



ADDRESS BY
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“THE FUTURE OF ENERGY RETAILING”
(CHECK AGAINST DELIVERY)

Once we had no energy. Then we had fire. First, from wood ... and then from coal. Then we discovered we could make gas from coal.

Then, we discovered electricity, and the world changed.

For a 100 hundred years following the discovery of electricity, energy in Australia was retailed only by approved monopolies.

Then we discovered natural gas, and the energy supply balance changed yet again.

Then, we discovered competition. Or to be correct, governments discovered competition.

In the energy industry, long before then, we had unearthed the fact that gas and electricity were natural competitors.

Under the old paradigm, if you were the sole gas supplier, you marketed gas. If you were the electricity supplier you marketed electricity. The brand was the fuel.

I'm sure many of you will still remember AGL's Living Flame campaign? In reality it was natural gas that was the brand, not AGL.

In the new market model, AGL now sells both gas and electricity.

As an energy retailer, we're happy to sell either or, preferably, both forms of energy. Today, the energy retailer markets energy and energy services.

Some people believe that introducing competition between energy suppliers has been a mistake.

Yet, that debate is long over. We are now, like it or lump it, operating in a competitive energy marketplace, albeit with a still incomplete market model. Competition is here to stay. As long as our many governments don't lose heart!

So the real question today is “Where do we go from here?”

Not so long ago the buzz was the multi utility. You’d be able to buy all your utility services from one supplier ... electricity, gas, telecommunications, water, sewerage, home security, cable TV ... everything or anything that could be delivered direct to you via wires or pipes. And, just think, all those services on just one utility bill !!!

Now maybe, just maybe, that theory will, in the long run, prove to be right.

But for the moment, in our incomplete market model, all of us energy retailers are concentrating our efforts on dual fuel packages of natural gas and electricity.

Today, I’ll outline what I see as the four keys to success in this market place;

1. Scale

Scale is critical. AGL services over 3 million energy accounts across Australia, so AGL has scale.

Scale means we can invest in the best people, the best systems and the best technology. Just think for a moment about the logistics of dealing regularly with almost one third of all households and businesses in Australia. Yet, that’s what we do – every day of the year.

But as in any other retailing situation, the actual net retail margin is small. The main cost elements for energy resellers are the cost of production, transportation, billing, customer service and marketing.

So economies of scale are essential if we are to maintain margins.

2. Cost of Goods Sold

Next is cost of goods sold. Each year AGL buys and sells billions of dollars of natural gas and electricity. But trading in energy is a very fluid business. Energy demand is very peaky.

We have to manage and maintain supply during large hourly and daily fluctuations as well as vastly different usage profiles, market by market, and across the year.

How well we manage our wholesale trading book becomes a critical success factor.

3. Understanding the Market

And that leads us the third key, understanding the market who, what and where are our customers?

Because without extremely comprehensive market knowledge the trading risk relating directly to controlling cost of goods sold is effectively unmanageable.

There are, as yet, many unanswered questions facing us as energy marketers.



Which products and services are the keys to linking our brand to the most valuable market sector?

How sensitive are the different sectors to price?

What services could become brand differentiators?

How would you like to pay your energy bill? Once a month? An even monthly payment? Once a quarter? By credit card? Would you like to have a little machine at home where you can swipe the credit or cash card and buy power whenever you want it? Would you like 'pay as you go' energy meters? We had them once. Do you want one bill for all your energy or would you prefer to keep gas and electricity separate?

How will e-payments appeal? Where do you expect to buy your appliances? Would you like to buy them from you energy retailer? What about maintenance and appliance services? Where will you go for advice about saving energy?

What of environmental matters? Do you want solar panels on your roof? Do you want wind power or energy from waste? Do you care at all?

How will the marketers segment the markets? By energy usage? By location? By geography? By sociometrics? We, by the way, do all of those.

Is marketing energy a truly national business or will it, of necessity, remain state by state parochial?

Give in yet? It's complex isn't it?

No wonder market research and psycho-graphics have become vital tools in our quest for profits.

4. Brand

The fourth key is brand strength. Again AGL is fortunate.

We have a wonderful name "Australian" "Gas" "Light" Our name translates easily into these memorable icons that signal our history as well as our product mix.

Let me dwell for a moment on that.

Earlier this month AGL, The Australian Gas Light Company turned 165 years old. We are the oldest public company still trading under its original name, and the name is as relevant now as in 1837.

I now want to talk about the value of brands in some detail, for while the first three keys are vital, I'm sure our better competitors will be close behind us in recognising the importance of all three. And they too, will do those things well.



Many people argue that energy supply is a low interest area. It's rarely top of mind, even as a product, let alone as a brand. You only get interested when for any reason at all it isn't there.

Right?

Now I ask you, is your energy supplier really any different to your bank? The main product of all banks is exactly the same. Money!

Energy companies deliver gas and electricity. But just like your relationship with any other service provider, it is the way you are offered the product and service mix that makes the difference to you.

While many will, I'm sure, disagree it is the unique characteristics of a brand that reflect the difference.

Many rational people will say they never choose a product or service on the brand. As the Good Book says, "They know not what they do."

But think about that.

Why do you prefer to do business with Westpac or the Commonwealth? Do you honestly know the difference in their offerings? I'll bet you don't!

But would you bank with them if you had no conception of them?

At present Australia is poorly served by energy brands. That should come as no surprise, as most if not all of the energy marketers have come from production backgrounds. As an industry, at present, we're just not proficient as marketers. But just as in any other consumer market, well managed, well presented brands with clear differentiation will be the victors in energy marketing.

At AGL we are building our consumer brand franchise around comfort. Yes, we deliver gas and electricity and many associated services but we offer you comfort. Of course that's simplistic as we must deliver many things behind the scenes, to ensure your comfort is assured and valued by you.

Brands are about emotions, about ideas and concepts, not just about tangible rational products and services.

Oh, we all like to think we've gone through some formal evaluation and made a rational decision, but in most cases, we buy from a particular supplier because we trust the brand to deliver the promise.

So you are all users of energy and you've probably heard of a few companies that sell one or other of the fuels.

But can you define the difference? Other than on price, how would you choose?

I know how you'll answer that! Like this. "But I do buy on price, that's all that matters."
How many people today are wearing the cheapest suit they could buy?

How many are driving the lowest price car they could find?

How many of you know how much a megajoule or a kilowatt you are paying for your energy?

For that matter how many know how much energy a megajoule or a kilowatt is?

Do you get my point?

It will be interesting to watch brand marketing in energy become sophisticated over the next few years.

So who will be the market leaders in years to come?

You may have already gathered that I see AGL as one of the energy market leaders not just for today, but continuing well into the future. But of course others must and will succeed as well.

So let me try to define the winning characteristics.

Energy retailing is a scale game. The market leaders will have large customer bases and will go to great lengths to know their customers in detail.

All the large energy retailers will have the scale and diversity to be able to manage the trading risk.

They will understand what makes a brand successful. Because they are the market leaders they will have to take on the role of marketing the unique benefits of both gas and electricity and all the associated services.

Other smaller more specialised players will work to steal share, so the leaders must be responsible to create a larger market to power their own growth.

What does the future hold for energy retailing in Australia?

Energy markets will free up. I know that. But when? Australia will have three or four big brands competing strongly for about 80% of the market and a number of niche players will service the remaining 20% with speciality offerings. That's just the old 80/20 rule at work.

As the market becomes more sophisticated, regulatory interference in selling prices will be a thing of the past, as the market finds its own level.

Then, and only then, governments will cease to be so concerned about energy supply as a political issue.

That raises another matter relating to governments and regulators.

There is now an undisputable groundswell of opinion towards ensuring we have in fact, as well as in name, a national electricity market. Fundamentally, this includes the rationalisation of the number of rules and regulators.

I certainly support that.

Much as I'd like to see one regulatory body, it is even more important, that we get the rules right as the first step.

Essentially what is required is the simplification of the complex web of regulatory regimes across the states. I accept that the achievement of that outcome involves a balancing act ... a high level of independence for the operators ... balanced by the assurance of supply reliability for political as well as pragmatic marketing reasons. After all, it is the State governments that set the rules of the game.

So the key first step is to achieve a consistent set of rules and regulations.

It is important to note that we also have situations in the energy industry where the need for regulation is unclear, where many markets are still wholly or partially regulated including unfortunately, a number of retail energy markets, where, I suggest, over time regulation is unnecessary and cannot be justified at all.

This impacts most significantly on retail energy pricing.

In theory, we already have a competitive retail market. But in practice, in some states, we still have a level of price control, via the application of retail price caps. Price caps just lock in the end price for customers without locking in the cost of goods sold. This discourages competition.

I know it is difficult for governments and customers when retail energy prices move up.

In fact, today electricity prices in South Australia are being increased. And that won't be popular.

But these increases are a reflection of movements in the wholesale price of energy and of energy delivery costs. Intrusive regulation, which the South Australian government is not proposing, would not alter the outcome. I'm not suggesting for a moment that there should be no regulation. But the fact is, there are enough retailers in operation and given the freedom to act, competition will deliver the right market prices.

It may still take some time to get there but, ever the optimist, I expect that all Australian energy markets will be open for competition.



The Australian Gas Light Company
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So allow me to finish with a message to governments and independent regulators.

Competition works in the interests of energy users. The key retailers of both gas and electricity in the emerging national market are ready to fight for market share and in a free market they will fight.

But if the market is not free to operate the losers will be the energy users of Australia.

The best regulator is open competition. Let's see that regulator getting on with the job.

AGL is ideally placed to be at the leading edge of energy retailing ...and we didn't get there by accident. So as they say, "Game on."

Thank you

