

Consumer Advocacy Panel Project 360

Issues Facing Tasmania's Newly Contestable Electricity Customers

Final Report

January 2010

Goanna Energy Consulting Pty Ltd

Acknowledgements

Both the project and the author benefitted from many supporters throughout the process. In particular, recognition to Roman Domanski from the Energy Users Association of Australia, whose tireless support of energy users prompted the need for this research.

Kerry Connors from the Consumer Advocacy Panel, who was accommodative to our every request, and who's organisation provided much of the research funding.

Kate Hiscock of the Local Government Association of Tasmania, Mary Massina, Property Council of Australia - Tasmania, Jane Hyland of The Office of the Tasmanian Economic Regulator, Darren Mathewson of Aged and Community Services Tasmania, Kon Vrakatselis of the Tasmanian Chamber of Commerce and Industry. Each of whom individually and organizationally supported and actively marketed the project, leading to an outstanding level of customer participation.

The author would also like to thank members of Melbourne Business School who provided guidance and added academic rigor throughout the process. In particular, thanks goes to Leah Kaye, Greg Trainor, Lester Johnson and the team from the MBS McLennan Library.

Finally and most importantly, a special thank you to the contestable energy customers of Tasmania, who gave freely of their time, experiences and rich insights.

Disclaimer

This project was funded by the Consumer Advocacy Panel (www.advocacypanel.com.au) as part of its grants process for consumer advocacy projects and research projects for the benefit of consumers of electricity and natural gas. The views expressed in this document do not necessarily reflect the views of the Consumer Advocacy Panel or the Australian Energy Market Commission.

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Executive Summary

The Tasmanian Government has legislated for electricity competition for 1,650 Small Medium Enterprises (SME's), such as, Aged Care, Bakeries, Councils, Dairies, Hotels/Motels, Schools and small manufactures, known as Tranche 4 contestable customers.

Competition legislation in this newly deregulated market is designed to bring about economic efficiency, innovative services and lower prices. Where previous Tranches of (larger) customers had both the commercial imperative and resources to embrace this opportunity, focus group research identified that the relatively less well resourced Tranche 4 customers have experienced skepticism, confusion and disillusionment at the prospect of deregulation.

Many of these Tranche 4 customers appear to lack bargaining "power", in terms of their knowledge, experience and motivation, in the electricity contract negotiation process. This has combined with a very low level of retail activity and competition in the market, to heighten customer perceptions of risk in entering the new market.

Unfortunately the market situation and perception of risk promotes customer behaviors diametrically opposed to exploring and securing the very benefits that the market design was meant to bring about.

This report contends that in order for there to be a more equal sharing of the benefits of electricity deregulation in Tasmania, Tranche 4 customer's accrual of market power should be expedited.

The report sets out recommendations to improve the knowledge and economic power of Tasmania's contestable electricity customers, in what is proving to be one of the most challenging states in the National Electricity Market.

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List of Acronyms

AEMO	Australian Energy Market Operator www.aemo.com.au (Formerly NEMMCO)
AHA	Australian Hotels Association www.australianhotels.asn.au (Now THA)
EUAA	Energy Users Association of Australia www.euaa.com.au
CAP	Consumer Advocacy Panel www.advocacypanel.com.au
CPRS	Carbon Pollution Reduction Scheme http://www.climatechange.gov.au/en/government/initiatives/cprs.aspx
FRC	Full Retail Contestability (All users have choice of retailer).
MRET	Mandatory Renewable Energy Target (See also REC)
MWh	Mega Watt hour a measure of electricity consumption.
NEM	National Electricity Market (Includes states physically connected to the electricity transmission system being Qld, NSW, ACT, Vic, Tas & SA.
OTTER	Office of The Tasmanian Economic Regulator www.economicregulator.tas.gov.au

ORER	Office of the Renewable Energy Regulator www.orer.gov.au
REC	Renewable Energy Certificate (See also MRET) (E.g. 1 unit of Electricity + 1 REC = 1 Unit of “Green Power”)
SME	Small Medium Enterprise (Many Tranche 4 businesses are SME’s)
TCCI	Tasmanian Chamber of Commerce and Industry www.tcci.com.au

Chapter 1 Introduction

1.1 Introduction

This Chapter aims firstly, to identify the customers affected by the Tasmanian Tranche 4 Electricity Market Deregulation. Secondly, to state the research question and the need for the research. Finally, to provide a context for the challenges facing the customers at the centre of the research project.

1.2 Customers affected by Tasmanian Tranche 4 Electricity Deregulation

The Tasmanian Tranche 4 customer segment is made up of over 1,650 Small Medium Enterprise (SME) business premises, who have recorded electricity consumption in excess of 150MWh of electricity per annum (approximately in excess of some \$25,000 pa) in the previous financial year.

Examples of those businesses affected include, small supermarkets, council chambers, Hotels, Motels, Schools, Engineering businesses, small aged care homes, medium sized medical facilities and office complexes.

1.3 The Research Question

The key question to be addressed by this project is, ***what are the Problems facing Tasmania's Newly Contestable Electricity Customers and how can they be addressed?***

The need for the research initially arose following the Energy Users Association of Australia's (EUAA) Annual Tasmanian Energy Forum (TEF) which was held in Hobart in March 2008. Where concerns were raised regarding low levels of generation and retail competition (Ngo, 2008, Slide 20). However at this early stage of market deregulation the project failed to gain the necessary traction.

The following year at the EUAA TEF in Launceston on 30 March 2009, it was claimed that Tasmania "*is a contestable market in name only*" and that, "*Customers are not being treated fairly*" (Domanski, 2009, Slide 9.). Despite the unique challenges posed by the Tasmanian Market, Domanski, in his final slide (S. 20), urged customers to, "*Get armed and get informed*" and to, "*Exert influence*".

Following recognition of the state of affairs facing these 330 Tranche 3 customers and the implications for the following 1,650 Tranche 4 customers, the project, to identify the customer problems and make recommendations, gained the support of the Consumer Advocacy Panel.

1.4 Context of the Problems facing Tasmanian Tranche 4 Customers

Where each of the 1,650 Tranche 4 customers have established procurement processes, accumulated experience and skills in purchasing goods and services relevant to their existing lines of business, deregulation of the electricity market and removal of regulated electricity tariffs (OTTER 2009) forces these businesses to make significant "first time" financial decisions and enter contracts which will likely impact their businesses for one to three years.

The “first time” nature of this decision process has added significance in Tasmania compared to other states. This is due to the fact that apart from the deregulated telecommunications market, natural gas infrastructure itself has only recently been commissioned and water reforms were only introduced in mid 2009. Meaning most customers have little experience in negotiating these other “contestable utility” services, with which to draw upon.

Therefore the research hypothesis is that customer “problems” are likely to arise during each phase of this “first time” buying process and based on both the Assael, “*Basic model of complex decision making*” (Assael, 1995. P.81-82) and the Engel-Kollat-Blackwell Model (Shiffman, 1997, P.623), we have categorized these phases for convenience, as follows.

Awareness of need, for example, “receipt of the **contestability notification** letter”. **Search for alternatives**, where the customers information gathering process begins. **Evaluation of alternatives**, where the customer makes comparisons and appraisals leading to a decision. Finally **Post Purchase**, where a (retailer) transfer process may or may not be required, or in any event, the receipt of the first contestable invoice occurs.

Potential issues identified as likely to arise during each stage of the buying process, were hypothesized and are shown in the following examples.

Awareness of need (Contestable Notification):

Some customers are likely to report they “did not receive the written notification prior to becoming Contestable”.

Whilst the removal of switching barriers for customers (Business Insights, 2009, P.14) are likely to include a “*low switching cost for buyers*”. The absence of time for the customer’s information gathering and decision-making processes may lead to hasty or ill informed decision making.

Search for alternatives:

From our experience, by far the most common frustration in the Tasmanian electricity market is the lack of licensed and active retail competitors.

Exasperated customers have often been heard to comment, “*What competition, I could only get one quote*” (from the incumbent supplier).

Some customers are likely to report that they found it difficult to contact the correct person at one or more of the licensed electricity retailers. This may lead to a reduction in the competitive pool of suppliers and potential for sub-optimal cost outcomes.

Industry jargon (Langford 1997) in particular has been cited as making it difficult for customers to understand the alternatives available. Some customers are likely to report that, due to the perceived complexity, they attempted to use consultants, but were deterred by the perceived cost of these providers. Leading to a “stick with the devil you know”, type response. As opposed to a rigorous commercial exploration of alternatives, such as that which may normally be undertaken for any other expense item of this magnitude.

Evaluation of alternatives:

Some customers are likely to report that they interpreted the retail quotation as a “fully delivered” rate and made the incorrect assumption that this rate was below their current tariff rate. Only to learn at a later stage, that the quoted rate excluded delivery costs, which make up over 40% of the bill and could translate to a significant “price shock to market”. One of the likely problems facing business customers who are themselves exposed to international competition (Business Insights, 2009, P.49) is the “*considerable variations in cost to consumers across countries*” but also between states and even in the same market over time.

Some customers are likely to lament the removal of cross subsidies, as the deregulated electricity market applies geographically based “Loss Factors”. Such as those described (Laffont 2000) below.

“For years, network industries have implemented broad subsidy programs. Telecommunications companies (but also electricity, postal, and railroad companies) have refrained from charging high prices to high-cost areas such as remote, rural areas and from closing services in these areas.”

In the deregulated market some of these cross subsidies evaporate.

Post Purchase:

Some customers are likely to report that the delays in installing metering lead to delays in commencing market contracts. Such delays have the potential to expose customers to volatile “spot market” risks in the interim period.

Some customers may report delays in receiving their first contestable invoice. Customers may report their inability to reconcile the invoice to the contract that they signed, leading to frustration and skepticism about the veracity of the rendered account.

As has been previously recognized (Allen Consulting 2004 P. vii), “*Consumers will be affected greatly by the nature of the national energy market*”. For example, Tranche 3 customers, who had relatively more resources than Tranche 4 customers, were said by the incumbent retailer (Drummond, 2009) to have “*required up to 20 touch points before signing a contract*”.

This potentially massive retail sales workload is unlikely to be met by the current active retailers for Tranche 4 customers, who outnumber Tranche 3 sites by five to one. Leaving the question, “how will Tranche 4 customers acquire the market knowledge required for effective decision making”.

1.5 Conclusion

The Tasmanian Tranche 4 customer segment is made up of over 1,650 mainly SME businesses. These customers are directly impacted by the deregulation of the electricity market, have less experience and far less resources to address these changes than the previous Tranche of customers.

Compounding this problem and despite the need for independence in customer education, it is unclear how the currently active Retailers in the Tasmanian market, would be able to provide the level of Tranche 4 customer contact, afforded to Tranche 3 customers.

This research project aims to identify “*the problems facing these newly contestable electricity customers*” at each phase of their buying process and to make recommendations to address these problems.

Chapter 2 Background

2.1 Introduction Background

This Chapter aims firstly, to introduce the international and national context for this report. Secondly to link this to an introduction of the Tasmanian context and finally, to provide a background to the specific conditions faced by the electricity customers at the centre of the research project.

2.2 Background National and International

During the early 1990s the United Kingdom deregulated its electricity (and natural gas) industries and progressively opened up these markets to customer choice of energy retailer, arguably proceeding further than in any other country (Giulietti, 2007, P. 1). Following deregulation of the Australian Telecommunications market, in the mid 1990s Australian states commenced the process of privatization (Thomson, 2001, P.54) and deregulation of the electricity industry, which culminated in the birth of the “National Electricity Market” (NEM). The NEM was originally made up by physical connection of the electricity transmission systems of Victoria, New South Wales, ACT, Queensland and South Australia.

Perhaps the most prominent generic examples of problems facing newly contestable electricity users can be found in California’s failed deregulation attempt (Bowman and Hodge, 2008, P.52), with headlines such as that reported in the 7th December 2001 Australian Financial Review, “*Spectacular power failure short-circuits deregulation experiment*”. Or 19th July 2000, The Wall Street Journal’s Business World: “Something to Think About in the Dark” comment, “*Now we’ve got the biggest disappointment of them all, electricity ‘deregulation’*”

Closer to home in Australia, electricity deregulation has delivered quite a mixed bag of experiences for customers, as each state has posed its own unique set of dynamic challenges. During the first few years of Victorian deregulation, on 9th June 1997 the Business Review Weekly (BRW) reported “*Deregulation of the electricity industry has delivered lower prices, uncertainty, confused customers and a swag of jargon*”.

The BRW article sums up the “early years” of market experience in other Australian state markets, excepting that not all were as fortunate as Victoria to see those “lower prices”.

2.3 Background Tasmanian Market reforms

On 29th May 2005, Tasmania became a participating jurisdiction in the NEM and later was physically connected to the NEM by the undersea cable known as “Basslink”. With the introduction of a contestable market in energy at the generation level, the State Government of Tasmania (Tasmanian Dept Treasury 2004) is progressively introducing retail competition, from the largest energy users down. In its October 2004 news release the Tasmanian Government said:

“The introduction of competition into the Tasmanian electricity supply industry offers electricity consumers and the economy in general, a number of benefits. The aim of introducing competition is to encourage:

- . Freedom to negotiate supply arrangements with the retailer of your choice;*
- . Price competition between generators and between retailers;*
- . Better customer services;*
- . A wider variety of more innovative energy services; and*
- . Ability to enter into a single supply contract covering contestable sites throughout the NEM”.*

As in other interstate markets, to effect an orderly transition to a fully competitive market regime, customer’s sites become deregulated in segments known as “Tranches”. This generally commences with a small number of the largest industrial customers first, these customers often consume millions or in some cases tens of millions of dollars in energy per annum. This is followed by other large industrial and commercial users, who often consume hundreds of thousands of dollars in electricity. Followed by small and medium business, who consume tens of thousands of dollars of energy annually.

Finally competition is extended to domestic customers. At this stage where all customers have “choice” of retailer, the market is said to have “Full Retail Contestability” (FRC).

2.4 Background Tasmanian Orderly Market Start

The Tasmanian Contestable Market Timetable and approximate number of sites affected are shown in the following Table Figure 1.

Figure 1 Contestable Market Timetable

Tranche (App. Sites)	Annual Consumption	Approximate Annual Spend	Date Contestable	End date of Grace Period
T1 (19)	>20GWh (Consume >60% total)	>\$2,000,000	1/7/2006	30/6/2007
T2 (46)	>4GWh	>\$400,000	1/7/2007	30/6/2008
T3 (330)	>750MWh	>\$80,000	1/7/2008	<u>30/6/2009</u>
T4 (1,650)	>150MWh	>\$25,000	1/7/2009 (First ~1,500)	<u>30/6/2010</u> (First ~1,500)
T5a (~3,600)	>50MWh	>\$10,000	1/1/2011	Standing Offer Available
T5 (~258,000)	<150MWh Remainder	<\$25,000 & Residential	Public Benefits Test	

() Customer Numbers sourced from Aurora Energy 2007/08 Annual Report, p 17. and T5a updated by OTTER.

The largest Tranche 1 and 2 customers have over the past three years entered the contestable market and faced up to the associated challenges. These users, who spend more than \$500,000 per annum on energy and make up some 60% of Tasmania's energy consumption, are assumed to have both the resources and the commercial motivation to advocate for their own outcomes.

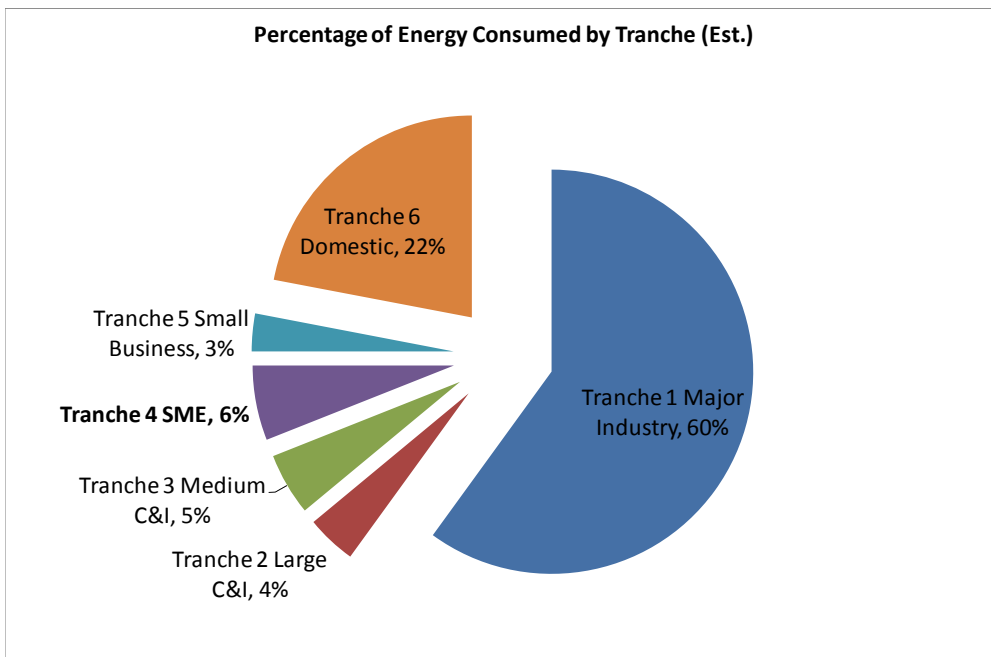
The Tranche 3 customers, who spend \$80,000 to \$500,000 per annum on electricity, had largely all completed the transition to contestability by July 2009.

2.5 Background Focus of Research

The focus of this research is the current Tranche facing deregulation, known as Tranche 4. Tranche 4 customers are made up of some 1,650 small to medium businesses who consume between \$25,000 to \$80,000 per annum on electricity, known as "Tranche 4".

Tranche 4 customers are made up of commercial offices, larger council offices, small manufacturers, medium size schools, hotels, motels and smaller aged care facilities. Their estimated consumption as a percentage of the total market is shown below in Figure 2.

Figure 2 Energy Consumed by Tranche



2.6 Background Issues facing Tranche 4 Customers

These customers are currently faced with the prospect of losing access to their monopoly tariffs on 30 June 2010 and will be forced to negotiate contestable market electricity contracts for the first time.

Many of these businesses are owner managed, such as small engineering workshops, hotels, motels, cool stores and aquaculture, where the owner also performs a hands on role within the business. The nature of these businesses means they have relatively limited resources and electricity expense varies as a portion of their overall operating expenses.

The combination of limited resources, a first time buying process and confusion or problems associated with market complexity, represents risk to these customers. Unfortunately this risk perception is likely to result in customers retreating to traditional risk mitigation strategies (Shiffman 1997, P 532), which include paying more to remain with well known brands. This behavior has the effect of opposing the price competition and foregoing the very “commercial benefits”, that the deregulation was designed to bring about.

In addition to this, these “Tranche 4” businesses must enter into electricity contracts (for the first time) by 30 June 2009, or by default risk exposure to the electricity “spot market”, which has become known in some jurisdictions as “*one of the world’s most volatile commodities*” (Nelson 1999).

The Tasmanian Regulator approved “Deemed Fallback Contract”, which will apply to users who fail to enter into contracts by 1 July 2010, simply “passes through” this volatile half hourly spot market price, a price (AEMO 2009) which will be capped at \$12,500/MWh or some 250 times the annual average historic price. The Deemed Fallback Contract (OTTER 2009) exists to protect the commercial interests of the incumbent electricity Retailer, as opposed to a “Safety Net” tariff which is designed to protect the interests of the customer.

2.7 Conclusion of Background

Over the past 20 years several governments around the world have moved to implement deregulation of utilities industries, including electricity. As with any major change, experiences have varied widely. The Victorian electricity retail market has been internationally recognized (Vassaett 2008) as “the most competitive retail electricity market in the world”.

The Tasmanian electricity market is one of the last states to join the NEM. Tasmania has its own unique set of circumstances, however as Tasmania is both physically and commercially connected to the Victorian market by the NEM, it is inevitable that contrasts and comparisons will be made between these markets.

The 1,650 Tranche 4 customers in Tasmania face a raft of immediate challenges, where the potential for sub-optimal commercial outcomes is high and the “Do Nothing” option often represents an unacceptable commercial risk.

Chapter 3 Literature Review

3.1 Introduction Literature Review

This Chapter aims to describe the method and criteria used for the literature review. To provide examples of some of the key pieces of relevant literature uncovered during the review. To summarize the findings of the literature review and to identify the gaps uncovered during the review.

3.2 Literature Review Method

To establish a baseline of the existing knowledge and to record the breadth of the generic topic of “Problems encountered by Newly Contestable (Electricity) Customers”, a Literature review (Brewerton and Millward 2001) was conducted.

The literature review was conducted in two phases, general and specific. Search parameters for this first phase of the general areas of subject matter interest included, “Deregulation” (Including Electricity, Banking, Water, Gas & Telecommunications) and the particular context of “Customer problems”.

Geographic search coverage was open to English languages and included the United States (despite a difference in electricity market design). The timeframe for the first phase was open where literature could be either based on actual experiences, or speculative “pre-market” material.

The second phase of the literature review was far more precise and was refined to focus specifically on literature feeding directly into the primary research design.

Search parameters for this phase included, “Deregulation” and “Electricity” in the particular context of “Customer problems”. Geographic coverage was limited to markets with similar regulatory design. These included Australia, New Zealand and Great Britain. These countries also feature prominently among the most competitive retail energy markets in the world (Vaasaett 2008).

In the second phase, for the literature to be based on actual experiences, rather than being speculative in nature, the chronology was limited to the earliest date the market was deregulated. Being, post 1990 for the United Kingdom, post 1992 for New Zealand and post 1995 for Australia.

3.3 Literature Review Findings

The first phase of the literature review identified a vast body of work both nationally and internationally on the subject of market “deregulation”. The literature included legislative, economic, supplier and customer perspectives and included market liberalization, monopoly pricing and cross subsidies across several industries, notably energy and telecommunications. Such works included deregulation of the telecommunications industry in Laffont 2000, Navarro’s 1996 piece on Electricity industry restructuring in the U.S. and finally the 2007 (U.K.) Energy Intensive Users Group article calling for a “*level playing field*” for UK industry in the face of increasing energy costs.

Much of this literature portrayed common problems faced by customers globally, particularly energy pricing, price rises and price volatility issues. Despite these consistent themes, our first phase review failed to yield a particular piece or pieces addressing the specific problems arising for customers during the initial implementation of deregulation and how to address these.

The second phase of the literature review yielded information which was far more directly relevant to this project. These pieces included the 2004 Allen Consulting Group report, which highlighted the need for independence in customer advocacy efforts, the 2008 ERAA report, which underscored the importance of making available market price information to customers and raised the issue of electricity generator “market power”, and the 2008 Vaasaett report, which provided the Top 10 determinants of macro and micro customer switching in international retail electricity markets.

Of particular note is the EUAA 2005 report on “*End User Advocacy Arrangements in the NEM*”. The EUAA report introduced the notion of four separate and distinct “*Objectives*” for customer advocacy and six “*Principles*” for developing the customer advocacy model in the NEM. Credit must go to this report for lifting the scope of our own analysis. Prompting us to pose high level questions such as,

“In Tasmania’s Billion dollar electricity market is the investment, structure and delivery of customer advocacy appropriate”

The above works were important to our project due to the specific relevance and consistency of the issues raised with our expectations. Indeed we have sighted these pieces and many more in our references and believe they have added much insight and weight to our findings and recommendations.

However as important as these works are, each had different objectives to our own. In addition to this, the Tasmanian electricity market has unique characteristics, even when compared to the neighbouring interstate markets, which operate under the same or similar market rules. Therefore we felt that they did not identify the full range of issues faced by Tasmanian customers, nor how to specifically address these problems, experienced during the initial phase of electricity market deregulation.

Based on this review our research aims to uncover the problems experienced by Tasmanian customers in a **“first time buying”** process, **“when”** these problems are experienced, in the decision making process and **“how”** they can be addressed to improve the likelihood of customers **“securing the benefits the deregulation was intended to deliver them”**.

3.4 Conclusion of Chapter

Much has been written about deregulation and in particular electricity market deregulation both nationally and internationally. Across the globe customers share common problems, in particular energy pricing, price rises and price volatility.

Several reports, including Vaasaett 2008, appear to support the notion that in addition to structural competition, information, education and experience are important factors in the customer experience.

Despite the value of existing works and apparent similarities, none we found focused on the “first time buying process”. In addition to this Tasmanian customers face some unique market challenges, which likely require tailored solutions.

Therefore this research aims to uncover

“The Problems facing Tasmania’s Newly Contestable Electricity Customers and how can they be addressed”

Chapter 4 Research Design and Execution

4.1 Introduction Research Design and Execution

This Chapter aims to explain the research design for identifying the Primary interest “Customer problems”, for identifying the stages in which the problems occur and to describe the research execution process.

4.2 Research Design Criteria

The research aimed to fulfill the eight “Hallmarks of Scientific Research” (Sekaran, 1992, P.10) as described and discussed below.

The research was designed with a specific **Purpose** to identify “What are the Problems facing Tasmania’s Newly Contestable Electricity Customers”. Invitations to attend the research workshops (see Attachment B Research Workshop Marketing Flyer) highlighted the opportunity to “*learn how to negotiate your new electricity contract*”, whilst disclosing the research element of the forums.

The flyer and associated communications were clearly targeted at Tranche 4 and above contestable customers and a degree of **Rigor** was built into the registration process, requiring registrants to provide detailed organizational and return contact information.

The research workshops themselves were conducted in a “focus group” format (Sekaran 1992), with customers seated at round tables to facilitate discussion and progressed in the same order as the logical buying process hypothesized. As can be seen in Appendices 1 through 5, the research questions were asked in chronological order of the hypothesised buying process.

To ensure customers were not “lead” to provide answers, the research question/s for each buying stage were posed and explored first. The education aspect of the workshop was delivered immediately after exhausting the research questions for each of the buying stages.

The first buying stage was “Awareness” or receipt of the contestable notification letter and benign questions around the receipt of this letter provided a convenient “ice-breaker” to the remainder of the research.

As the research was based on focus group findings, as opposed to statistical research methods, the ability to thoroughly **Test** hypothesis in this research is limited. This deficiency has been attempted to be overcome through **Replicability** of the results, which flowed from each of the five focus groups, where a high degree of responses were similar in nature.

At face value a sample size of some 84 customers from a total population of some 900 customers, covering 1,650 sites may appear to provide a degree of **Precision and Confidence** in the findings. In actual fact, the sample may be best categorized as a “Convenience sample” as opposed to a truly “Random sample”, in that customers self selected to attend the research.

In addition to this convenience sample, due to the marketing of the research, the customers were also likely to “Cluster” as, members of industry associations. These customers demonstrated preparedness to participate and seek education, which may also psycho-graphically cluster them as Active/Engaged and perhaps High Locus of Control.

Therefore it may be worth noting that recommended strategies, particularly “educational” strategies, may not be as suitable for customers categorized as Non-Industry body members, reactive, disengaged and/or low locus of control.

Objectivity in the findings and conclusions of this focus group based research project probably represent the single largest risk factor. The sole research facilitator and author has accrued experiential subjectivity across a 26 year industry career. Therefore, the resulting initial interpretation and hypothesis development may be influenced by that extensive experience. Every attempt has been made to avoid this.

Generalizability (a term coined by Sekeran), was strong with focus group attendees representing a comprehensive cross section of the business community, from owner/managers through to corporate entities impacted by the deregulation acknowledging common problems.

Organisations represented included Aged Care, Aquaculture, Agriculture, Accommodation, Commercial, Engineering, Entertainment, Food Service, Industrial, Local Government, Logistics, Mineral extraction, Property Management, Religious Not for Profit and Sport.

We endeavored to maintain simplicity and **Parsimony** in explaining the problems and phenomena experienced by customers. We did this by adopting a logical flow of events in the life of a contestable customer, then exploring each of these steps in turn, as discussed in the following Section.

4.3 Research Design Theoretical Framework

In development of the Theoretical Research Framework (Sekaran 1992 P 75.) the variable of primary interest is “Customer Problems”. The customer’s experience of these problems is likely to occur during different times or stages of the customers deregulation experience. These stages are hypothesized to logically follow a high involvement “first time buy” decision making process.

Therefore the research attempts to explore and explain customers deregulation experiences during each stage of the “First Time Buying Process”. The four stages categorized for this research are as follows.

1. Awareness of deregulation
2. Search for alternatives
3. Evaluation and decision
4. Post purchase experience

4.4 Research Design Focus Groups

As the research aims to establish both the breadth and depth of customer problems, the Focus Group format has been chosen. Aaker and Day (1986. P 124)

“Among other advantages it is claimed that discussions often provoke more spontaneity and candor than can be expected in an interview.”

Five focus groups across Tasmania were conducted, where,

“As a rule, three or four sessions (are) usually sufficient.”

As the research question calls for a narrative style assessment of the “customer problems” based on their experiences, the primary research is to be based on the amalgamation of narrative case studies obtained throughout a series of combined focus group/workshops.

These forums were held across Tasmania where the locations have been broadly established to align with the geographic dispersion of the target market audience (Brewerton and Millward 2001 P. 118), to promote a representative sample composition.

Whilst the participant invitations disclose the research component of the forums, the invitations themselves are crafted to attract the maximum number of delegates from the target market audience, through highlighting of the “information workshop” aspect of the forum.

To ensure the transparent and ethical carriage of the research component of the forums (Brewerton and Millward, 2001, P.62) participants were required to provide their informed consent for the written recording and summarized publication of their comments and questions, without indentifying individuals or organisations.

4.5 Research Design Focus Group Limitations

The main drawback of the narrative case study (Brewerton and Millward, 2001, P54) has been shown to be “*the ability of the researcher to understand the meaning of what has been said to him/her*”. For this reason it was important for the researcher to regularly “Para-phrase”, to check for acknowledgment of a satisfactory interpretation, as there was only limited opportunity to contrast the researcher’s interpretation in real time.

4.6 Research Design Execution

The research project ran from August 2009 to December 2009 as shown in Appendix 6 Research Project Timeline. The Stage 1 Primary research modules were undertaken at the pre-arranged workshop/research forums (Goanna 2009) which were organized in Burnie and Glenorchy during October 2009.

Contents yielded from the Stage 1 Primary Research module were analyzed (Brewerton and Millward, 2001, P.151) and used to refine the Primary research design for the Stage 2 Primary research module. The Stage 2 Primary research module was undertaken at the pre-arranged (Goanna 2009) workshop/research forums which were held in Launceston, Devonport and Hobart during November 2009.

Customer participants had various levels of experience from the beginning to end of this new electricity “Buying Process” (Stanton, 1991, P.137). This range of familiarity proved useful in exploring the full “end to end” buying process experiences.

Reporting of the Research Findings (Brewerton and Millward, 2001, P171) was completed in January 2010.

4.7 Conclusion Research Design and Execution

The research was designed to be robust and in particular address the hallmarks of scientific research wherever possible. Where potential design shortcomings were identified, such as testability and objectivity, strategies were put into place to overcome these such as running additional research workshops.

Whilst research validity was important to us, so to was simplicity and usability. To this end the research followed a logical and simple to understand buying process, with many of the customers verbatim responses to questions recorded in a narrative style assessment of the customer problems.

The forums were well marketed and attended by some 84 customers representing an excellent geographic, industry and contestable Tranche sample of the target market.

Notwithstanding this strong sample size, it must still be noted that the customers, for the purpose of research classification, are categorized as a “convenience sample”, by, for example their “self-selection”, as opposed to a truly random sample. To this end care must be taken in generalizing these findings more broadly.

Chapter 5 Findings – Contestable Notification

5.1 Introduction Contestable Notification

This Chapter deals with the customers' very first experience in the contestable electricity market. How they became aware that they had a "contestable" site, what they received, where it came from and whether or not they experienced any problems with this official notification process.

Advance notification of a customers' "contestable status" is an important obligation of the incumbent electricity retailer, Aurora Energy, and forms the first key milestone on the customers path in the information gathering and decision making process. Aurora Energy (Retail) is the sole official source of this qualification and notification process, which is legislated to provide customers with up to 21 months advance notice as shown in Figure 3 below.

Figure 3 Contestable Notification Timeline



5.2 Notification of Contestable Status

The vast majority of customers surveyed (79 of 84 or 94%) reported receiving formal notification of their contestable status. The customer recall of the timing of the receipt of this information, whilst variable between 6 to 18 months past, gravitated to around 12 months, which was largely consistent with Aurora Energy's annual mail out process in September of each year.

A minority surveyed (5 of 84 or 6%) claimed not to have received any formal notification. Of those who claimed not to have received any formal notification, all claimed they had first become aware of their contestable status, through either a Consultant or an Industry association. These customers reported that they had subsequently confirmed their contestable status directly with Aurora Energy.

5.3 What was received and where did notification come from?

The majority of customers specifically noted that they had received a “Notification letter”. Recall of the source of this letter predominantly varied between “Aurora” and “The Regulator”. Which was correct as the September 2008 direct mail communication piece actually included the Aurora Notification letter and an information sheet from the Regulator (refer Attachment A).

A minority of customers reported that notification had come from other sources. Notably the customers’ industry association, with either, “AHA” Australian Hotels Association or “LGAT” Local Government Association of Tasmania being those quoted.

5.4 Problems with notification

Of the five customers (6%) who claimed that no official notification had been received. One was adamant that they had not received any notification and only when they had initiated contact with Aurora did they learn they had a Tranche 4 contestable site. Whilst two other customers claimed only to have become aware of their contestable status after being advised to check with Aurora by a consultant.

Another claimed they only became aware of their contestable status after receiving the invitation to this research workshop. With the final customer claiming they had only been alerted to their contestable status through group discussion with their industry association.

Some anecdotal evidence exists to suggest problems with notification may have arisen within the customers own business. For instance, in one case the notification letter was recovered from the Accounts Payable section by the decision maker after being alerted to the contestable status via a secondary method. This comment gave rise to the customer suggestion that, “such an important letter should be addressed to the responsible director”.

One participant commented on the lack of early information,

“Our consultant advised us to get a NEM Meter installed by Aurora. We only got (contestable) information after this”.

Other problems and comments made at this point included the following.

“We thought we would be contestable so we contacted Aurora. They said we weren’t. Two weeks later we got a letter saying we were”.

One customer expressed concern that,

“New metering mentioned in the notification letter had not yet occurred”.

One customer expressed concern regarding the foreign ownership of their company and the implications of having Non-English speaking owner/managers as a potential difficulty.

5.5 Conclusion Contestable Notification

It can be seen that Aurora has discharged its formal obligation to inform customers of their contestable status, initially with a single method (mail out) approach. This method appears to have achieved its notice objective in 94% of the cases surveyed. Most customers recall the notification letter came from either “Aurora” or the “The Regulator”.

Consultants and Industry associations have also played an active role in raising awareness among this customer group. As such, a minority of customers are likely to have confused these activities with the official notification letter.

Problems with the official notification process appear to relate to the initial “single” mail out method. Some anecdotal evidence exists to suggest problems with notification may have arisen within the customers own business as the significance of the notification may have been overlooked or otherwise has not gained attention of the responsible manager.

As the contestable market has grown from some 400 to 2,000 sites, a larger cross section of the business community has become involved. A portion of these people have experienced difficulty in understanding English in these written communications and may also experience difficulty in English spoken communications.

Chapter 6 Findings – Search for Alternatives

6.1 Introduction Search for Alternatives

Once customers become aware of their contestable status and in particular the “cut-off” date where they will no longer have access to a regulated electricity tariff, their search for alternatives begins. This chapter aims to explore customers’ awareness of the electricity retailers, their search for information, what alternatives they were aware of and who customers turned to for help.

6.2 What choices do you have?

The question “*Now that you are Contestable, what choices do you have*”, often raised an instant burst of skepticism and sarcasm around the lack of retail competition in Tasmania.

At most forums, intertwined with these emotional anecdotes, participants correctly acknowledged incumbent retailer Aurora Energy in the first instance, whilst sometimes they referred to Aurora as “The Hydro”. Then, often after prompting, the more experienced participants correctly named ERM Power as the other “active” retailer.

In some cases this low level of competition was seen to be somewhat less than a duopoly, as ERM Power was suggested by at least one participant to be a niche player, only interested in “large customers”.

Whilst two participants at different forums mentioned “Four providers”, Tasmanian licensed but “inactive” (in Tranche 4) Retailers Country Energy and TruEnergy were not specifically named by participants at any forum.

6.3 Other than Aurora and ERM What Choices do you have?

After prompting the participants with, “*Apart from Aurora and ERM, what other alternatives do you have*”, participants at each forum provided a wide variety of responses. These varied from those more experienced customers, who appeared to correctly identify available options such as, “*Aurora Fallback*”, “*Spot Price/Market*”, “*Grace Period*” and “*Go on default*”. To less clearly correct responses, such as “*Do nothing and take a chance*”, “*National Grid*” and “*the Open Market*”.

Whilst there was some awareness of a “Default” option known as the “Deemed Fall Back contract”, there appeared to be a lack of knowledge around the detail of this and in particular a lack of awareness of the extreme volatility of this “Do nothing” option.

Finally, the vast majority of participants clearly lacked knowledge or understanding of the alternatives and their respective implications. This was highlighted by comments such as, “*Not sure*”, “*No Idea*”, “*Don’t know*”, “*Remain on tariff*”, “*it’s a gamble*”, “*Come to a training session*” and “*Disconnect your power*”.

Whilst these comments appear consistent with the “*uncertainty, apathy and anger*” experience in other states at an almost identical point in the deregulation (Langford, 1997, P. 83), we believe Tasmanian businesses in particular have faced far more onerous conditions than those experienced in other states.

In particular many of the “*switching determinants*” (Vaasaett, 2008, P.5) such as “*new market entrants*” and “*depleted incumbent advantages*”, appear to slow Tasmanian customers becoming “critically aware”, in comparison to interstate experience.

6.4 Who can you turn to for Help?

The question, “*Who can you turn to for help*”, was generally met with (in approximate rank order), “*any Retailer*”, “*a consultant*”, “*Industry Association*”, notably the Australian Hotels Association (AHA) and Tasmanian Chamber of Commerce and Industry (TCCI), “*Training sessions*” (both these and Aurora), “*the Ombudsman*” and finally on one occasion “*the Regulator*”.

Prompting for additional sources of information resulted in either participants admitting they had made “no further enquiries”, or those that had made further attempts to access information reported that these other sources, such as peers and engineers, were also “not well informed”.

We found a very limited awareness of the breadth of information providers available and where to find this information. In particular customers reported quite poor user ratings for both Aurora’s web site www.auroraenergy.com.au and the Economic Regulators website www.economicregulator.tas.gov.au

This was combined with a very low awareness of the www.power.tas.gov.au website, which is the Regulators specific information site for this target market.

Despite being a significant peak body for commercial and industrial energy users, the not for profit, Energy Users Association of Australia (EUAA) was not mentioned as a potential source of information.

We would also infer an apparent lack of recognition or distinction between the “commercial” nature of the new “negotiated” electricity contract, as opposed to a “regulated tariff” with “Gazette terms and conditions”, as evidenced by a zero unprompted awareness of “legal” advisor/support as a potential source of help and assistance.

6.5 Conclusion Search for Alternatives

Whilst most customers reported awareness of their incumbent electricity Retailer, “Aurora Energy”, awareness of active new entrant retailer “ERM Power” appeared limited to the small percentage of customers who had made further inroads to negotiating their new electricity contract.

Customers regularly lamented the lack of active Retailers in the Tasmanian market and indicated frustration with a “lack of useful information” from the incumbent Retailers “call centre” and website.

Customers also reported a “lack of useful information” from the Regulators website (www.economicregulator.tas.gov.au), which appears to be exacerbated by a low awareness of the Regulators specific contestable information website (www.power.tas.gov.au). Tranche 4 customers were also unaware of the EUAA website (www.euaa.com.au) as a potential source of information.

Some customers may not have made a conscious distinction between regulated tariffs and negotiated contracts and as a result of this many appear not to have enlisted legal support in the contracting process.

Chapter 7 Findings – Evaluation of Alternatives

7.1 Introduction Evaluation of Alternatives

After searching for the available alternatives, both in Tasmania and other NEM state jurisdictions, over 95% of Tranche 4 size customers are likely to enter into fixed price retail electricity contracts. This is to say that the vast majority of contestable electricity customers, once aware of the extreme volatility of the spot price market, shun this market and instead (are prepared to pay a potential premium) for the “price certainty” offered by a fixed price retail contract.

This chapter aims to identify what proportion of customers had seen a retail proposal, explore the customer’s knowledge of how to compare proposals and to identify any problems customers had encountered in making these comparisons.

7.2 Who had seen a retail proposal

The participant’s knowledge of how to go about comparing Retail proposals was pre-qualified with the question, “*Has anyone requested or received a retail proposal for their electricity supply*”. Only thirteen of the 84 customers or some 15% claimed to have received a retail proposal. Of these thirteen, approximately half were customers from previous Tranches 2 & 3, who had entered into contracts some time ago.

Therefore we deduce that whilst 60% of the available time to negotiate a retail contract had elapsed, it was likely that less than 10% of the Tranche 4 customer attendees had access to a retail proposal at this time. This was reasonably consistent with our understanding that only some 20% of the total Tranche 4 Customers had entered into market contracts by November 2009.

As such we would assume that most Tranche 4 customer participants only knowledge of energy supply costs would be limited to “Bundled” Retail tariffs, as opposed to unbundled or “Energy Only” market based proposals.

7.3 How to compare retail proposals

The participant’s knowledge of how to go about comparing Retail proposals was then explored with the question, “*How would you go about evaluating the alternative proposals*”? The vast majority of responses received across all focus group sessions (except for Launceston) failed to specifically identify the four contestable elements of a negotiated market contract. Namely the:

- . Peak Energy Rate c/kWh
- . Off Peak Energy Rate c/kWh
- . Mandatory Renewable Energy Certificates (REC) Rate c/kWh
- . Metering Cost \$/meter/annum

Rather the majority of responses on how to evaluate proposals were generic in nature, such as, “*cheapest price*”, “*Compare what you would pay*”, “*new contract*”, “*risk*”, “*customer service*”, “*get two quotes*” and “*look at your last bill*”.

It appeared from these comments that most customers expected the Retail proposals would be simply comparable to their existing Tariff arrangements. This is to say it is likely that customers expected their contestable market offer, would be presented in a similar format to their existing tariff arrangements.

When participants were prompted further about, “*What would you look for*” when comparing proposals, further evidence of the lack of knowledge of the market design emerged, with comments such as,

“Reliability. Making sure you don’t have problems like Victoria and energy can’t be provided”,

“Rolling stoppages in South Australia”,

“Renewable energy costs... are they regulated?” and

“Security of supply”.

These responses supported the supposition that not only were most participants unfamiliar with the “unbundled” nature of market based proposals, but further, some remained unfamiliar with the monopoly status of the Transmission and Distribution network providers.

The separation and “ring-fencing” between Retailers and Distributors, which effectively means, supply reliability and supply quality issues are totally independent of “Choice of Retailer”. A fact clearly not acknowledged in any of these participant comments.

7.4 Problems with making a comparison

The final prompt for this question was, “*Have you had any problems getting information to make a comparison*”? At this stage of the research the question is specifically directed to the minority of the participants who have actual experience in the evaluation and decision making process.

One customer commented, “Difficulty looking at two contracts for legal review. By the time we get legal review the price has changed”. This comment refers to the short “validity” periods commonly offered in the contestable electricity market of several days and highlights both the frustration customer’s face and the way in which they are compelled to alter their decision making processes to fit the industry norm.

One customer lamented, “*I only had one choice*”, whilst another commented “*not a lot to compare*”, both references to their inability to obtain a competing proposal.

One customer commented on the “*different wording from one contract to another*”, alluding to the fact that comparing proposals is not as straight forward as comparing competing rates only. Whilst another commented that the “*Contract terms mean that the actual price we pay may change*”, a reference to “change events” in some contracts, which appear to allow, otherwise agreed “fixed” rates to be changed under certain circumstances.

7.5 Conclusion Evaluation of Alternatives

Whilst 60% of the available time to negotiate a retail contract had elapsed, it was likely that only 10-20% of the total Tranche 4 Customer base had entered into market contracts by November 2009.

The remaining 80% or 1,320 Tranche 4 sites are likely to be familiar with only “Bundled” Retail tariffs, as opposed to unbundled or “Energy Only” market based proposals. It is therefore likely that customers expect their contestable market offer, would be presented in a similar format to their existing tariff arrangements.

Not all customers are able to access competing proposals, from other than the incumbent retailer. This situation may partially result from niche market strategies adopted by new entrant retailers.

Tranche 4 customers are unlikely to be familiar with the monopoly status of the Transmission and Distribution network providers and appear to remain unclear on the “ring-fencing” between Retailers and Distributors. This contributes to uncertainty around supply reliability and supply quality issues when evaluating “Choice of Retailer”.

The electricity industries notoriously short “validity” periods offered in the contestable electricity market are a source of frustration for customers and compel customers to alter their decision making processes to fit the electricity industry norm. The fact that electricity contracts offered by retailers are different represents both an opportunity and a challenge to customers.

Chapter 8 Findings – Post Purchase

8.1 Introduction Post Purchase

Following the execution of a contestable market based contract several technical and customer service functions must occur to ensure both the timely commencement of electricity supply under the contract and timely, accurate billing. This chapter aims to explore the customers experience after entering into a market contract, if the contract started on time, how the customer was able to reconcile the first invoice and identify any problems which have arisen “Post Purchase”.

8.2 Who had entered into a contract?

Twelve of the 84 customers or some 14% claimed to have entered into a retail contract. Of these twelve, approximately half were customers from previous Tranches 2 & 3, who had entered into contracts some time ago.

All twelve confirmed that there had been no disruption to supply as a result of entering into the market contract. Those customers who had already commenced supply under the contract, reported that the contract had started on time, although one commented that the “*metering wasn’t ready for one week*”.

8.3 Reconciliation of the first invoice?

Some six of the customers who were already taking supply under market contracts claimed to have/or attempted to, reconcile their first contestable invoice. A further two customers admitted to not having made this attempt.

Of the six who had or had attempted to reconcile their invoices, one Tranche 3 customer commented, *“You need to know what’s in the small print”,* (and be aware of the), *“Hidden charges. (the price) did not look as good after (the) hidden charges (were) included (details are) in the fine print”.*

The, *“Hidden charges”,* referred to were the “Loss Factors” and were highlighted in the comment, *“We calculated a 27% increase (over Tariff), but when we got the bill it was a 35% increase (due to the additional charges we weren’t aware of)”.*

This Tranche 3 customers advice to the Tranche 4 customers present was to, *“Ask for a full quote on what your bill will look like”.*

8.4 Any problems experienced?

One customer claimed that their first contestable invoice was *“Five times higher than what was expected. But it was a mistake and was retracted and re-issued”.* Another commented on their *“Boss having problems with the price rise”* but reported *“No errors”.*

One customer commented on their *“Inability to locate an independent source of Transmission and Distribution Loss Factors”.* Whilst another admitted to, not *“understanding the demand charge in transmission costs”* and *“Why it changed month to month”.*

8.5 Conclusion Post Purchase

All customers reported their market contracts started on time and that there was no disruption to supply. Despite the very small sample size of twelve customers who had received their first contestable invoice and only six customers who had attempted to reconcile their first invoice, issues raised included, over billing, price rises, information accessibility and concern over “*hidden charges*”.

Given the very small “Post Purchase” sample size obtained in this project and the relatively high incidence of “issues raised”, this area is likely to benefit from further research.

Chapter 9 Discussion

9.1 Introduction

Tasmanian Tranche 4 contestable customers face challenges at each stage of the transition from regulated Tariff to a negotiated contestable supply contract. This chapter aims to discuss those challenges and the factors that influence them during each stage of the customers buying process.

9.2 Discussion Notification Problems

Advance notification of a customers' "contestable status" is a critical first step in the process of deregulation. Among the organisations surveyed, 94% of these letters appear to have reached the appropriate responsible person.

A minority (6%) of customers surveyed claimed not to have received this notification. No "quality assurance" or "closed loop" type program is currently required to verify the effective discharge of this formal notification process.

There may be scope to require a program to verify that customers have both received and understood the contestable notification letter, in order to increase the effectiveness of the current notification process. At this point it is worth noting customer suggestions that this notification be acknowledged by the "Responsible Director". Further through any proposed verification process, language barriers may be identified and addressed at an early stage.

Some 1,550 Tranche 4 Notification letters, listing the Regulators telephone number for "additional information", were posted in September 2008. It is interesting to note that the Regulator reports a "Relatively low number of inbound calls" were generated by these letters.

When this fact is combined with anecdotal reports from Aurora Energy that “*relatively low numbers of customers attended the Aurora 2009 Tranche 4 information sessions*”, it appears that a degree of apathy or at least a low level of interest exists among some portion of this customer base.

The notice period of 21 months appears to be quite sufficient, with no problems or complaints on this time period registered. This is consistent with previous Tasmanian research (OTTER, 2008, P.204) into Tranches 2 and 3, which showed that over 90% of respondents indicated that they had “*adequate notice*”. However, the majority of customers appear to have deferred their buying process during the first two thirds of the allotted timeframe.

Figure 4 Contestable Notification Timeline



Many of the small business owner/managers made it clear that both time and resource scarcity made it difficult to focus attention on this matter, particularly where the perception of the likely outcome was one of “*little commercial benefit*”.

There appears to be scope for follow up and reminder type communications to this original notice at regular intervals and this communication would be ideally made with additional relevant information.

Such follow on communications strategies may be developed not only to remind customers of their responsibility and available timeframe, but also to recognize and address their logical education needs. This investment is required to promote “*economic efficiency*” (Kotler, 1994, P. 758.), as customers search for and accumulate information to enable competent and informed decision making. This will be discussed further in the following section.

9.3 Discussion Search for Alternatives Problems

It is apparent that customers are legitimately pessimistic about the level of retail competition in Tasmania and generally frustrated with the lack of useful information available to assist them in the decision making process. Recent research (Vaasaett, 2008, P5) on worldwide utility customer switching, shows that “*Critical aware customers*” are the number one marketing determinant of switching.

The incumbent Retailer is the only body likely to have complete contact details for this customer base and as such are likely to have an advantage over the front end education of these customers. This advantage may also extend to the relative resources available and commercial motive for such “education” provision.

Customer skepticism about the level of competition should come as no surprise where several customers reported they were only able to access one offer (from the incumbent supplier) and were unable to extract any competing proposals from any of the three licensed new entrant retailers. In these cases it is possible that these relatively small customers could benefit from “aggregation” (Navarro, 1996, P113) to organize customers into more effective bargaining groups, known locally as “buying groups”.

Those customers who reported only being able to access one proposal likely did not appreciate the niche business models able to be adopted by new market entrants. These niche strategies can include optimizing resources towards “*low involvement*” sales channels (Kotler, 1994, P. 378), such as Consultants and Brokers, who require far less than the reported “*20 touch points*” per contract (Drummond 2009).

In Tasmania the lack of active Retailers in the market and in some cases the lack of Retailer follow up appears to have delayed or impeded the customer education process relative to other deregulated jurisdictions, where both competition and Retailer sales resources were far more abundant.

To this extent the attraction of potential new market entrants including national energy retailers would likely improve the current situation. Whilst the Tasmanian market size may be a limiting factor, structural market reforms facilitating increased competition, particularly at the wholesale and generation level may also increase the attractiveness of the market to new Retailers (Vaasaette, 2008, P5).

The State Governments 2008 financial review of the three state owned energy companies, announced in their December 2009 Energy Policy Statement (Llewellyn 2009), for which the findings are due in 2010, may offer some of these structural changes for further market reforms.

Due to Tasmania’s particular current market circumstances, for these customers to take advantage of deregulation, a more proactive educational strategy may be warranted. As discussed in a submission on end user advocacy in the NEM (EUAA, 2005, P3) “*informing and educating end-users about the NEM that seeks to increase their involvement (either directly as Market Participants; or indirectly by more effective assertion of values when dealing with Retailers) and so maximize the economic power of end-users (as customers) in the NEM*” is a key aim.

Examples of this education include those consultants, brokers and industry associations, who were noted by customers as, actively filling this education gap. In some cases these bodies have demonstrated an ability to educate customers and attract or otherwise facilitate competing proposals, despite their own inherent capacity constraints.

In support of this need for proactive education, our experience in other interstate energy markets has shown that, as customer education increases, customers are willing to “switch” (Vaasaett, 2008, P5) energy retailers for a lower percentage of savings. Hence, effectively increasing switching propensity and allowing customers to capture more of the benefits that deregulation is intended to deliver.

Whilst we are aware of contestable customer presentations being provided by the incumbent retailer, a distinction may be made between “marketing” activities and the provision of independent education. Particularly education initiatives which seek to mitigate the factors associated with “*perceived risk*” (Assael, 1995, P. 251) in the first time buying process. Currently no formal obligation exists to provide follow on information and education services.

It may also be prudent to consider the appropriate responsibility for contestable communications, not only for the initial formal notice, but also for any follow up and educational strategies for these customers.

The question of which body should have carriage and accountability for formal notice may not be seen as of particular concern. However, responsibility for education and the need for the perception of “*independence*” (Allen Consulting Group 2004 P. 19) are likely to be both necessary and important facets of this role.

Whilst the Regulator may be one obvious home for this independent responsibility, several inhibitors currently exist before the Regulator could take on this role. These include legislation more clearly placing this education role with the Regulator and legislation for the Regulator to gain access to the full contact details of the affected customers and their responsible officers, for the purpose of facilitating direct communications.

Also evident in the survey was the low awareness of the eight active specialist energy consultants and/or energy brokers registered as “*Useful Contacts*”, on www.power.tas.gov.au This low awareness appears consistent with previous Tasmanian research (OTTER, 2008, P.206) which noted some level of inability to “*access support/consultancy to assist*”.

The very low awareness of the www.power.tas.gov.au website and the EUAA represents underutilized educational assets and opportunity to further promote these existing resources exists.

In terms of the apparent customer delay in engaging in the buying process, many reasons may exist to explain this behavior. In particular, the relative pricing differential between the “Grace Period Tariff” and available market rates is one likely pre-condition for buying activity.

For example the perceived ability to attract a discount to the alternative “Grace Period” tariff is likely to be a key factor promoting active engagement in the electricity buying process and is said to be the number 3 “*determinant of switching*” (Vaasaett P.5). Where a customer becomes aware of available discounts, they are more likely to initiate a buying process. Alternatively, where customers are aware that market rates translate to costs above the “Grace Period Tariff”, they are more likely to defer their decision making process in the hope of improved future conditions.

Unfortunately the Tasmanian market differs from other National Electricity Market States, in that visibility of Wholesale electricity market prices is generally limited to “Market participants”, such as Retailers and Generators. With Consultants, Brokers and Customers collecting price information as they are involved in the procurement process.

Therefore information available to end use customers is likely to be both delayed and piecemeal in nature, making it more difficult for customers to identify potential windows of “buying opportunity” and to act in a timely and decisive way upon them.

A combination of the inherent volatility of the electricity market and the lack of price visibility in Tasmania appeared to give rise to repeated customer references to “*taking chances*”, “*not sure if we got the best deal*” and “*gambling*”, as customers expressed their frustration at the inability to determine “when” to contract.

It is not only the volatility of the electricity pricing which has stunned these customers, rather it is the magnitude of the volatility. For example, during 2009 alone Tranche 4 customer pricing for Peak energy delivered in 2010, varied by some \$30/MWh, between \$95/MWh and \$65/MWh.

Some customers have therefore recognized that when entering into a 1 – 3 year fixed term contract, price volatility of this magnitude has the ability to alter competitive market dynamics and potentially undermine their business model.

This situation is exacerbated by the relatively short validity periods, often only a few days, which contestable market proposals are “capable of acceptance” within. This situation was highlighted by the only customer to mention legal advice who commented on the, “*Difficulty looking at two contracts for legal review. By the time we get legal review the price has changed*”.

15 years of NEM experience tells us that electricity price speculation is fraught with danger, as events both planned and unplanned, often cause unforeseen outcomes. However, it would appear fair that customers are able to access a reasonable level of relevant fact based supply, demand and historical price information to support their decision making processes.

9.4 Discussion Evaluation of Alternatives Problems

It would be easy to dismiss the significance of the customers reported notion of “*a lack of useful information*” mentioned in the previous section. At face value it would appear that the simple commercial imperative is to secure the lowest cost supply for an undifferentiated commodity - electricity. However this must be put into context of the knowledge required to actually compare the Grace Period Tariff total annual cost, to a Market based proposal total annual cost.

We would suggest that in order to compare pricing of the Grace Period tariff to a Market based proposal, requires no less than 15 pieces of unique information. Some of which may require experienced assumptions to be made, potentially gathered from a minimum of four different sources, which in some cases require verification, alternate network tariff modeling and/or Peak versus Off Peak consumption sensitivity analysis.

These circumstances are consistent with other recent research (OTTER, 2008, P.205) which identified the need for “*clear information about the components of electricity pricing*” as necessary in the selection of a retailer.

The above costing description does not cover the legal terms and conditions which differ between Tariff and Contract supplies. These terms and conditions give rise to contractual rights and obligations, which may also be somewhat different to each other.

One of the obvious missing pieces of information for most Tranche 4 customers is the lack of historical Peak and Off Peak consumption information. Due to the timing of the roll out of contestable market meters in Tasmania, the vast majority of Tranche 4 customers simply will not have access to their past 12 months interval metering data, with which to calculate their Peak to Off peak consumption ratios, until well after they have signed a contract. This means that any savings comparison to the Grace Period Tariff, in most cases must be made from assumptions.

In addition to this, when customers are first faced with this task, they must also overcome the barrier of industry jargon (Brewerton Millward, 2001, P43). Where the names of the above 15 elements and their specific meanings and applications need to be understood in order to perform the math required to make accurate cost comparisons. Understanding terms such as Peak, Off Peak, REC's, Loss Factors, Ancillary Fees, and Network tariffs and how they are applied, must be akin to learning a new language.

In other words, a relatively "high level" of both market knowledge and competence is required simply to determine the cost merit of the Grace period tariff compared to the cost of a market contract. Whilst these SME customers have little resources with which to build the capacity to effectively negotiate and compare these new contract prices, giving rise to the notion of an imbalance in "economic power" (EUAA, 2005, P3).

Several customers expressed concerns at the "*time consumed*" by the contestable process, exacerbated by the perceived lack of benefits, which were identified as challenging to already "busy" business owners and managers. This is likely to result in diminished efforts in exploring and securing the benefits presented by contestability and to some extent will also pose a barrier to further educational attempts.

Of particular concern here is the ongoing confusion between Retail and Network businesses as demonstrated by customers who mentioned supply reliability issues as part of their evaluation of retail proposals. This confusion is likely to be exacerbated where both the incumbent Retail and Network arms of the ring fenced business share the same name.

The importance of these “customer problems” is that, due to the perceived risks in such a first time buying process, customer’s fallback to a range of strategies for dealing with these risks (Schiffman, 1997, P.532). These risk mitigation strategies, include Brand Loyalty, Buying well known Brands, Buying from a reputable retailer and even buying the most expensive brand. These may pose sub-optimal commercial outcomes and appear to be in conflict with the purpose of the market deregulation.

In addition to the apparent lack of a level playing field in pricing and cost knowledge, similar differences exist when considering the legal contract documents on offer. In fact, “*Contract Development Skills*” have been recognized as the number 2 skill required by power marketing personnel (Nelson 1999).

Since the mid 1990’s Retailers have developed, tested and refined their contracts. Where on the other hand, Tranche 4 customers appear to have little choice or even recognition of choice, when it comes to negotiating the terms and conditions of electricity supply “agreements”.

We are aware of only one “user developed” standard electricity supply agreement and this document is available only to Members of the Energy Users Association of Australia (EUAA).

We have found where customers reported they had chosen to “go it alone”, most say they merely signed the contract offered by the retailer. In contrast, our experience is that the majority of customers who use energy advisors also avail themselves to professional legal advice and subsequently negotiate tailored terms and conditions.

We would further highlight the opportunity to involve the relevant legal association in any education process, as “legal advice” appears to be an area of current oversight among the vast majority of customers surveyed.

We suspect that given the face value of these contracts for a two year term are for a minimum of \$50,000 and much more for larger sites, longer terms or multiple site customers, that the lack of legal advice may be commercially inconsistent when compared to practices for other expenditures of this magnitude inside the same business.

As contrast, we question how likely it would be that these same businesses would accept an employment contract drafted by the potential new employee?

Finally, whilst some awareness of the Deemed Fallback Contract exists, we remain particularly concerned that the inherent risk of this “spot market” based product remains largely misunderstood by most customers. Throughout each survey and subsequent discussions customers repeatedly made confused references between the “contract” and “spot/pool” markets.

This situation gives rise to our increased concern about the suitability of a “spot market” based Deemed Fallback Contract, where we are mindful that some evidence exists, as discussed in Section 9.2, that a level of apathy and lack of interest may exist among certain members of this Tranche.

In contrast, our NEM experience suggests such “spot market” exposure or high risk type products are mostly the domain of heavy industry, most of who have almost immediate electricity curtailment capability and have consciously decided to take on this exposure. In contrast to Tranche 4 customers who fail to enter into a contract, these heavy industry businesses may be categorized as somewhat “informed buyers”.

9.5 Discussion Post Purchase Problems

Of the 84 customer participants only twelve had actual post purchase experience. Despite the small number, these 12 customers produced relatively rich insights into the post purchase problems faced.

From a researcher’s perspective, we recognize a fleeting window of opportunity exists to critically gauge the experiences of these first time buyers, as they are often able to articulate a reconciliation of their expectations against their actual experiences during this period of currency.

Once assimilated, the buyer armed with new knowledge likely moves forward into a “re-buying” process, quite distinct from the original process and taking many of the markets characteristics for granted.

Metering delays have been a consistent theme in this and previous Tasmanian research (OTTER, 2008, P.206). The cost benefits derived from interval metering, specifically through improved retail pricing from certainty of “load shape” risk, naturally declines as consumption reduces. In other words the greatest beneficiaries of this metering information generally reside with the largest customers. Whilst not to underestimate the full benefits of this so called “smart metering” in the long term, to some extent the opportunity for these Tranche 4 customers to benefit from interval meter data in the first round of contracting has largely come and gone.

Customer's likely lack of ability to reconcile invoices remains a particular concern and this is both related to expertise and the availability of information pertaining to the elements of a contestable market contract. In particular, the "gross up" of consumption for Loss factors and awareness of sources of Loss Factors, Network tariffs and Market Fees are likely barriers to customers being able to fully reconcile accounts themselves.

We note, as is our experience, that both under and overcharging and billing issues are no stranger to deregulated energy markets (Grey 2006).

9.6 Conclusion of Chapter

Contestable notification has been largely effective, whilst perceptions of little commercial benefit appear to have delayed active engagement in the buying process for many customers. This situation may give rise to the need for reminder notification, price visibility and further education strategies.

The incumbent retailer, as the only likely holder of complete customer contact information, is likely to hold an advantage over front end customer education and this advantage may also extend to resources and commercial motive.

Some customers who have attempted to negotiate contracts without support report they were only able to extract an offer from the incumbent supplier. The lack of active retailers in the Tasmanian market appears to be delaying the customer education process compared to experience in other states.

The relative lack of customer pricing information and in particular comparative pricing information against the Grace Period Tariff makes it complicated for customers to engage in the buying process and act in a decisive manner.

In dealing with this potential imbalance of market power and the apparent market risks, customers will inevitably fallback to risk mitigation strategies. These include, brand loyalty and paying more for well known brands, which are likely to conflict with the very benefits the deregulation was meant to bring about for these customers.

For those customers unable to make a decision (for many of the above reasons), the do nothing option represents exposure to the most volatile commodity market in the world, the spot electricity price. We remain concerned at the potential mismatch between the Deemed Fallback Contract's inherent risks and Tranche 4 customer's ability to understand and sustain the implications of this "do nothing" arrangement.

In a market no stranger to billing errors, we expect the majority of Tranche 4 customers would not have the expertise nor the access to the full range of information required to reconcile their own contestable electricity accounts.

Chapter 10 Recommendations

Recommendation 1 That a quality control and verification practice is considered for the notification process.

This recommendation is aimed at addressing the small percentage of occasions where customers have reported not receiving any notification. Any quality control program should give consideration to specification of the appropriate person/position within the customer organisation to confirm receipt of this notification.

That this process could include a process for identification of language or other communication and comprehension barriers and appropriate action instigated where they are identified.

Recommendation 2 That consideration is given to legislation allowing the Office of the Tasmanian Economic Regulator (OTTER) access to full and comprehensive customer contact details.

The purpose for this is to enable OTTER to provide relevant customer communications, including independent education and enabling dialogue with affected customers, including legitimate customer research.

Recommendation 3 That consideration is given to the benefits of providing follow up and reminder type communiqués to affected customers.

That any such follow on communiqués highlight the logical information and education needs of these customers as they advance through the first time buying process.

Recommendation 4 That consideration is given to expediting the provision of increased levels of market information and education to Tranche 4 and subsequently deregulated business customers.

In response to the relatively low levels of retailer activity in the Tasmanian market, that consideration is given to the “independence” of the sources and/or providers of any such education.

That such education specifically includes, spot market volatility as related to the potential impacts of the Deemed Fallback Contract (See also Recommendation 7), the availability and full range of support and information services. That the relevant legal association be involved in education regarding electricity contracts.

Recommendation 5 That consideration is given to initiatives aimed at improving information visibility to Tranche 4 and below customers.

Such initiatives could be aimed at improving price visibility, for example requiring retailers to publish a “rack-rates” or “standing offers” (Bowman and Hodge, 2008, P.61), for sub 750MWh per annum (Tranche 4 and below). Whilst by no means a perfect solution and certainly not without controversy, this initiative could enable benchmarking of market offers whilst the market evolves.

That improved information visibility initiatives are also extended to promoting the availability of relevant supply/demand facts, which should be reasonably available and accessible to support customer decision making.

Recommendation 6 That consideration be given to initiatives addressing the relatively high level of knowledge and competence required to compare contestable market offerings.

Such initiatives could include, components of a contestable electricity contract and where to find them, choice and applicability of Network tariffs and the separation of Retail and Network activities. Initiatives may also include familiarity with the legal implications of differing contract terms and conditions, including contract volumes and treatment of the proposed Carbon Pollution Reduction Scheme (CPRS). The contrasting of Retailer supplied contracts against a benchmark “User developed” contract, such as the EUAA Electricity Supply Agreement, may also be beneficial.

As with other educational recommendations, this suggestion should be weighed against the relatively limited resources of the Tranche 4 customers and their willingness and availability to participate in capacity building.

Recommendation 7 That consideration is **urgently** given to a review of the suitability of the current Deemed Fallback Contract with respect to the nature of the Tranche 4 Customer base.

It plays on our conscience that a potential mismatch may exist between the financial risks posed by the spot market nature of the current Deemed Fallback Contract, the relatively under informed status of the Tranche 4 customer base and the likelihood that some of these SME businesses may be both “cash-flow” dependent and apathetic to the industry changes.

To this end we suggest an **urgent assessment** of the potential range of spot price scenarios, which could play out in July 2010, including events of extreme pool price volatility (such as experienced in June 2009) after cessation of the Deemed Fallback Contract.

Such assessment would be aimed at calculating the potential magnitude of Deemed Fallback Contract electricity bill cost outcomes, against Tranche 4 customer’s ability to pay such bills. In other words, “Stress testing” post July 2010 scenarios and applying a reasonableness test to decide if in fact the current Deemed Fallback Contract arrangement are “fair and reasonable” toward the customers likely to be affected.

Recommendation 8 That consideration be given to the benefits and needs for further research into the “Post Purchase” experience of contestable Tasmanian customers.

Despite only a small percentage of customers surveyed having post purchase experience, the relatively high incidence of issues reported appears to deserve further attention. In particular, seeking customer views and experiences on the retailer transfer processes, billing timeliness and the perception of bill accuracy.

This could be carried out in conjunction with research into the actual accuracy of rendered contestable accounts. The contrasting of these two research findings would help establish whether the issues are ones of perception, fact or a combination of both.

Recommendation 9 That consideration is given to development of support mechanisms for customers to be able to undertake their own electricity invoice reconciliation.

This could possibly be delivered through the development of an additional OTTER “Fact Sheet”. Such a fact sheet would need to draw together the sources of information required to conduct such reconciliation.

Again, as with other educational recommendations, this suggestion should be weighed against the relatively limited resources of the Tranche 4 customers and their willingness and availability to participate in such capacity building.

Recommendation 10 That consideration is given to developing a logical process decision map for contestable customers.

Throughout the process of electricity contracting, from contestable notification through to contract execution and bill reconciliation, customers face several options. These include choices to enlist the support of energy and/or legal advisors, to join into a buying group or to go alone. At each stage of this process the need arises for additional information to support this decision making.

Opportunity may exist to map out this logical process into a flow chart, explaining the choices faced at each stage (E.g. OTTER Fact Sheets) and to provide access to the information sources (E.g. Web Links) that support these decisions. The “Power Tas” website (www.power.tas.gov.au) “Fact Sheet” area already contains significant related resources and would appear to be a logical site for this process information.

Recommendation 11 That consideration is given to benchmarking and analyzing the existing contestable customer advocacy efforts in Tasmania.

Such investigation could be aimed at assessing the current status of Tasmanian contestable customer advocacy against the “*Objectives and Principles*” outlined in the EUAA 2005 report and other established principles. The finding of such a report would be useful in acknowledging the existing strengths and weaknesses and identifying priority areas for action.

List of Appendices

- App1: Summary of Burnie Focus Group
- App2: Summary of Glenorchy Focus Group
- App3: Summary of Launceston Focus Group
- App4: Summary of Devonport Focus Group
- App5: Summary of Hobart Focus Group

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Appendix 1 Burnie Focus Group

Date Wednesday 7th October 2009

Number of Participants 7

Industries represented: Local Government, Dairy, Engineering, Hotel and Mineral extraction.

Tranches represented Tranche 4 Only
(Consent for report and MBA granted)

Question 1: Notification of Contestability

All seven participants reported receiving written notification of the contestable status of one of their sites. Recall of the timing of this notification varied between 6 months to 18 months ago. (We understand from Aurora that this notification was posted in September of 2008, some 13 months prior to the workshop).

Four participants specifically noted that the letter came from “Aurora” Energy, whilst one participant believed that the notification letter had come from their industry association (AHA).

One participant recalled that the letter mentioned they would get a new meter installed. They appeared to be concerned that this had not yet occurred.

Q1 Verbatim Comments

“We got a letter from Aurora telling us we were contestable”

“We got a letter about 18 months ago”

“Got a letter about six months ago. The letter mentioned a new meter. The time for the new meter has come and gone”

“The AHA (customers industry association) are looking into contestability”

Question 2: Search for Alternatives

The question “*Now that you are Contestable, What choices do you have*”, raised some apparent sarcasm among the group. Several of the participants lamented the lack of active Retailer competition in the Tasmanian market.

The first un-aided response from one participant correctly acknowledged, “*Two choices Aurora or ERM*”. Whilst it was reasonably evident in the first question that all seven participants were familiar with “Aurora” as their current incumbent Retailer, it was unclear in this instance how many of the seven participants were previously familiar with ERM Power as the only other active Retailer in Tasmania.

After prompting the participants with, “*Apart from Aurora and ERM, what other alternatives do you have*”, one participant acknowledged, “*You can do nothing and fall back to the Aurora default position*”. Which was followed by, “*You can come to a training session like this one*”, which was accompanied with some laughter.

One participant correctly acknowledged, “*You can buy your energy on the spot price*”. The silence and lack of agreement from the other participants following this comment, suggested to me that most other participants were unfamiliar with this alternative.

Q2 Verbatim

“*Two choices Aurora or ERM*”

“*You can do nothing and fall back to the Aurora default position*”.

“*You can come to a training session like this one*”.

“*You can buy your energy on the spot price*”.

Question 3: Who can you turn to for Help?

The question, “Who can you turn to for help”, was met unprompted with, “*Any Retailer*”, followed by “*A consultant*”. Upon further prompting one participant commented, “*The AHA (Australian Hotels Association) said they will negotiate for members*”. Which was followed by, “*The TCCI (Tasmanian Chamber of Commerce and Industry) would offer advice*”.

Further prompting provided no additional suggestions as to potential sources of assistance.

Q3 Verbatim

“Any Retailer”

“A consultant”

“The AHA said they will negotiate for members”.

“The TCCI would offer advice”.

Question 4: Evaluating Alternatives

The participant’s knowledge of how to go about comparing Retail proposals was pre-qualified with the question, “*Has anyone requested or received a retail proposal for their electricity supply*”. None of the respondents claimed to have seen a Retail proposal before. However it was known to us that at least one of these participants had recently viewed a market based proposal. As such we would assume the other participants only knowledge of energy supply costs would be limited to “Bundled” Retail tariffs, as opposed to unbundled or “Energy Only” market based proposals.

The participant's knowledge of how to go about comparing Retail proposals was then explored with the question, "*How would you go about evaluating the alternative proposals*"? The first response was to, "*Look at what you currently pay*", followed by, "*Consumption*" and "*Per Kilowatt*". This was followed up with contrasting type comments, including, "*New Contract*", "*Compare what we would pay*", "*See if you can get a discount for early payment*".

During the above discussion there was a complete absence of words used to describe the "unbundled" elements of market based proposals. Such words or phrases that may have been mentioned that would indicate an awareness of the "unbundled" nature of market based proposals, would normally include, "Peak rates" "Off Peak Rates", "Renewable Energy Certificates", "Network fees", "Losses/loss factors", "Market Fees/Ancillary's" or "Metering Costs".

It appeared from these comments that the participants expected the Retail proposals would be simply comparable to their existing Tariff arrangements. This is to say it is likely that all participants likely expected their contestable market offer, would be presented in a similar format to their existing tariff arrangements.

When participants were prompted further about, "*What would you look for*" when comparing proposals, they mentioned the following.

"*It comes down to cost*". Followed by, "*Reliability. Making sure you don't have problems like Victoria and energy can't be provided*". This comment drew significant agreement from the participants and was quickly followed with, "*Value for Money*" and "*Rolling stoppages in South Australia*".

These responses supported the supposition that not only were most participants unfamiliar with the “unbundled” nature of market based proposals, but further, they were unfamiliar with the monopoly status of the Transmission and Distribution network providers. The separation and “ring-fencing” between Retailers and Distributors effectively means, supply reliability and supply quality issues are totally independent of “Choice of Retailer”. A fact clearly not acknowledged in any of these participant comments.

The final prompt for this question was, “Have you had any problems getting information to make a comparison”? The only respondent to this question was the participant known to us to be involved in assessing current market based proposals.

This participant solely made the following comments. *“Difficulty looking at two contracts for legal review. By the time we get legal review the price has changed”*. This comment refers to the short “validity” periods commonly offered in the contestable electricity market of several days and highlights both the frustration user’s face and the way in which they are compelled to alter their decision making processes to fit the industry norm. The participant followed this up with, *“Contract terms and conditions mean that the actual price we pay may change”*.

Q4 Verbatim

“Look at what you currently pay”

“Consumption”

“Per Kilowatt”

“New Contract”

“Compare what we would pay”

“See if you can get a discount for early payment”.

“It comes down to cost”

“Reliability. Making sure you don’t have problems like Victoria and energy can’t be provided”

“Value for Money”

“Rolling stoppages in South Australia”

“Difficulty looking at two contracts for legal review. By the time we get legal review the price has changed”.

“Contract terms and conditions mean that the actual price we pay may change”.

Question 5: Post Purchase Experience

No users indicated they had made a decision on their electricity supply contract. The final question was therefore not relevant to the participants and the research phase of the focus group was concluded.

Appendix 2 Glenorchy Focus Group

Date Friday 9th October 2009

Number of Participants 11

Industries represented: Local Government, Investment Management, Property Management, Aged Care, Accommodation and Conservation.

Tranches represented Both Tranche's 3 and 4 were represented.
(Consent for report and MBA granted)

Tranche 3 participants (2) had previously negotiated a market contract. One Tranche 4 participant acknowledged previous attendance at an Aurora Energy Information Forum. One other Tranche 4 participant acknowledged having already entered into a Tranche 4 market contract.

Question 1: Notification of Contestability

Of the companies represented, all bar one reported receiving written notification of the contestable status of one of their sites. One participant/company was adamant that no notification was received, "*Received no formal notification that we are contestable*". This customer claimed that because they had already negotiated a Tranche 3 contestable contract they were aware of the deregulation and had contacted Aurora to check the status of their other sites. Claiming that, only then did they learn that they had other Tranche 4 contestable sites.

Participant's recall of the timing of this notification varied between 12 months to 18 months ago. (We understand from Aurora that this notification was posted in September of 2008, some 13 months prior to the workshop).

Of those who recalled the notification letter, all bar one specifically noted that the letter came from “Aurora Energy”. Whilst one participant believed that the notification letter had come from their industry association, LGAT (Local Government Association Tasmania).

The main focus of problems reported related to the lack of active Retailers, “*I Rang four contacts which were listed on (the) Regulator website and no contact received, one was not ready and only one other (the incumbent supplier was) ready*”.

Whilst one participant lamented the lack of Retailer follow up, “*After receiving the (notification) letter I called (Named incumbent retailer sales employee) no other contact was made and no follow-up*”.

Q1 Verbatim Comments

“Received no formal notification that we are contestable”

“First Learnt they were contestable late last year, around Nov 2008”

“12-15 month ago”

“18 months ago through Industry, group”

“October 2008”

“Received reminder letter a couple of months ago”

“Notified by LGAT (Local Government Association of Tasmania) and then looked back through and found notification letter”

“Received letters or information from LGAT”

Where did the information come from?

“Aurora Energy”

Did you experience any problems with this?

“After receiving letter – no other contact was made and no follow-up”

“I Rang 4 contacts which were listed on Regulator website and no contact received, one was not ready and only one other ready”

Question 2: Search for Alternatives

The question “*Now that you are Contestable, What choices do you have*”, initially raised a range of responses including, “*Two choices (Aurora or ERM)*”, “*Originally 4 providers now only two – limited choice*” and “*(we have done) No research into this*”. As identified above, this feedback indicated a far wider range of experience and knowledge within this group, when compared to the previous Burnie focus group.

The question, “*Who are the Retailers*”, yielded “*Aurora and ERM*”. Further prompting, “*What other alternatives do you have*”, elicited options including, “*National Grid*” and “*Open market*”. Although it was unclear what the participants understood of these terms.

This was followed by the question, “*What would happen if you did nothing*”, which was met with, “*Go on Default tariff*”, and was followed by a mention of the, “*Grace Period (Tariff)*”.

Q2 Verbatim

What choices do you have?

“Two choices”

“Originally 4 providers now only two – limited choice”

“No research into this”

Who are the Retailers?

“Aurora and ERM”

What other alternatives do you have?

“National Grid; Open market”

What would happen if you did nothing?

“Go on Default tariff”

“Grace Period”

Question 3: Who can you turn to for Help?

The question, “Who can you turn to for help”, was met unprompted with, *“That’s why we are here to find the answers”*, followed by *“Training sessions / Aurora”*.

Prompting for additional sources of assistance was met with, *“We spoke to our Engineers, but they are not well informed on this”*, followed by *“Retailers”*, *“Consultants”* and *“Industry Groups”*.

Energy “Brokers” did not get a mention and we assume from this little or no awareness of, or the differences between, Fee for Service *“Consultants”* and Commission based *“Brokers”*. Further prompting provided no additional suggestions as to potential sources of assistance.

Q3 Verbatim

Who can you turn to for help?

“That’s why we are here to find the answers”

“Training sessions / Aurora”

“We spoke to our Engineers, but they are not well informed on this”

“Retailers”, “Consultants”, “Industry Groups”.

Question 4: Evaluating Alternatives

The participant’s knowledge of how to go about comparing Retail proposals was pre-qualified with the question, *“Has anyone seen a retail proposal for their electricity supply?”* Three of the eleven respondents acknowledged having seen a Retail proposal. The question, *“How would you go about evaluating the alternative proposals”*, was prefaced with a request for the two Tranche 3 participants to hold their responses until the end of the section. As a result of this request the question was met with silence. The follow up question, *“Where would you start”*, yielded no additional insights.

Finally the question, “*What would you look for*”, was greeted with the, “*Cheapest price*”. The question, “*What is important to you*”, was met with “*Cost (is important)*”.

During the above discussion (and as in the Burnie Focus Group), there was a complete absence of words used to describe the “unbundled” elements of market based proposals from the Tranche 4 participants. As such we would assume that the Tranche 4 participant’s only knowledge of energy supply costs was limited to “Bundled” Retail tariffs, as opposed to unbundled or “Energy Only” market based proposals.

Similar to the Burnie Focus Group, It appeared from these comments that the Tranche 4 participants expected the Retail proposals would be simply comparable to their existing Tariff arrangements. This is to say it is likely that the Tranche 4 participants likely expected their contestable market offer, would be presented in a similar format to their existing tariff arrangements. An issue that would fully come to light in the following question.

The final prompt for this question was, “*Have you had any problems getting information to make a comparison*”? Respondents to this question included the Tranche 3 participants, who jumped somewhat ahead of the specific question to give an account of their “post-purchase” experience from Tranche 3.

In getting information upon which to make a comparison the Tranche 3 experienced customers commented, “*You need to know what questions to ask*”. “*You may be naïve about your consumption*” and (you) “*Could get caught out*”.

The Tranche 3 customers expanded on these comments with, “*You need to know what’s in the small print*”, (and be aware of the), “*Hidden charges. (the price) did not look as good after hidden charges (were) included (details are) in the fine print*”.

The, “*Additional charges*”, (such as Loss Factors), were of concern, highlighted in the comment, “*We calculated a 27% increase, but when we got the bill it was a 35% increase (due to the additional charges we weren’t aware of)*”.

The Tranche 3 customer’s advice to the Tranche 4 customers present was to, “*Ask for a full quote on what your bill will look like*”.

Q4 Verbatim

“*Cheapest price*”.

“*Cost*”

“*You need to know what questions to ask*”

“*You may be naïve about your consumption*”

“*Could get caught out*”

“*You need to know what’s in the small print*”

“*Hidden charges (did not look as good after hidden charges included in the fine print*”

“*Additional charges*”

“*We calculated a 27% increase, but when we got the bill it was a 35% increase (due to the additional charges we weren’t aware of)*”

“*Ask for a full quote on what your bill will look like*”

Question 5: Post Purchase Experience

The post purchase experience of question 5 was largely answered in question 4, by the three more experienced (mainly Tranche 3) customers present. These customers went on to confirm that their market contracts had all (both companies) commenced on time. They reported that no disruptions to supply were experienced in the process. Both companies had received their first “contestable” invoice.

As described above and one of these companies had been surprised to find what was contained in the invoice. The problem stated was that they had not been able to locate an independent source with which to reconcile the Transmission and Distribution Loss factors contained in the invoice.

The other customer who had received an invoice admitted that they had not attempted to reconcile their first invoice.

The research phase of the focus group was concluded.

Q5 Verbatim

3 out of 11 (two companies) have already entered a market contract

“No disruptions to starting new contract”

3 out of 3 (two companies) already received their first invoice under the new contract.

2 out 3 (One company) *“found surprises”*

Two (one company) have reconciled their invoice and one hasn't.

Problems experienced, that they, *“couldn't find reference to Transmission loss factors and distribution loss factors”*.

Appendix 3 Launceston Focus Group

Date Friday 6th November 2009

Number of Participants 20 (Approximate attendance of 26 registrations)

Industries represented

Local Government, Education, Seafood, Aged Care, Accommodation, Cool store, Health care, Not for Profit, Religious/Education, Bakery, Biotechnology, Agriculture, industrial and timber.

Tranches represented Tranche 4 (19) and Tranche 3 (1)
(Consent for report and MBA granted)

Question 1: Notification of Contestability

Most participants reported receiving written notification of the contestable status of one of their sites. Recall of the timing of this notification varied between two months and twelve months, with several suggesting six months. (We understand from Aurora that this notification was posted in September of 2008, some 14 months prior to the workshop).

One participant claimed not to have received any formal notification and to have only learned of their contestable status, “*Six months ago from a consultant*”.

The majority of participants specifically noted that this notification letter came from either, “*Aurora*” Energy or “*the Regulator*”.

One participant claimed, “*We thought we would be contestable so we contacted Aurora. They said we weren’t. Two weeks later we got a letter saying we were*”.

Participants were then prompted with “Did you experience any problems with this notification”. Comments included, “*Attended the Aurora show*”, “*Publicity has been good. (Both Aurora & CAP 360) Seminars good*”.

Whilst one participant commented, “*I called Aurora 12 months ago. The call centre was useless. They gave me another number. I called it three times. No one called back. I went on the Regulators website, (www.economicregulator.tas.gov.au as opposed to www.power.tas.gov.au) but you have to be an expert to find what you want. This was the only information we could get*”.

One participant lamented the lack of early information, “*Our consultant advised us to get a NEM Meter installed by Aurora. We only got information after this*”.

One participant commented that they, “*Didn’t find the Aurora website helpful*”. Another commented that they, “*Didn’t find the Regulator website very good. Not user friendly*”. Again this referred to www.economicregulator.tas.gov.au

One participant commented that, “*A change of site ownership, meant we had to re-apply for the site to be contestable*”.

Another highlighted that their, “*Chinese owners would not have known about this (contestability) unless a consultant sent us a letter*”. This participant went on to discuss the difficulties faced by foreign and non-English speaking owners.

Several users became involved in a discussion around the time taken up by the contestability and the perceived lack of benefits, with comments including the following. “*It’s hard enough when you’re trying to make a living but you have to get this site re-classified as contestable*”. Whilst another lamented the perceived lack of benefit available when, “*It’s a duopoly*”.

One participant raised concern at not receiving notification of contestability, suggesting *“It’s a marketing issue for Aurora”*. Whilst another participant suggested that the notification, *“Should be addressed to the name of the responsible Director”*. Which we interpreted to be akin to the formal “Notification provisions” often contained in commercial contracts. *“Surely it should be the Government and Regulators responsibility to notify”*.

Q1 Verbatim Comments

*“Aurora”, “Regulator” (Repeatedly). “Six months ago from a consultant”
“We thought we would be contestable so we contacted Aurora. They said we weren’t. Two weeks later we got a letter saying we were”*.

“Attended the Aurora show”, “Publicity has been good. Seminars good”.

“I called Aurora 12 months ago. The call centre was useless. They gave me another number. I called it three times. No one called back. I went on the Regulators website but you have to be an expert to find what you want. This was the only information we could get”.

“Our consultant advised us to get a NEM Meter installed by Aurora. We only got information after this”.

“Didn’t find the Aurora website helpful”.

“Didn’t find the Regulator website very good. Not user friendly”.

“A change of site ownership, meant we had to re-apply for the site to be contestable”.

“Chinese owners would not have known about this unless a consultant sent us a letter”.

“It’s hard enough when you’re trying to make a living but you have to get this site re-classified as contestable”.

“It’s a duopoly”. “It’s a marketing issue for Aurora”

“Should be addressed to the name of the responsible Director”.

“Surely it should be the Government and Regulators responsibility to notify”

Question 2: Search for Alternatives

The question “Now that you are Contestable, What choices do you have”, raised some immediate skeptical responses including, “*We don’t have choices*”, “*We have no meter data, so we have nothing to go to the Retailers with*”. “*Meters should have been installed 12 months ago*”. “*Need to find what Retailers there are then decide who to contract with*”.

One user asked, “*When is the best time to contract? No one has told us when to contract. We have to gamble*”.

The Tranche 3 participant in the audience commented, “*We did ours (contract) in June when the price was really high*”. “*It was a gamble. I don’t know if I got the full benefit*”.

Another participant asked, “*Are there any indicators to guide us on when to make a decision?*” Whilst another commented, “*We got our meters changed but they weren’t any good and had to be changed again*”. Followed by, you could “*Do nothing and take a chance*”. “*Disconnect your power*”, “*It’s a financial contract*”, “*We could do a hedge contract*”. When prompted with, “What would happen if you do nothing”, one participant commented, you go on the “*spot*” market.

Q2 Verbatim

“*We don’t have choices*”, “*We have no meter data, so we have nothing to go to the Retailers with*”. “*Meters should have been installed 12 months ago*”. “*Need to find what Retailers there are then decide who to contract with*”.

“*When is the best time to contract? No one has told us when to contract. We have to gamble*”.

“We did ours (contract) in June when the price was really high”.

“It was a gamble. I don’t know if I got the full benefit”.

“Are there any indicators to guide us on when to make a decision?”

“We got our meters changed but they weren’t any good and had to be changed again”.

“Do nothing and take a chance”.

“Disconnect your power”,

“It’s a financial contract”,

“We could do a hedge contract”.

“spot”

Question 3: Who can you turn to for Help?

The question, “Who can you turn to for help”, was met unprompted with, “TCCI”, Tasmanian Chamber of Commerce and Industry, “ACST” Tasmanian Aged and Community Services and “Goanna Energy”, “Aurora”, “Ombudsman” and “Regulator”

Participants were finally prompted with the question, “Have you had any problems finding out about your alternatives”. This was immediately met with, “Haven’t had to look yet” and “Haven’t tried yet”, which was followed with some head nodding.

This was followed by comments from two of the apparently more experienced participants in the room, with, “Only problem identifying the new meter situation” and “Problem with having to re-apply for contestability”.

Q3 Verbatim

“TCCI”, “ACST”, “Goanna Energy”, “Aurora”, “Ombudsman” and “Regulator”

“Haven’t had to look yet”,

“Haven’t tried yet”.

“Only problem identifying the new meter situation”

“Problem with having to re-apply for contestability”.

Question 4: Evaluating Alternatives

The participant’s knowledge of how to go about comparing Retail proposals was pre-qualified with the question, “Apart from the Tranche 3 customer, Has anyone seen a retail proposal for their electricity supply?” Only one of the respondents (apart from the Tranche 3 customer) claimed to have seen a Retail proposal, commenting, *“I got a proposal as I believe it was the best time to buy”.*

The participant’s knowledge of how to go about comparing Retail proposals was then explored with the question, “How would you go about evaluating the alternative proposals”? The first response to this was to, Make a *“direct comparison between Retailers”*, followed by the Tranche 4 participant who had previously claimed to have seen a proposal, who commented, *“cents per kilowatt hour for Peak and Off Peak, years 1, 2 and 3”.*

Further prompting resulted in, *“How much risk”, “Risk and contract details”, “Customer service”, “Exit option”, “Help with installing metering”.*

One participant commented, *“Renewable Energy Costs... are they regulated?”* Which was followed by and *“A good salesman”* accompanied with laughter. *“Payment terms”, “Easy weekly summonses to pay”,* more laughter.

This was followed up with a specific question, on the expected offer “Validity period”, which was greeted with, “30 days, standard commercial practice”, “One week” and then “Validity is regulated” and “Ability of the Retailer to enter into a long term relationship”.

The final prompt for this question was, “Have you had any problems getting information to make a comparison”? This was met with “I only had one option” and “No choice”

Q4 Verbatim

“I got a proposal as I believe it was the best time to buy”.

“direct comparison between Retailers”,

“cents per kilowatt hour for Peak and Off Peak, years 1, 2 and 3”.

“How much risk”, “Risk and contract details”,

“Customer service”,

“Exit option”,

“Help with installing metering”.

“Renewable Energy Costs... are they regulated?”

“A good salesman”,

“Payment terms”,

“Easy weekly summonses to pay”,

“30 days, standard commercial practice”,

“One week”,

“Validity is regulated”

“Ability of the Retailer to enter into a long term relationship”.

“I only had one option”,

“No choice”

Question 5: Post Purchase Experience

Only the Tranche 3 Participant indicated they had made a decision on their electricity supply contract. When asked if the contract started on time they responded, “*Yes, started on time, but didn’t have meter ready for one week*”.

When asked if there were any problems the Tranche 3 participant responded, “*Yes, it (the bill) was five times higher than what was expected. It was a mistake. No other problems*”.

The research phase of the focus group was concluded.

Appendix 4 Devonport Focus Group

Date Monday 9th November 2009

Number of Participants 6 (of 12 Registrants)

Industries represented Local Government, Education and Hotel.

Tranches represented Tranche 4 Only

(Consent for report and MBA granted)

Question 1: Notification of Contestability

Three of the six participants reported receiving written notification of the contestable status of one of their sites, “*from Aurora*”. Recall of the timing of this notification varied between “*September 2008*” and “*Late last Year*”. (We understand from Aurora that this notification was posted in September of 2008, some 14 months prior to the workshop).

One participant recalled receiving notification “*One month ago*”, which is likely to coincide with Aurora Energy’s 2008/09 Tranche 4 Mail out in September 2009, which we understand identified some 150 additional Tranche 4 Tasmanian sites.

One participant claimed only to have learnt of their contestable status, “*When we were invited to this forum*”. Whilst another claimed only to have learnt about their contestable status, “*following group discussion*” (with the AHA).

Q1 Verbatim Comments

“from Aurora”, “contact from Aurora”

“September 2008”

“Late last Year”

“One month ago”

“When we were invited to this forum”

“following group discussion”

“Letter”, “Aurora Letter”

“Nothing”,

“No official notice”,

“Not really sure if we are” (Next day confirmed that they were T4 with Aurora)

Question 2: Search for Alternatives

The question “Now that you are Contestable, What choices do you have”, raised a response from the only Tranche 4 customer present who had recently entered into a market contract. This participant commented, *“Two choices. Take our chances on the open market spot price, or negotiate and fix”*. This was followed by, *“Same”* and *“Same, but I’m unsure what choices are and how to go about it”*.

After prompting the participants with, “Who are the Retailers”, the experienced participant commented, *“Only looked at Aurora and Green Energy”*. Other participants followed up with, *“Don’t know more”* and *“I don’t know any more”*.

The experienced Tranche 4 participant then noted, *“At the time I only knew of one Retailer (Aurora) after going through a consultant process found ERM in the Market”*.

After prompting the participants with, “Apart from Aurora and ERM, what other alternatives do you have”, participants responded, “*Unsure*”, “*Unsure*” and “*Don’t know*”.

This question was further pursued with the prompt, “What would happen if you did nothing”? Which was met with, “*Continue with Aurora*”, “*Cut power off*” followed by laughter. “*Guess stay with Aurora*”, “*Continue with Aurora, go with their cost whatever that is*” and finally, “*If we do nothing we pay Aurora whatever they tell us to*”.

Q2 Verbatim

“*Two choices. Take our chances on the open market spot price, or negotiate and fix*”.

“*Same*” and “*Same, but I’m unsure what choices are and how to go about it*”.

“*Only looked at Aurora and Green Energy*”.

“*Don’t know more*”

“*I don’t know any more*”.

“*At the time I only knew of one Retailer (Aurora) after going through a consultant process found ERM in the Market*”.

“*Unsure*”, “*Unsure*” and “*Don’t know*”.

“*Continue with Aurora*”,

“*Cut power off*”

“*Guess stay with Aurora*”,

“*Continue with Aurora, go with their cost whatever that is*”,

“*If we do nothing we pay Aurora whatever they tell us to*”.

Question 3: Who can you turn to for Help?

The question, “Who can you turn to for help”, was met unprompted with, “*My wife*” (which was accompanied by much laughter and at least one request for her telephone number!)

Once order was restored, and re-prompted this was followed by, “*No Idea*”, “*Wouldn’t know who to ask*”, “*I asked another council. They didn’t know, so we got a consultant*” and finally, “*Haven’t spoken to anybody*”.

Further prompting provided no additional suggestions as to potential sources of assistance.

Q3 Verbatim

“My wife”

“No Idea”,

“Wouldn’t know who to ask”,

“I asked another council. They didn’t know, so we got a consultant”

“Haven’t spoken to anybody”

Question 4: Evaluating Alternatives

The participant's knowledge of how to go about comparing Retail proposals was pre-qualified with the question, "*Has anyone seen a retail proposal for their electricity supply?*" Only the one experienced participant claimed to have seen a proposal and this participant was asked to hold their input until the end of the question.

The participant's knowledge of how to go about comparing Retail proposals was then explored with the question, "How would you go about evaluating the alternative proposals"? The first response was to, "*Get two quotes*", followed by, "*look at the price*" and "*Time, Contract lengths*". This was followed up with "*Brokerage*".

During the above discussion apart from the experienced Tranche 4 participant there was a complete absence of the words used to describe the "unbundled" elements of market based proposals.

Participants were then asked, "How long would you expect the proposal to remain Valid for?" This question was met with, "*30 Days*" and agreement from two other participants. Only the experienced participant responded, "*3 Days*"

The final prompt for this question was, "Have you had any problems getting information to make a comparison"? Only the experienced participant commented, "*Not a lot to compare*", which referred to the fact that they were only able to get a proposal from the incumbent supplier Aurora.

Q4 Verbatim

“Get two quotes”, “look at the price”

“Time, Contract lengths”.

“Brokerage”.

“30 Days” (and agreement from two other participants).

“3 Days”

“Not a lot to compare”,

Question 5: Post Purchase Experience

Only the one experienced user indicated they had made a decision on their electricity supply contract. They commented that they had, *“No problems as yet. Not due to be on this supply until January 2010”.*

The research phase of the focus group was concluded.

Appendix 5 Hobart Focus Group

Date Thursday 12th November 2009

Number of Participants 40

Industries represented: Entertainment; Food Service; Religious NFP; Property Management; Local Government; Seafood; Agriculture; accommodation; Logistics; Historic; Brewery; Aged Care; Sport;

Tranches represented Tranches 2, 3 & 4
(Consent for report and MBA granted)

Question 1: Notification of Contestability

All customers who answered the question reported receiving written notification of the contestable status of one of their sites. Recall of the timing of this notification varied based on which Tranche the customers belonged to.

Most participants specifically noted that the letter came from “Aurora” Energy, whilst one participant believed that the notification letter had come from an industry newsletter and another via the invitation to this forum.

There was some frustration expressed at the lack of knowledge of contestability, *“People who should know, did not know”*.

Q1 Verbatim Comments

- 1a) Oct '08; Aug '08; late '07 (Tranche 2); Dec '07 (Tranche 3)
- 1b) *“letter from Regulator”; “Seminar – Aurora Invite”; “Industry newsletter”; letter from Aurora”*
- 1c) *“Letter”; “Industry newsletter”; “Invite to Forum”*
- 1d) As above
- 1e) *“little knowledge from other people”; “frustrated – people who should know, did not know”*.

Question 2/3: Search for Alternatives

The question “Now that you are Contestable, What choices do you have”, raised the response “Two”. Followed by, “No idea”, “Aurora said 4 registered providers. Only two interested and one only interested in large customers”. This was followed by, “only Aurora left”.

After prompting the participants with, “Apart from Aurora and ERM, what other alternatives do you have”, the following responses were raised, “fallback contract”, “remain on tariff”, “spot price”, “timing important” and “negotiate new contract”. It was noted that the majority of these comment came from the Tranche 2 and Tranche 3 experienced users in the audience.

Customers were then asked, “Who can you turn to for help”, which yielded the following, “Goanna Energy Consulting”, “retailers” and the “Ombudsman”.

When asked, “Have you had any problems with getting advice”, the only reply was “No”.

The large group (of over 40 people) appeared to constrain further discussion. This tended to be the general case with the Hobart workshop which appeared not to offer the level of candor freely available in the other more intimate forums.

Q2/3 Verbatim

“Two”

“No idea; Aurora said 4 registered providers only two interested and one only interested in large customers; only Aurora left; fallback contract; remain on tariff; negotiate new contract.”

“Aurora”

“Fallback contract/spot price; timing important”

“Fall back tariff”

Who can you turn to for help?

Goanna Energy Consulting; retailers; ombudsman

Any problems?

“No”

Question 4: Evaluating Alternatives

The participant’s knowledge of how to go about comparing Retail proposals was pre-qualified with the question, *“Has anyone seen a retail proposal for their electricity supply?”* Seven of the 40 customers claimed to have seen a Retail proposal. At least three of these seven belonged to the previous Tranches 2 and 3.

The customers knowledge of how to go about comparing Retail proposals was then explored with the question, *“How would you go about evaluating the alternative proposals?”* The first response was to, *“(look at your) Last bill”,* to ask *“your accountant”,* to look at your *“work practices – work out where costs may be cheaper”*. As in previous workshops a lack of identification of the unbundled nature of these market based proposals prevailed.

This was followed by, “*Security of supply*”, which may show a lack of understanding of the separation of functions or “ring fencing” between Retailers and Network businesses.

One of the customers correctly identified that, “*Meter prices – vary from retailers to retailer*”, which was the sole identification of the unbundled elements of contestable market contracts. This was followed up with a customer question, “*What happens when things go wrong*”? Again, a sign that the customer lacked knowledge of ring fencing.

This was followed by the customer question, “*What happens if you are over (your contract consumption level)*”. This recognized that, market contracts often contain annual volumetric consumption limits.

When customers were prompted further with, “*What would you look for when comparing proposals*”, they mentioned that the, “*Billing pattern important*”.

The next prompt was “*How long would you expect the retail proposal to remain valid and capable of acceptance for*. Which was met with, “*Seven days*”, “*months*”, “*30 minutes*”, and “*30 days*”.

The final question was, “*Have you experienced any problems with comparing proposals*”. This was met with, “*Different wording from one contract to another*”.

Q4 Verbatim

3a) "Seven"

3b) i) "Last bill"; "your accountant"; "work practices – work out where costs may be cheaper"

ii) No Comments

iii) "Security of supply"

"Meter prices – vary from retailers to retailer"

"what happens when things go wrong"

"What happens if you are over"

"Billing pattern important"

Validity of offer?

"Seven days";

"months";

"30 minutes" laughter ;

"30 days".

Problems?

"Different wording from one contract to another"

Question 5: Post Purchase Experience

Five customers indicated they had made a decision on their electricity supply contract. Again at least three of these were members of the previous Tranches 2 and 3. Of the five customers who reported having entered a contract four reported that the contract had started on time and one reporting that delays in paperwork meant that the “*price lapsed by three weeks*”.

All five reported that they had received their first invoice under the new contract. When asked if they had “Experienced any problems with this”, one commented that “*The boss did*” due to the “*price rise*” but reported “*no errors, no problems*”.

Four of the five claimed to have reconciled the first invoice whilst one had admitted they had not attempted to do this. One of these customers acknowledged that they “*Didn’t understand the demand charge in transmission costs*” and asked “*why does it change month to month*”?

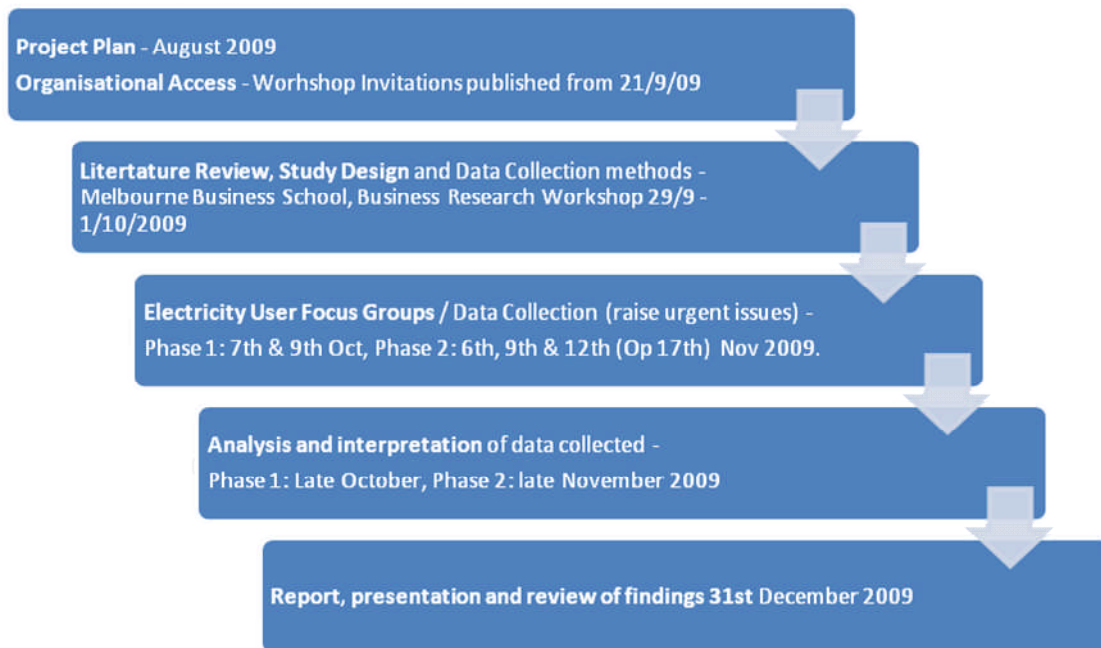
The research phase of the focus group was concluded.

Q5 Verbatim

- 4a) 5
- 4b) No x 1 “*paperwork; price lapsed by 3 weeks*”
Yes x 4
- 4c) 1st invoice – 5
- 4d) Any surprises? “*Boss did – price rise/ no errors; no problems*”
- 4e) Reconciled? 4 x Yes; 1 x No
- 4f) Any problems reconciling?
“*Didn’t understand demand; charge in transmission cost – why does it change month to month*”

Appendix 6 Research Project Timeline

Figure 5 Research Project Timeline



Attachment A Tranche 4 Notification Letter

A copy of the Tranche 4 Notification letter is attached.

Attachment B Research Workshop Marketing Flyer

A copy of the Research Workshop Marketing Flyer is attached.

< END >

26 September 2008

«Name»
«Postal_Address_»
«Postal_Town», «State» «Postcode»

Dear «Courtesy»,

On 29 May 2005, Tasmania became a participating jurisdiction in the National Electricity Market (NEM). With the introduction of a contestable market in energy at the generation level, the State Government is progressively introducing retail competition.

Aurora is required to notify you that you currently occupy a site that will be deemed 'contestable' under the *Electricity Supply Industry (Contestable Customer) Regulations 2005*, (Regulations). These regulations came into force on 3 August 2005.

Our records indicate that for the period covering 1 July 2007 to 30 June 2008 your site at «Installation_Address», «Town» recorded consumption greater than or equal to 0.15 GWh per annum, and as at 1 July 2009, this site will be contestable as defined in the Regulations.

If you require any additional information on this matter please contact the Tasmanian Energy Regulator on (03) 6233 6323, or you can find an explanation of retail competition in electricity supply in Tasmania at:

<http://www.power.tas.gov.au/>

Also included with this letter is an information sheet prepared by the Tasmanian Energy Regulator.

Yours sincerely,



Roger Drummond
Business Sales Manager

COMPETITION IN RETAIL ELECTRICITY SUPPLY FOR FOURTH TRANCHE CUSTOMERS



The fourth tranche of retail competition (contestability) for electricity customers in Tasmania commences on 1 July 2009 for retail customers with an annual consumption in the 12 months prior to 1 July 2008, of greater than or equal to 0.15 gigawatt hours per year.

Aurora Energy Pty Ltd (Aurora) is responsible for assessing customers' consumption levels and for giving notice to a customer that is to become contestable. This advice is to be provided to relevant customers no later than 9 months before that customer becomes contestable.

CONTESTABILITY

Contestability is assessed on the basis of consumption at a single site. After becoming contestable, a customer remains contestable in respect of a single site regardless of any fluctuation in the consumption level for that site. Customers may apply to the Regulator for a determination of their contestability status in respect of a single site if they believe that a change in circumstances may make a site eligible to be classified as contestable.

'Contestable customers' will be able to choose their retailer, or they can participate in the wholesale market operated by National Electricity Market Management Company Limited (NEMMCO). More likely, they will consider the offers of competing retailers, and either stay with the incumbent retailer (Aurora) or negotiate a retail contract with a competing (licensed) retailer. The names of retailers holding licences to sell electricity in Tasmania are published on the website of the Tasmanian Energy Regulator.

Negotiated contracts will progressively replace regulated tariffs. There is a grace period of 12 months after becoming contestable, during which a contestable customer may remain on regulated tariffs. After the grace period, to continue receiving electricity supply, a contestable customer that does not participate in the National Electricity Market (NEM), must enter into a retail contract with a licensed retailer or a 'fallback contract' will be deemed to apply. A fallback contract is not a safety-net contract. A fallback contract for a customer who consumed less than 0.75 gigawatt hours in the preceding year will specify a price for electricity, or method of determining a price, that the Regulator considers reasonable.

MORE INFORMATION

Visit the Regulator's *Power to Choose* website: www.power.tas.gov.au where you can find fact sheets on various aspects of retail contestability.

Take advantage of the deregulating electricity market

Research workshops proudly supported by:



Goanna Energy Consulting
 PO Box 30 Sandy Bay TAS 7006
 Phone: (03) 6223 7253
 Fax: (03) 6223 7270
 E-mail: tracy@goannaenergy.com.au
 Web: www.goannaenergy.com.au

This project was funded by the Consumer Advocacy Panel (www.advocacypanel.com.au) as part of its grants process for consumer advocacy projects and research projects for the benefit of consumers of electricity and natural gas. The views expressed in this document do not necessarily reflect the views of the Consumer Advocacy Panel or the Australian Energy Market Commission.

If you spend around \$25,000 or more per annum on electricity, you need to know **How to Negotiate your new Electricity Contract**, and the challenges and issues facing Tasmania's medium sized electricity consumers.

This **free** event is a combined electricity negotiating workshop/research project and is only open to Tasmania's contestable electricity customers (sites consuming >150MWh per annum).

Expert speakers include Marc White, Principal Consultant, Goanna Energy Consulting. With over 26 years of energy industry experience, Marc has negotiated energy contracts up to \$100m in value.

Sessions open for coffee at 10.00am for a 10.30am start and wrap up at 12pm with a light lunch.

Bookings are essential. To register use the faxback form below or e-mail tracy@goannaenergy.com.au where your attendance and the venue will be confirmed.

For more information contact Goanna Energy Consulting Pty Ltd on (03) 6223 7253 or for general information go to www.power.tas.gov.au

Fax Back RSVP Form to (03) 6223 7270

Organisation Name:

Contact Name:

Position Title:

Telephone:

E-Mail Address:

Postal Address:

.....TAS

Please select your session date and location:

<input type="checkbox"/> Wednesday 7th October Burnie.	<input type="checkbox"/> Friday 9th October Glenorchy.
<input type="checkbox"/> Friday 6th November Launceston.	<input type="checkbox"/> Monday 9th November Devonport.
<input type="checkbox"/> Thursday 12th November Hobart.	<input type="checkbox"/> Tuesday 17th November Queenstown/Strahan (subject to registrations).