Small businesses have indicated that as a result of high electricity prices they are investigating alternative energy options. A recent CCIQ Pulse survey revealed that as a result of rising electricity prices:

- 40 per cent of small business respondents had experienced decreased/substantially decreased profitability;
- 23 per cent had decreased/substantially decreased investment; and
- 34 per cent had increased/substantially increased supply chain costs¹.

CCIQ is supportive of the Queensland government's move to deregulate retail electricity pricing in SEQ where it is established that competition is effective and consumers are educated. The AEMC reported in the first quarter of 2016 that competition in the SEQ retail market was effective with a range of energy options available from 11 different retailers².

As retail prices make up approximately 20 per cent of the average small business electricity bill³, CCIQ views this reform as an opportunity for Queensland small businesses to benefit from price reductions. Retail deregulation is designed to increase competition in the market, which will allow customers to shop around for the best contract deal, consequently placing downward pressure on retail prices.

The removal of regulated prices aims to ultimately drive better outcomes for consumers in terms of choice, efficiency, customer service and lower prices, provided consumers are actively participating in the retail electricity market.

CCIQ's expectation is for small businesses to see not only better price offers but additional product and service offerings from retailers. One of the likely benefits of deregulation is to see more innovation enter the market. This will more adequately suit small businesses specific needs particularly those who take up alternative energy sources.

Benefits of deregulation:

There are many benefits to deregulation where the market is working effectively. Recently the Queensland Productivity Commission final report on electricity prices identified that ideally, rivalry between participants should work to protect consumers from the misuse or abuse of market power, reducing the need for a safety net price⁴.

These outcomes should result from multiple retailers competing with each other to attract and retain customers and to provide products and services that best meet their customers' needs at the most efficient price.

Where this occurs there should be no need for market regulation.

Deregulation has many advantages, which vary by industry including:

- Fewer barriers to entry in a particular market, which assists with improving innovation competition and efficiency. This should lead to better price outcomes for customers and improved quality of service;
- Increased options and choices for consumers in the longer term. This could include better plans, better reliability and better service; and
- More flexibility for businesses to formulate their own strategies and processes, without government interference or regulatory restrictions.

The AEMC identified that competitive pressures should result in:

- Prices that trend to the efficient cost of supplying a service;
- A quality of service that matches customers' expectations; and
- A choice of products and services that match customers' preferences.

Retailer product innovation is also a beneficial outcome of a more competitive market. A competitive market drives retailers to develop and deliver better services and products that better suit the needs of consumers.

Under a measured approach, opening the market to new entrants can lead to retailers looking for increased efficiencies as a way of remaining competitive. Deregulation has the potential to encourage the use of innovative technology products such as smart meters, smart grid technology, energy management systems and efficient power generators, as retailers look for their competitive edge.

Supporters of deregulating the electricity market believe retailers would need to continually seek new technologies, particularly in the space of collecting and analysing data to identify opportunities for improvement. It is the belief that retailers who previously held monopolies under a regulated market would have had little incentive to innovate or operate efficiently, so new market forces would assist in creating a cheaper, cleaner and more reliable electricity system.

Investment decisions under a deregulated market are also more likely to be made by entrepreneurs, engineers, financial advisers, etc. who have meticulously studied the market and believe profits can be made through offering their improved products. When investment decisions are not solely the

responsibility of government, innovation is therefore likely to occur more quickly due to the absence of red tape and bureaucracy.

New clean energy retailers such as Power Shop provide a great example of how small businesses can benefit from innovative products and services. Power Shop allows businesses who are passionate about environmental sustainability, but are locked into leasing arrangements or do not have the time or money to invest into their own initiatives, to make everyday choices that align to their own principles. This not only benefits businesses and consumers, but will provide more incentive for large companies to invest in renewable energy, due to the growing demand, and therefore support environmental best practice.

Increased competition could also see retailers improving how they provide their services. Retailers will need to closely look at household structures and how people currently use and pay for their electricity to determine the most attractive package for consumers. Only a couple of months before deregulation in Queensland's electricity market came into force, Origin offered Australia's first fixed cost energy plan which meant that Australians can now pay the same amount for their energy, no matter how much they used.

Other ways in which retailers may gain a competitive advantage is to look beyond current models and add even greater value to the consumer through approaches such as bundling the costs of mobile plans, internet and electricity. Furthermore, improved customer service will increasingly become a critical component as consumers begin to demand greater ease of interaction with their providers. This includes being able to access all the information they need through mobile devices and modern and easy-to-use technology platforms.

Furthermore, innovation can also occur on a policy level in not only how to manage the deregulation market, but also in encouraging new ways to further bring down prices for consumers and improve the productivity throughout the economy. Policy around removing barriers for new entrants, encouraging consumers to shop around, targets in renewable energy and incentives for innovation are all components that can ensure a deregulated market works in the way it is intended.

Detrimental impacts of maintaining a regulated market:

Maintaining price regulation in an effectively competitive market can be costly in terms of administration, compliance and the distortions it imposes on the effective functioning of the market to the detriment of consumers. The costs or risks associated with maintaining retail price regulation where effective competition exists (as identified in the QPC draft report on electricity prices) includes:

- Regulated prices being set too high – above competitive levels, to the detriment of consumers; or
- Regulated prices being set too low – below competitive levels, deterring investment and innovation;
- Creating a focal point – whilst it may reduce market complexity, if retailers base their market offers only in relation to a regulated price, market innovation can be impeded, limited choice to the detriment of consumers;

- Risk of collusion – a regulated price may enable retailers to set a very similar market price without active collusion;
- Regulatory costs and potential burden – direct costs of the regulatory body and the costs of the regulated companies associated with the regulatory process;
- Self-perpetuating - there is a risk that price regulation can result in a self-perpetuating system in which price regulation leads to a lack of competition, driving the need for continued price regulation.

Possible traps of deregulation:

The success of deregulation strongly relies on consumer participation to drive market stimulation. As such, CCIQ stress the importance of consumer awareness and education. It is important for the State Government to increase consumer awareness of the choices available and ensure small businesses have the necessary information and tools to understand and compare offers. Small business energy consumers require on-going guided education on how to participate in the electricity market so that retail prices remain competitive. Small business consumers must be empowered to switch retailer without impediment.

Small business disengagement in the electricity market is highly concerning to CCIQ. CCIQ has worked hard over the past couple of years to ensure our members have been well informed of the changes occurring and understand how to benefit. However, many businesses remain uninformed on these matters. CCIQ's June quarter 2015 Pulse survey revealed that 62 per cent of small business respondents never switch their energy retailer and 27 per cent switch every 2 years. The 2016 Small Business Survey on Comparing Electricity Deals revealed that 83 per cent of businesses surveyed have not switched electricity retailer in the past year. These trends are very concerning to CCIQ and highlight the need for more work to be done to ensure small businesses engage with the electricity sector further.

CCIQ believe it is also important to learn from the pitfalls that other jurisdictions have experienced. The Victorian market has shown that since deregulating retail electricity prices in 2009, prices have in fact increased substantially, with retail charges being higher than network charges. Now is the time to invest in making sure Queensland does not succumb to the same traps.

Methodology

CCIQ had initially sought to collect a sample size of 90 businesses. This sample size was based on the SEQ regions including Brisbane, Gold Coast, Ipswich, Logan-Beaudesert, Moreton Bay and Sunshine Coast. The sample size estimate was calculated using the proportion of the known population (all businesses in SEQ) that have the required characteristic (a small business). The proportion of small businesses was based on the count of businesses produced by the ABS on an annual basis. The sample size was populated working on a confidence interval of 95%, with a 5% margin of error.

Despite an extension of time granted by the ECA, CCIQ was unable to obtain the total 90 businesses for the bill analysis component due to a number of difficulties with engaging the small business sector. Instead a total of 50 pairs of small business bills were collected. Notwithstanding the fact that less bills were collected, it was evident from the 50 electricity bills obtained that obvious trends were emerging in relation to prices. These trends were also consistent with anticipated price changes predicted by the Queensland Competition Authority (QCA) in their annual price determination, thereby allowing for some conclusions to be drawn with relative confidence.

CCIQ then developed the Small Business Survey on Comparing Electricity Deals online survey to capture the qualitative and quantitative data from small businesses in SEQ. This survey was set up through Survey Monkey and consisted of two parts as follows:

1. Six qualitative questions on small businesses experience with the electricity market; and
2. Entry of data from two separate electricity bills (one pre and one post 1 July 2016).

CCIQ used a number of methods to promote the survey to our member base including:

- Email to all CCIQ members located in SEQ informing them of the project with a link to the survey;
- A pop up was added to the CCIQ Electricity Advocacy microsite to send visitors to the survey;
- An initial prize valued at \$250 was offered to those who completed the survey, which was then increased to \$1000 a few weeks later to incentivise more survey participants;
- A call to action link was added at the bottom of blogs about electricity deregulation for recipients of CCIQ's weekly blog newsletter; and
- Paid Facebook advertising was used to reach an audience wider than our direct membership.

In addition to the online survey, the CCIQ membership database was utilised to conduct the survey via phone.

CCIQ also utilised the CCIQ EcoBiz database for the collection of electricity bills from program participants located in the SEQ region.

Desktop research was then conducted on the impacts of deregulation and competition in other jurisdictions as well as the emergence of innovative products and services.

Findings

CCIQ notes that there were many challenges with trying to engage small businesses in the study. CCIQ believes that this is representative in itself of small business sentiment towards the electricity sector and their belief in possessing any agency over the outcome of their electricity pricing. Many small businesses commented that engaging in the electricity retail market was too time consuming and did not deliver equivalent cost savings.

Alongside capturing changes in consumer's electricity bill prices, CCIQ asked participants a number of survey questions to determine their perspective and experience of and within the retail electricity market.

The survey questions included:

1. Has the cost of your electricity bill increased or decreased over the past 6-12 months?
2. Have you switched to another electricity retailer to get a better deal in the last 6-12 months?
3. What would you perceive to be barriers to shopping around/switching retailers?
4. What was your experience of shopping around/switching retailer?
5. Have you used an online comparative tool?
6. On a scale of 1-5, how satisfied are you with your current electricity retailer in relation to:
 - a. Customer service
 - b. Value for money.

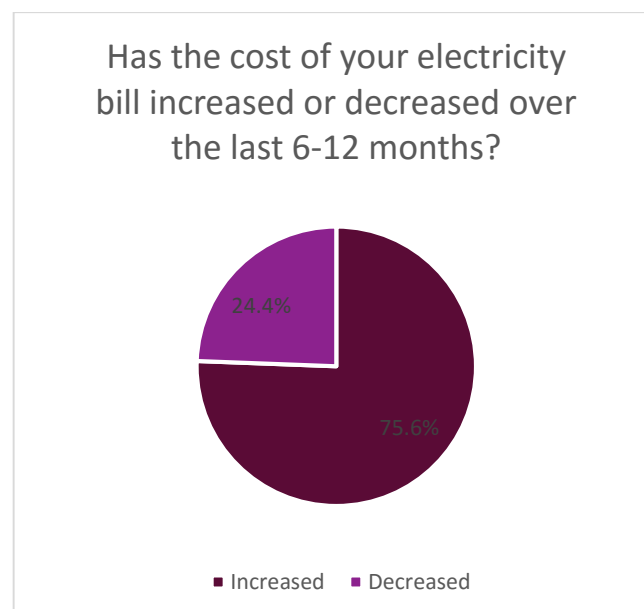
The survey also allowed for additional comments to be made under each question.

The Cost of Electricity Bills

The number one concern for all Queensland small businesses over the past decade in relation to energy is price. Queensland small businesses have become conditioned to expect double digit increases in electricity prices over the past decade. Small businesses have communicated to CCIQ that they have done all they can to reduce their usage and adopt energy efficient practices, but continue to experience price increases. As such, many hold the view that they no longer possess any control over influencing the prices they pay.

Therefore, it comes as no surprise that of the survey respondents to this question, over 75% believed that their electricity bill had increased in the last 6-12 months.

Figure 1



The majority of respondents who left further comments noted that their electricity bills had not increased substantially. Respondents who mentioned that their bills had increased significantly, had

not switched retail providers, stating that they found the potential process of switching confusing or had researched changing and found that they still could not improve on their current rate.

We did [switch], ...[paid] for a broker to get us the best deal, however Energex/Origin have made it so that they can charge what they like'

A small number of respondents commented that their bills were decreasing either as a result of having negotiated a better deal from their current retailer or as a consequence of recently installing solar panels in response to rising electricity prices.

Switching Rates

As of December 2015, in SEQ, there were 11 electricity retail businesses (13 electricity retail brands) serving 1.4 million small electricity customers⁵. A number of factors are considered when assessing the state of competition in a market place. One of these factors involves assessing customer activity in the market. The AEMC assess the following aspects to determine overall customer activity in the electricity retail market:

- Customer engagement;
- Customer switching; and
- Customer attitudes⁶.

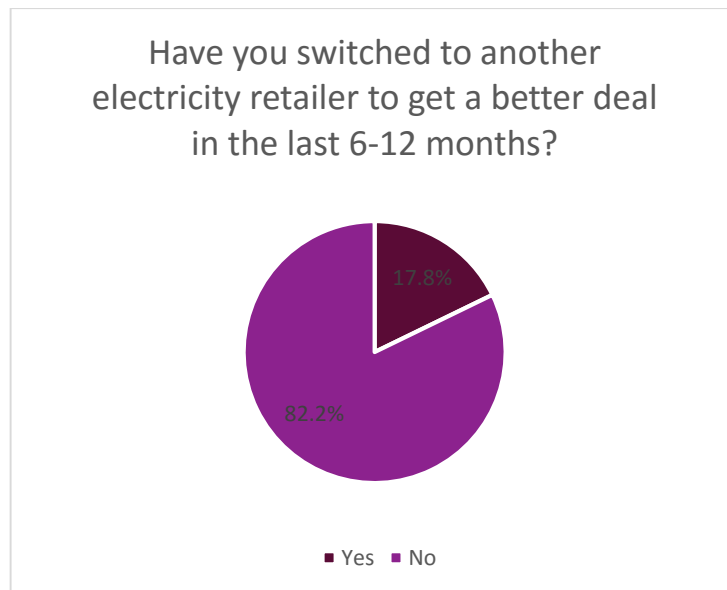
The AEMC provide that in competitive markets, customers are generally aware of the choices available to them and are able to act on those choices. By shopping around to receive a better deal or service, they play an important role in maintaining downward pressure on prices and driving retailers to provide new products and the quality of service customers demand⁷

While assessing switching rates is important, other aspects must be considered to determine the overall effectiveness of the market. CCIQ believes it is important to drill down into different customer classes to find out what the motivations and drivers are of customer groups. This is of particular interest to CCIQ as this information can assist in developing a more strategic approach to education and awareness campaigns.

Despite having 75% of respondents note that their electricity bills had increased in price over the previous 6-12 months, only 17.8% had switched retailer. Over 80% of respondents provided they had not switched electricity retailers in the past year. A few respondents provided they had renegotiated with their current retailer. Switching rates do not take into account customers who renegotiate deals with their current provider. This is a potential issue for new, smaller retailers who might not be able to compete with the majors and may be pushed out of the market.

In SEQ, approximately 74% of electricity consumers are already on market contracts. The remaining 26% (1 064 181) on standard contracts, as well as those on market rates can potentially gain from contacting their current provider for a better deal. Market retail contracts are generally cheaper than the standing offer tariffs. The average market offer is approximately 4.7% cheaper than the standing offer⁸.

Figure 2



A few respondents noted that they had researched other retailer's offers and were unable to find a more competitive rate. This may be a reflection of energy users who attempted to switch prior to July 1 2016, otherwise highlighting that the market is yet to adapt and offer more competitive prices. It is important to note that the removal of regulated prices is simply not enough on its own to result in a more competitive market and cheaper market prices.

Perceived Barriers to Switching

Figure 3



Most respondents, (78.6%), provided that the perceived amount of time required to research the different retailers was the main barrier preventing them shopping around. Just over 50%, (51.2%), specified that the time required to spend on the phone would be a perceived barrier; 41.38% noted that the complexity of the information would deter them from shopping around; 37.9% were discouraged by potential administration/paperwork; 36.2% considered that availability of information would be an issue; and 27.6% assumed the time taken for retailers to switch from the initial company to the new one was a concern.

'spoke to another retailer but they couldn't do a better deal - but it does take too much time they bounce you around. You have to ring them and chase it - it's time consuming and painful.'

'Time to haggle with someone in a call centre'

'Time!'

'No time to look into'

Respondents provided that the main overarching concern was the amount of time the entire process was likely to take. Qualitative feedback indicated that this was also a perceived opportunity cost as a small business, particularly when held alongside the view that they weren't likely to be much better off. Lack of trust in the electricity sector was also apparent.

'Assumption the same'

'Tried before but went up after one bill.'

'all ripping us off no difference between them, if there is a saving on dollar rate they are upping the fixed rate'

'want to make sure you are comparing everyone. Unless making a significant difference tend not to chance.'

'Can you trust them. Get a better deal initially then increased'

'Done it previously and it's always the same they offer the same discounts there is no point shopping around. It is only about a 10 or 15% discount from the retail cost.'

'too much hassle and red tape'

'We wonder if it is really worth it considering the time spent on it - we would change if it gave us a cheaper rate or better rebate'

'they all seem to be around the same price so we don't actively switch. It is really a waste of time, there is no use complaining as the Government doesn't respond to the interests of the people, they are only interested in money.'

'Does it really achieve anything in the long run'

'They all charge a similar rate'

'too much hassle and red tape'

The feedback received also highlights that many consumers are unaware of the changing environment following deregulation in which they can negotiate better deals in a more competitive market.

Consumer Sentiment Towards Shopping Around

CCIQ believes it is important to capture data on small business consumer behaviour to better understand the perceived drivers and motivations of these trends.

Experience of Switching

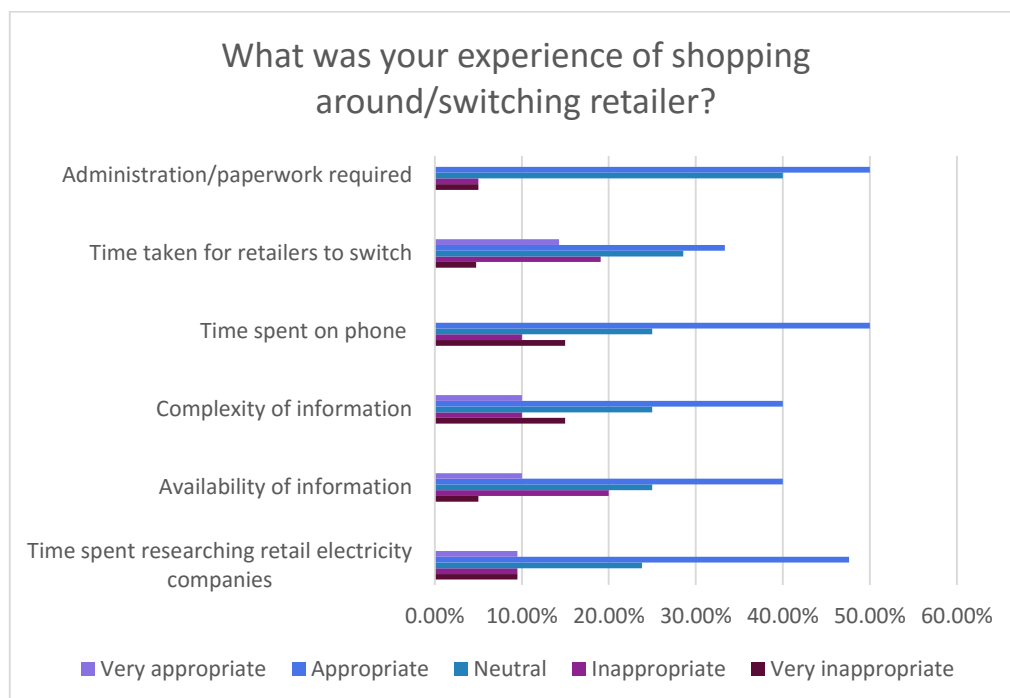
As discussed, survey respondents were weary of switching for two main reasons:

- Perceived length of time involved; and
- The belief that they would not improve rates significantly.

Given how complex the electricity industry has become over the past few decades, it is no surprise that consumers anticipate having to dedicate lengthy amounts of time to actively engage in the market. Interestingly, survey respondents who had switched, overwhelmingly found the experience to have been appropriate in regards to every indicator.

Respondents who did switch represent a different group within the small business community. This group was willing or able to allocate time for the exercise of researching and switching and also may have anticipated a greater amount of time required than experienced. The opportunity cost for this group was not as significant as it may be for other members of the small business community.

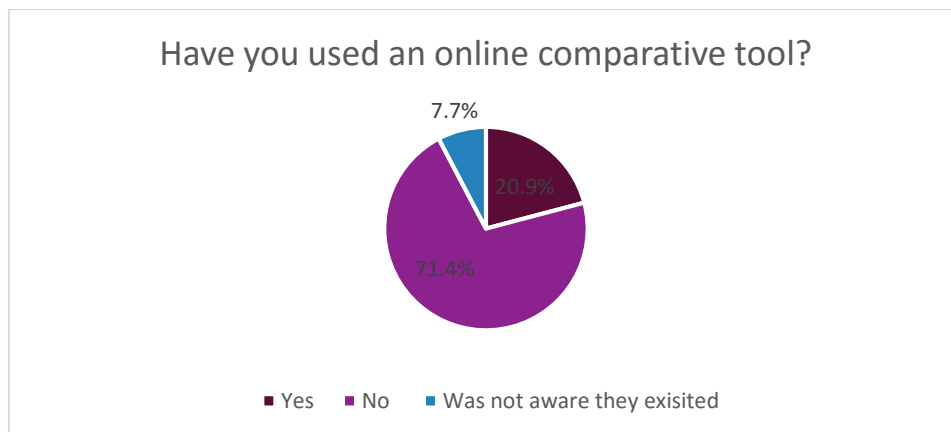
Figure 4



Comparative Tools

Given that the greatest barrier to switching is the perceived time required, CCIQ believes online switching tools such as Energy Made Easy are of high value to small businesses. Unfortunately, the majority of respondents (71.4%) had not used any online comparative tools, and some communicated they were not aware they existed (7.7%).

Figure 5



Only 20.9% of survey respondents had used an online comparative tool. Of those who provided they had used a comparison tool, many only knew about the commercial versions. The vast majority were not aware of the independent Government owned Energy Made Easy website.

These figures are also consistent with feedback from SEQ small business education workshops that were run by CCIQ in the lead up to deregulation reforms.

Comments included on-going concerns about the time required to use the online comparative tool, as they felt they would still need to do additional research themselves and that they were not comparing 'apples with apples.' A number of respondents noted that they paid for a broker to research on their behalf due to time restraints.

Other respondents communicated difficulties in using the comparison website as they were unsure of how to read their bill. As a result, some respondents provided that they preferred to contact retailers directly.

A number of respondents communicated they had looked and had not found a better deal or it was not significant enough to warrant the time to switch. This may have occurred prior to 1 July 2016, or the market may be lagging in response to deregulation.

“I discovered there was very little difference between the handful of providers I inquired with”

“They all charge a similar rate”

“(We) stayed with the same (retailer) as we went out to tender and they came back with the same prices”

Customer Satisfaction

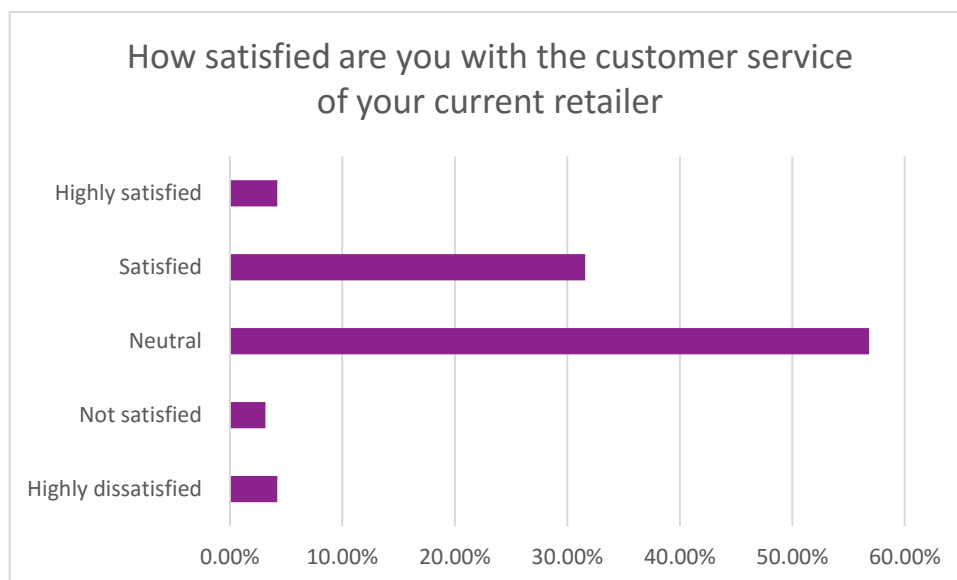
CCIQ believes it is necessary to assess small business customer satisfaction with electricity providers, as this can help inform the energy market and assist with delivering more appropriate products and services that meet the needs of small businesses. CCIQ notes this information also delivers key insights into small business behaviours useful for policy development for the long-term interests of small business consumers.

Two metrics were measured as a means of determining customer satisfaction including:

- Customer service; and
- Value for money.

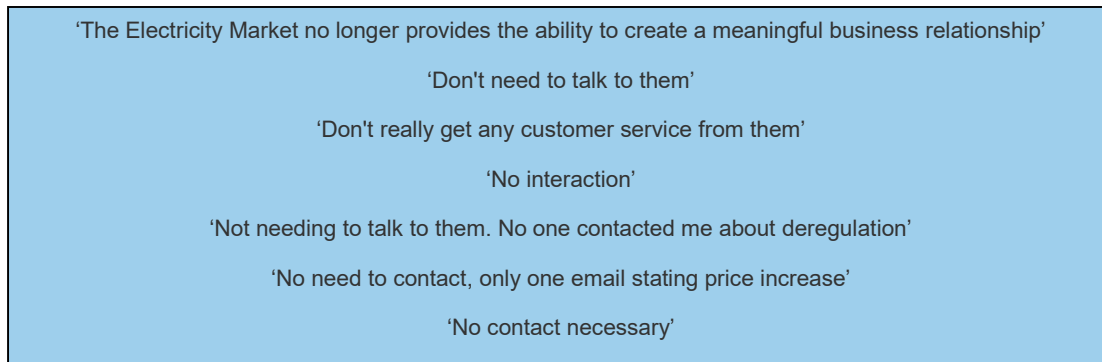
Customer Service

Figure 6



The majority (56.84%) of respondents to this question selected neutral, with many noting that they hadn't needed to interact with their electricity retailer. This may be due to the type of service provided, or it may be as a result of retailers streamlining their business into online or remote customer service management, thereby limiting the need for direct retailer engagement.

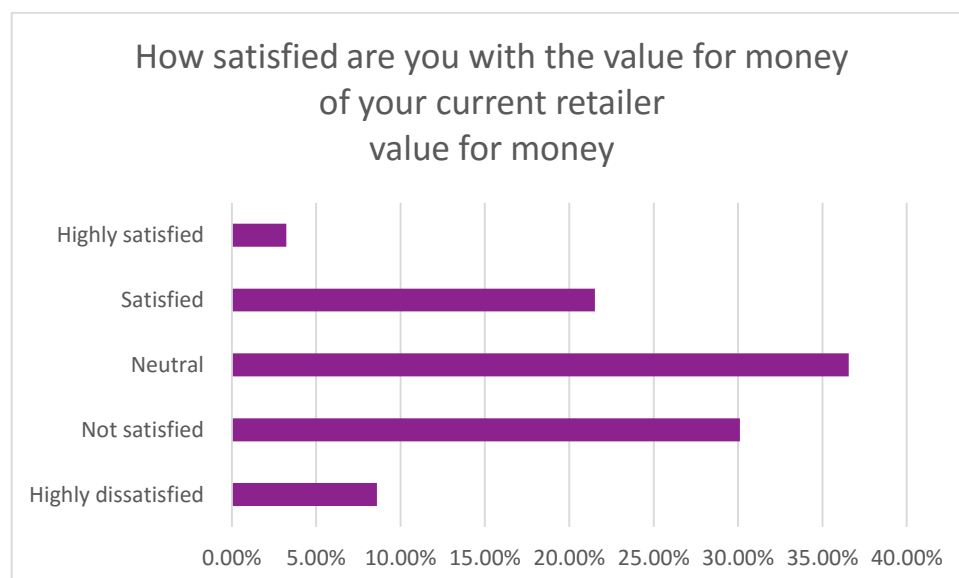
Reassuringly, second to neutral, respondents provided they were satisfied with their retailer's customer service. Feedback on this question revealed that respondents simply didn't find any reason to interact with their retailer.



Value for money

A recent CCIQ Pulse survey indicated that price is the most important factor when choosing an electricity retailer⁹. As such assessing small businesses views on value for money is an essential means of determining satisfaction levels. The majority (36.56%) of respondents selected neutral in regards to value for money. However, comments reflected respondents felt they had no ability to influence the price retailers charged. The second most common response was not satisfied (28).

Figure 7



'no electricity company has value for money, they are all the same'

'They are all the same they all offer the same thing it's like Coles and Woolies. It's the infrastructure, it comes down to cost. It's exactly like insurance. If you call you get approx 10% off. It doesn't mean we like what we're paying'

'Too expensive but feel have no other choice, thought locked in.'

'Value for money, just a bill you have to pay'

'There is just cost on costs that makes it very expensive for any business, consumers have to pay it so we are pretty much a sitting duck. You just have to just take it.'

'Have no say in the matter-value for money-no options'

'Neutral because there aren't many choices'

'Need electricity'

A small number of respondents noted that they were satisfied with their electricity bills as they had installed solar panels which significantly reduced their electricity bills.

Eight respondents were highly dissatisfied, comments included:

'with the changes to the industry it was supposed to benefit consumers but our prices have gone up 15.5% in the last 12 months so don't see how that has benefited us.'

'The charges are killing us and the retailers I've spoken to have been extremely unhelpful and rude.'

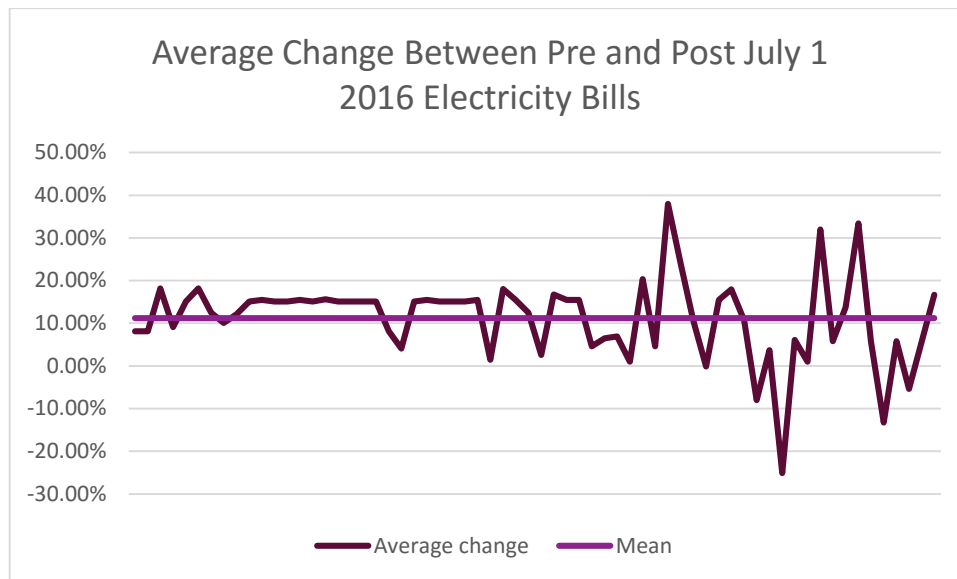
'Totally inefficient, terrible customer service, increased prices far too high so that small to medium sized companies are struggling even more than before' 'completely unjustified increases in prices. Have changed all our lights and fixtures to save money, but even though we've done that our prices have gone up'

Electricity Bills

Working from the available data published by the Queensland Competition Authority (QCA), average annual small business electricity bills were expected to increase by 11.2% (or \$2,148.83 to \$2,389.50 per annum) for the 2016/17 year. There was a 5.7% growth in retail costs in 2015/16, which has reduced down to 3.5% for 2016/17. This shows that despite the overall costs of electricity bills increasing, the expected costs passed onto the consumer as a result of the retail costs are less post deregulation.

CCIQ surveyed direct members as well as participants of the CCIQ EcoBiz program to obtain a sample of bills to compare pre and post deregulation. Small business participants provided two bills each, one from 2015 and one post deregulation 2016. CCIQ measured the changes in prices between the two bills. Consistent with the recent QCA price determination, CCIQ's analysis also found that the average increase in electricity bills has been 11.2%. Most commonly the increase was around 15%, however due to a number of outliers, who negotiated smaller price increases or decreases, the average increase in electricity bills post deregulation was brought down to 11.2%.

Figure 8



A reduction in the percentage increase of the retail component for 2016/17 compared with the previous year hopefully signifies that the rest of the market is working as anticipated at these early stages. The results provide a sound benchmark to work from for future analysis. Average changes can be further assessed over the coming years to make more accurate conclusions on the effectiveness of deregulation in SEQ.

CCIQ notes that greater consumer participation together with new retailers should result in more competitive rates overall.

That being said, CCIQ believes it is still too early to determine whether retail electricity deregulation has been successful or not. CCIQ notes it will take some time for new market entrants to appear and for consumers to become more active in the energy market.

As seen in other jurisdictions, the effectiveness of deregulation needs to be assessed on a long-term basis.

Consumer Education

Findings from the Small Business Survey on Comparing Electricity Deals highlight that small business electricity consumers are not adequately engaged in the market. The survey identified two major barriers for small businesses including:

1. Lack of time; and
2. Limited capacity and understanding of benefits to be gained.

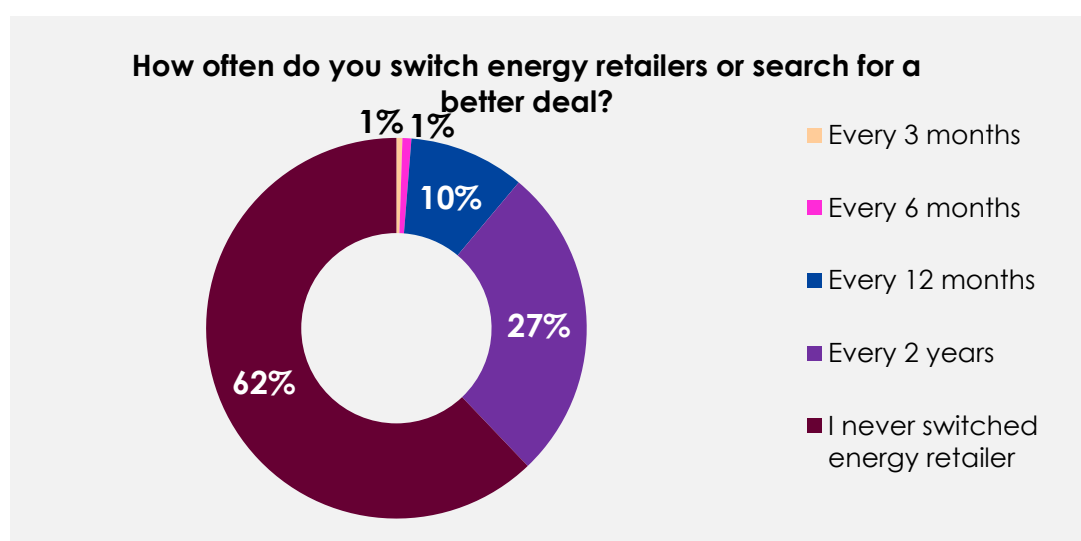
As discussed earlier, workshops conducted by CCIQ in the lead up to deregulation revealed SEQ small businesses had very low levels of understanding of the energy market. Small business participants were not aware of the deregulation reforms and were also unaware of how they could benefit. Through these workshops participants communicated frustration with not being able to compare like for like deals and also expressed low levels of trust towards electricity retailers. It was

evident to CCIQ that there was a clear lack of understanding of the electricity industry mainly due to its complexity.

The Queensland Government released a consumer education campaign called Click! Call! Ask! in late July to educate consumers about the deregulation reforms. The campaign was aimed at motivating residential and small business energy consumers to shop around for better deals to save money. This included a series of advertisements and education materials that were housed on a separate website (www.dews.qld.gov.au/electricity/energy-save). While the State Government sought to undertake extensive consultation with consumer groups, CCIQ believes this campaign was released too late and went largely un-noticed by the small business community. CCIQ believes that this campaign was also too focussed on targeting residential consumers rather than small businesses.

Past CCIQ surveys have revealed that small business electricity consumers are very reluctant to switch retailers.

Figure 9



CCIQ 2015 June Quarter Pulse Survey

An engaged customer in the electricity market is likely to switch their electricity retail provider on a regular basis. This increases churn in the market place providing retailers with stronger incentives to offer better deals to customers. The 2015 CCIQ June Quarter Pulse showed that 62% of small business respondents never switch their energy retailer and 27% switch every two years¹⁰. The results from the 2016 Small Business Survey on Comparing Electricity Deals online survey show that over 82% of small businesses have not switched retailers in the past year. This possibly indicates that switching rates amongst small businesses are becoming worse. Small business disengagement in the electricity market is highly concerning to CCIQ. Small businesses make up 97% of all businesses in Queensland and represent a large percentage of the population. As such, CCIQ stress the importance of developing more targeted education materials for small businesses.

Organisations such as CCIQ have limited resources to run mass media campaigns to reach a wider audience of small businesses. However, CCIQ is willing to work together with the Queensland Government to ensure small businesses have the necessary information and tools to understand and

compare offers. Small businesses require guided education on how to participate in the electricity market.

Further, the small business community represent a different audience to residential customers and therefore should be targeted separately. Small businesses are more likely to take action where cost efficiencies can be realised. This is a key motivating factor that needs to be highlighted in order to effect behavioural change. CCIQ felt that the State Government education campaign needed to go further to quantify cost savings to incentivise small businesses to act.

Aspects that need to be emphasised in campaigns for small businesses include:

- The promotion of time saving comparison tools such as the Energy Made Easy website;
- Quantifying the benefits to be gained for small businesses;
- Understanding the changing electricity market; and
- Understanding of how to negotiate a market contract.

Small businesses need to be made more aware of the benefits that can be gained through effective participation in the electricity market. Increasing small business participation will not only improve their situation but also enhance opportunities for all customers. Many resources have already been developed, but getting them disseminated remains a challenge.

Conclusion

CCIQ note there were many challenges involved in the collection of data on small business electricity bills. It was also difficult to engage small businesses in undertaking the short online survey, despite being offered the chance to win considerable prizes. CCIQ believes that this is representative in itself of the feedback received from small businesses that they are simply too time poor and don't believe they have any control over their electricity bills.

Ultimately, CCIQ believes it is still too soon to tell whether deregulation has been successful or not. The survey findings suggest that the retail cost component of small business electricity bills has decreased from the previous year. However, given many other factors affect electricity pricing, it is not appropriate at this time to assume that this is due to deregulation in isolation. CCIQ believes that the market will require on-going monitoring over the coming few years before any conclusions can be made on its effectiveness.

Despite this, CCIQ believes that this study provided a valuable insight into small business behaviours and attitudes towards the electricity sector. It is evident that more work needs to be done to educate small businesses on the opportunities and benefits to be gained from a competitive retail electricity market.

CCIQ will now be in a position to provide more informed advocacy on behalf of Queensland small businesses. This study will assist CCIQ in communicating to State Government, regulators and key energy market participants of the issues being experienced by small businesses. CCIQ is keen to use these findings to develop a more strategic approach towards ensuring small businesses are not disadvantaged by these reforms. Queensland is in a unique position to learn from the mistakes of other jurisdictions and ensure the long-term interests of consumers are achieved.

Appendix

Interstate Experience

It is important to acknowledge the experience of other jurisdictions that have also opened up their markets to deregulation. Queensland is in a unique position to learn from the pitfalls of other States and ensure that the Queensland market operates effectively. The operation of deregulation is not perfect, and each market is diverse and different. CCIQ notes that the circumstances of different markets therefore make it difficult to compare apples with apples. Issues that other States have experienced may not translate to the same circumstances within Queensland.

Case Study 1: Victorian Retail Electricity Market Deregulation

Background

Victoria was Australia's first State to fully deregulate retail electricity prices with the expectation that more competition would help drive down household power bills. While Victoria's full retail price deregulation came into force in 2009, retail contestability in electricity and gas markets had occurred seven years prior in 2002.

It was in response to the measures identified in the Council of Australian Government's (COAG) *National Competition Policy* and *National Energy Market Reform* agendas back in the 1980s that saw the Kennett government pursue progressive deregulation and privatisation of Victoria's energy supply system.

Since implementation of full deregulation, a few other industry reforms followed including the mandatory rollout of smart meters to all Victorian homes and businesses. This innovation meant retailers could undertake remote meter reading at 30-minute intervals and consumers could access real-time data on their power consumption.

Furthermore, the smart meters opened the possibility of improving network management through techniques such as load control. As a flow-on, flexible pricing was made available to all Victorian households with a remotely read smart meter and provided the opportunity for customers to choose a more varied pricing structure. Nevertheless, big-impact innovations and new energy technologies still make up a very small part of Victoria's economy. However, the rollout of smart meters was fraught with controversy and was widely criticised. The Victorian Auditor-General considered the inherent flaws of the centralised rollout in a report, specifically the excessive charges that consumers ended up paying as a result¹¹.

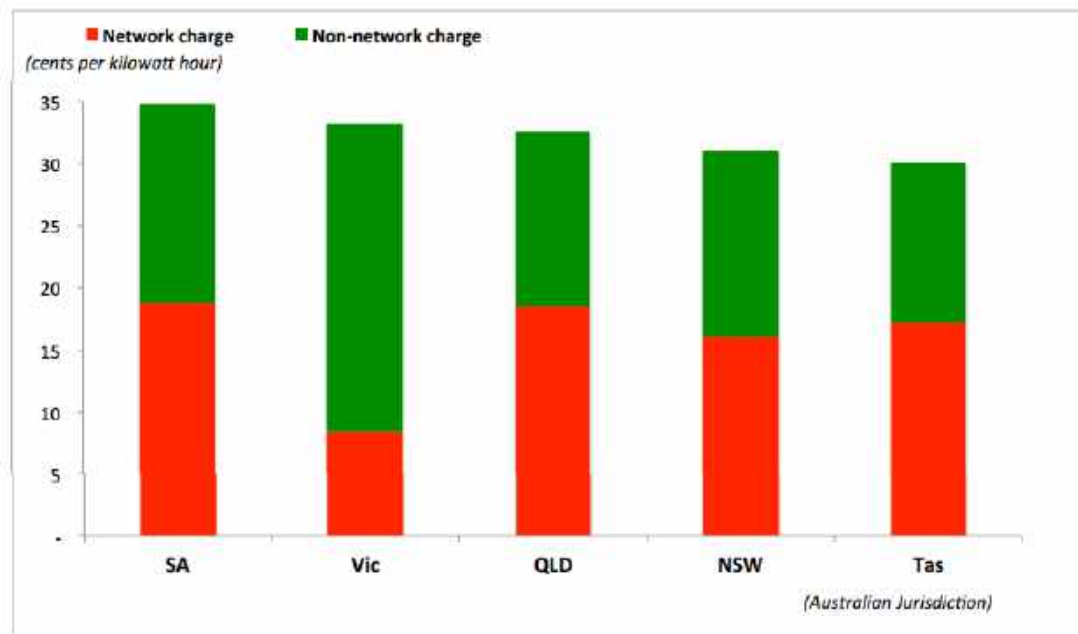
Did It Work?

Research undertaken by a number of organisations have revealed electricity prices have in fact risen substantially since deregulation took place in 2009.

Carbon and Energy Markets (CME 2015) reported retail electricity charges have risen by 240% between 2008 and 2014. Figure 9 shows the considerable difference between average retail charges

to households in Victoria compared to those charges in other States*. Concerningly, Victoria is the only State where retail charges are greater than the actual network charges.

Figure 10: Breakdown of average price for average consumption household (June 2014)



Source: CME Australia (2015) *A critique of the Victorian retail electricity market*

* The analysis is based on standing offers/regulated reference tariffs and published network tariffs in the year ending 30 June 2014.

The Age (23 March 2015) reported that despite Victoria allowing for competition in the retail electricity market since 2002, one in four households (more than 500,000) remain on a standing offer.

The St Vincent de Paul Society's most recent 6-monthly report (January 2016) found the low participation rate by consumers to shop around meant savings were in the range of \$610-\$830 per annum (depending on their network area and based on a typical electricity consumption of 4800kWh) between the worst standing offer to the best market offer.

The significant difference in pricing indicates that there is a perceived low threat of competition by the larger retailers, which subsequently diminishes the need to lower prices in order to retain or grow their market share.

Causes of Price Increase

Barriers to switching

A report commissioned by the Essential Services Commission (ESC) found those who remained on standing offers were mostly elderly persons (over 70 years) or those in lower income households. Of

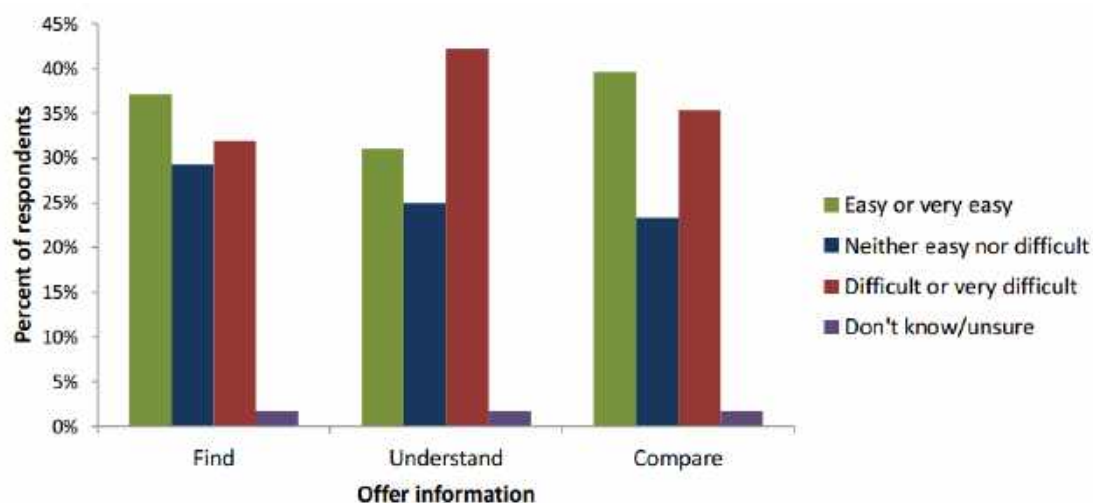
all households earning less than \$50,000 per year, approximately 38% had never entered a market contract.

The Consumer Utilities Advocacy Centre (CUAC) (2013) identifies this as a major issue as “the people for whom energy bills are a higher proportion of their income are the ones with most incentive to switch, and for whom savings would have the most benefit”.

Understanding and implementing ways to break down the barriers to greater participation is critical to not only converting the remaining 25% of those on standing offers, but also realising benefits for those on market offers who could be making further savings.

Research by CUAC found after several years of price deregulation, over 30 per cent of consumers still found it difficult to find, understand and compare energy and market offers (figure 10). CUAC points to the abundance of options and limited capacity of the consumer to make a decision within a complex market as the reasons for low consumer participation.

Figure 11: Switchers’ level of ease in finding, understanding and comparing offer information



Source: Consumer Utilities Advocacy Centre (2013); *Lessons from Victoria: Has deregulation delivered?*

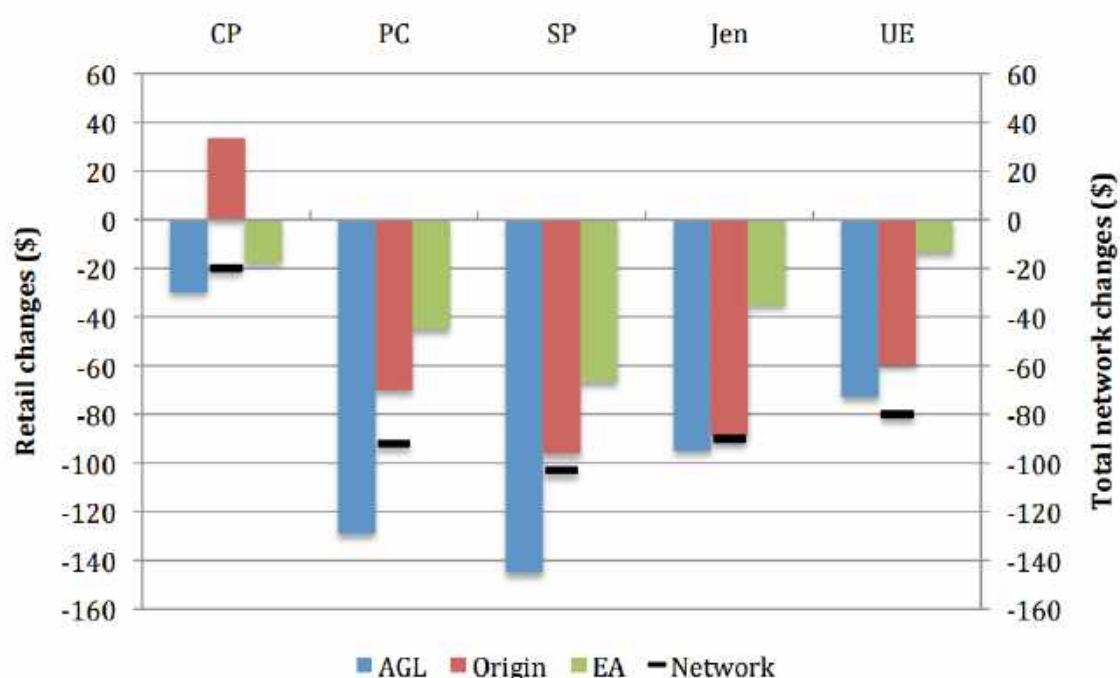
Market concentration and use of market power

Given there were no meaningful barriers to entry into the Victorian electricity retail market (CME; 2015), a number of new retailers had entered into the market since deregulation began in 2002. It was found that once these new entrants had reached a certain size, they were acquired by one of the three “first tier” retailers, in some instances due to privatisations in Queensland (Powerdirect) and New South Wales (Country Energy and Energy Australia).

This meant consumers who had switched from one of the first tier retailers to a new and cheaper competitor, were then bought back in following the acquisition. Competition as result became eroded and the larger and more established retailers regained greater market power.

Using their market power, these retailers were able to set their prices as they saw fit. The St Vincent de Paul Society's report (January 2016) found that while the regulated electricity network and smart meter charges reduced significantly in January 2016, only one retailer of the three incumbents (AGL) appeared to have passed the saving on to consumers in full. Origin had even increased their prices in the Citipower network (where it is the incumbent) and gained \$55 from their customers because of reductions in network costs; Figure 11.

Figure 12: Changes to annual network costs from January 2016 compared to changes in annual retail bills*



Source: St Vincent de Paul Society (2016) *Victorian Energy Prices January 2016: An update report on the Victorian Tariff-Tracking project*

*Calculations based on household consuming 4800kWh, single rate. Annual network costs include metering costs.

Lessons from Victoria

In the research on how effective Victoria's deregulated retail electricity market has been, it is clear both consumer awareness and understanding of the information is critical in getting households to shop around. When consumers are offered a simple platform to learn about and compare the different options, they can begin to truly demand more competitive prices.

A deregulated market also requires regular monitoring and reporting on the overall health of the market to ensure it is working in the way it was intended to. It is evident both consumer protection, and measures to curb anti-competitive behaviour and misuse of market power, need to be prioritised in the process.

Finally, innovation in the sector has been slow and momentum in the renewable energy space, while building, has yet to make a large impact. In the Victorian State Government's March 2016 paper, *New Energy Technologies*, four focus areas are identified which may see this change: Investing in clean energy generation technology; Strengthening sector skills, collaboration and innovation; Encouraging the development of new consumer-driven markets; and Building statewide capabilities.

Case Study: South Australian Electricity Market Deregulation

Background

South Australia fully deregulated retail electricity prices in February 2013 in a bid to drive down energy prices by increasing competition. The move followed the release of the 2012 Energy White Paper, "Australia's Energy Transformation", as well as discussions at the 34th meeting of the Council of Australian Governments (COAG) in December 2012 where Australia-wide energy market reform was on the agenda.

The main driver for deregulation however came from an agreement with key South Australian energy retailers AGL and Origin Energy. Both retailers agreed to reduce standing contract prices fixed for two years in exchange for the market-based system of determining electricity prices.

Furthermore, AGL suspended its court action to prevent the Essential Services Commission of South Australia (ESCOSA) making a Final Price Determination, subject to the introduction of full deregulation from February 2013.

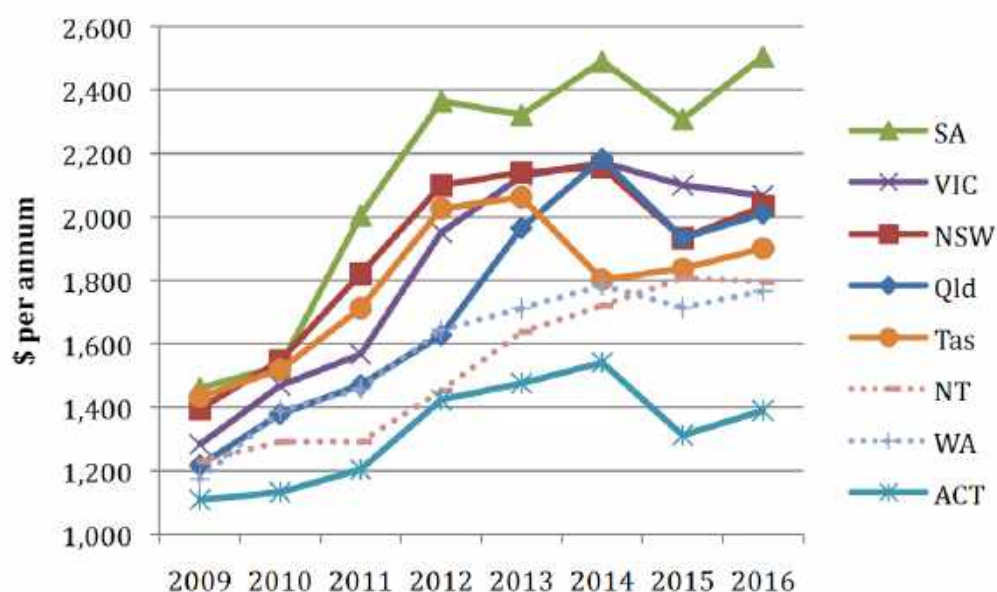
Cuts to the standing offer contract prices were relatively minor, with AGL reducing their prices by 4.5 per cent for small businesses (and 9.1 per cent for households) and Origin Energy reducing current gas standing contracts by only one per cent.

Did Deregulation Work?

St Vincent de Paul Society's *Tariff Tracking Project* had monitored electricity prices over the past six years and found that South Australian customers had the highest electricity bills compared to their State counterparts since 2009.

In 2013 when the introduction of full deregulation of the retail electricity market came in, there was a slight decrease in costs however prices rose substantially the following year; figure 12.

Figure 13: Changes to electricity prices in Australia; July 2009-16*



Source: St Vincent de Paul Society (2016); *The NEM – A hazy retail maze*

*Estimated annual bills (nominal, inc GST) for electricity regulated/standing offers, 6,000kWh per annum, single rate.

A report by the Australian Energy Market Commission (AEMC) in June 2016 found that competition had in fact been effective in the retail electricity market. There were fifteen retailers for the approximately 850,000 retail electricity customers of which 36 per cent of small business customers said they had actively shopped around for energy deal in the last 12 months.

However, the switching rate remained low at 15 per cent despite the report finding that switching to newer and more competitive plans could save customers up to 18 per cent on their electricity bills.

Approximately 15 per cent of customers in South Australia remain on a standing offer. It was found that standing offers had a median annual bill of \$1712 and switching to a market offer can yield a saving of up to \$312.

In the unique case of South Australia, it is perhaps not the level of competition that primarily determines electricity prices, but the higher than average cost of wholesale energy. The *Tariff Tracking Project* collated several data sources to estimate wholesale costs across the country, with findings showing energy purchase costs in 2016-17 financial year to be approximately:

- \$69/MWh in South Australia
- \$69/MWh in Queensland
- \$50/MWh in Victoria
- \$46/MWh in New South Wales
- \$45/MWh in the ACT
- \$45/MWh in Tasmania

Together with South Australia's high wholesale energy costs, the very high wholesale gas prices right across the country would impact on the State more so than any other jurisdiction. The high proportion of gas-powered electricity has long distinguished South Australia from the other States and Territories which are typically dominated by coal. While gas-powered electricity generators are

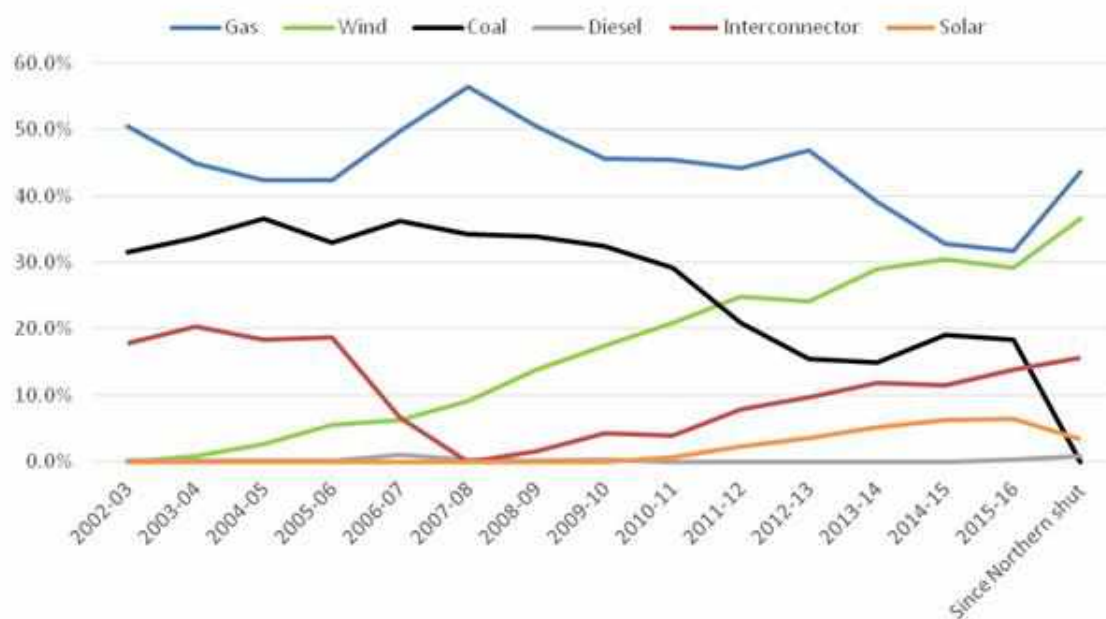
ideal for meeting demand spikes due to being smaller and faster-starting, they are considerably more expensive to run.

Further compounding the cost issues in South Australia is the tightening of supply due to the closure of the last coal-fire power station in early 2016. The closure of the Northern power station essentially reduced competition in the wholesale electricity market and created more reliance on the expensive gas-fired generators and wind farms.

How has Renewable Energy Contributed to Prices?

South Australia has been the leader in renewable energy in Australia, delivering more than 40 per cent of its power from solar and wind. The push to renewable energy sources has been led by the State Government who, in 2014, set an ambitious target of 50% renewable energy production by 2025 after successfully reaching the target of 33% earlier than expected in 2013.

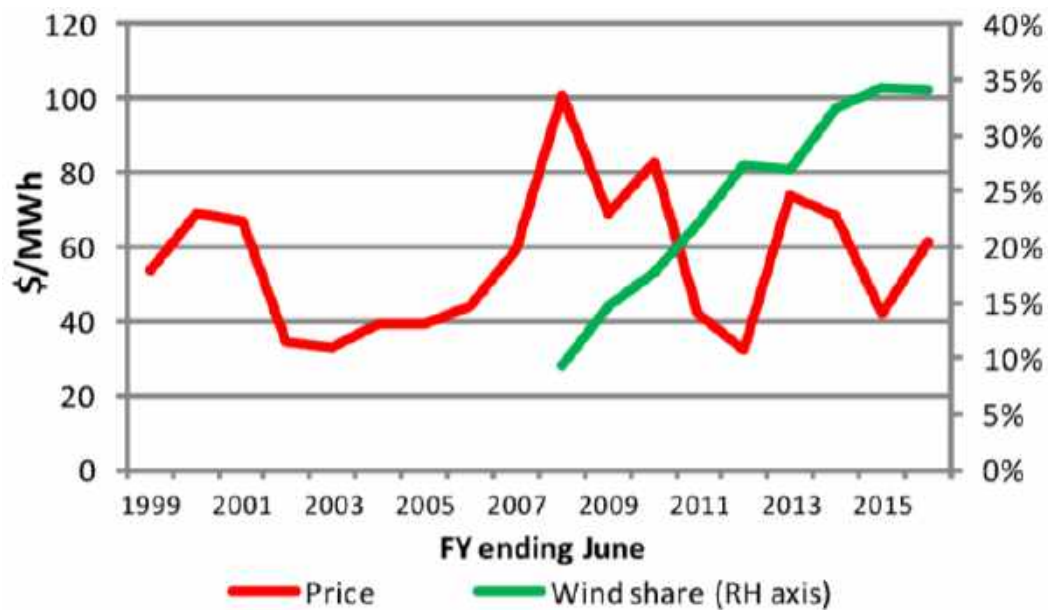
Figure 14: South Australia's share of electricity generation by fuel type 2002-16



Source: Data from NEM Review

The growing share of electricity generated by wind power has found to not have increased electricity prices, and in fact correlated with lowering electricity costs due to the increase in market competition. Wind-powered generators have generally protected consumers from the high wholesale prices of electricity for the most part, but in the absence of wind customers are subjected to the full effects of an uncompetitive market.

Figure 15: Average annual wholesale price and wind share of total supply in South Australia



Source: AER, AEMO, accessed through NEM-Review, Author provided

The South Australian government remains committed to its push for renewable energy and has this year (2016) set a target for low carbon investment of \$10 billion by 2025. The four strategies to achieve this goal includes:

1. Clear policy and efficient regulatory environment;
2. Information to inform investment;
3. Sponsoring uptake and government procurement to support wider market deployment; and
4. Facilitating projects to leverage funding and support.

Lessons from South Australia

South Australia presents a number of issues and opportunities for the electricity market due to its unique mix of energy sources. While its reliance on the more efficient and cleaner gas-powered options has seen electricity prices rise substantially, it offers a convincing opportunity for the introduction of new and improved systems to bring the wholesale prices down. There may be a need to fundamentally rethink in the design of the National Electricity Market, which was designed at a time when Australia had very little gas- or wind-powered generators.

Furthermore, the renewable energy targets in South Australia have gone some way in reducing electricity prices by increasing competition. It was found that increases in electricity prices did not have a direct correlation to the growing share of wind power, and had in fact helped reduce costs by way of increased competition.

The introduction of deregulation and full contestability has meant that both new and existing retailers are encouraged to improve their product offerings, innovate their products and services, and improve their efficiency in order to remain competitive in the market.

¹ CCIQ June quarter 2015 Pulse survey:

<https://www.cciq.com.au/assets/Advocacy/Pulse/CCIQWestpacPulseJuneQtr2015.pdf>

² AEMC 2016 Retail Competition Review, completed 30 June 2016:

<http://www.aemc.gov.au/getattachment/d5a60d5b-d2dc-4219-af60-51c77d8aaa4f/Final-Report.aspx>

³ QCA Final Determination: regulated electricity prices for business customers for 2015-16 fact sheet:

<http://www.qca.org.au/getattachment/ab80a1b5-161c-4557-a95f-891fb4c209af/Business-regulated-retail-electricity-prics-from-1.aspx>

⁴ Queensland Productivity Commission Final Report on Electricity Pricing Inquiry 2016:

<http://www.qpc.qld.gov.au/files/uploads/2016/11/EPI-Final-Report.pdf>

⁵ AEMC annual Retail Competition Review Final Report June 2016:

<http://www.aemc.gov.au/getattachment/d5a60d5b-d2dc-4219-af60-51c77d8aaa4f/Final-Report.aspx>

⁶ AEMC annual Retail Competition Review Final Report June 2016:

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⁷ AEMC annual Retail Competition Review Final Report June 2016:

<http://www.aemc.gov.au/getattachment/d5a60d5b-d2dc-4219-af60-51c77d8aaa4f/Final-Report.aspx>

⁸ Annual Report on the Performance of the Retail Energy Market 2015-16:

<https://www.aer.gov.au/retail-markets/performance-reporting/aer-annual-report-on-the-performance-of-the-retail-energy-market-2015-16>

⁹ CCIQ 2015 June Quarter Pulse Survey:

<https://www.cciq.com.au/assets/Advocacy/Pulse/CCIQWestpacPulseJuneQtr2015.pdf>

¹⁰ CCIQ 2015 June Quarter Pulse Survey:

<https://www.cciq.com.au/assets/Advocacy/Pulse/CCIQWestpacPulseJuneQtr2015.pdf>

¹¹ *'Realising the Benefit of Smart Meters'*, Victorian Auditor-General Report, September 2015