



Alinta Energy's impact on competition in the South East Queensland retail electricity market

Deloitte report prepared for Alinta Energy

10 July 2018

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Executive Summary

In August 2017 Alinta Energy, in a joint venture with Queensland Government owned CS Energy, entered the South East Queensland retail electricity market. On entering the market, Alinta Energy made available two new retail electricity offers: the Home Saver Plus and the Business Saver Plus. The discount available to customers who pay on time and in full under these offers was greater than under other offers available in the market at the time.

Alinta Energy's entry into the South East Queensland market has been reviewed positively in independent market reports by Canstar Blue (a consumer comparison website) and the Australian Energy Market Commission (AEMC). Canstar Blue conducts annual surveys of retail electricity customers, and in its most recent survey of Queensland customers, Alinta Energy received the highest rankings in all categories including 'overall satisfaction' and 'value for money'. Other retailers including AGL, EnergyAustralia and Click Energy have previously been ranked highly in this survey. The AEMC similarly reported that Alinta Energy had a positive impact on competition in the South East Queensland retail market in 2017.

Alinta Energy engaged Deloitte Financial Advisory (Deloitte) to undertake a high level review of its impact on competition in the South East Queensland market. This report sets out the findings of this review.

This report finds that Alinta Energy's entry into the South East Queensland retail electricity market has contributed to improved competitiveness. Other retailers in the market have also responded with increased discounts, so a wide range of Queensland retail electricity market consumers have benefitted from greater discounting activity.

The impact of Alinta Energy on the South East Queensland retail electricity market was considered with reference to:

- The average estimated annual retail electricity price bills based on offers available in the residential and small business markets
- The level of discounting activity in the residential and small business retail electricity market
- The level of customer churn observable in the market over the last two years.

Our analysis found that:

- Alinta Energy's Home Saver Plus offer provided the lowest bill estimate including discounts of offers available in the South East Queensland retail market as of end of June 2018
- Alinta Energy's Business Saver Plus offer provided the sixth lowest bill estimate including discounts of offers available in the market as of end of June 2018
- Discounting activity in the South East Queensland residential retail electricity market increased over the year since Alinta Energy's entry as other retailers responded with discounted offers, with the average weighted discount available on the top ten discounted retail offers available in the market increasing from approximately 8% to over 15%
- Similarly, discounting activity in the South East Queensland small business retail electricity market increased, growing from 4.7% to over 8.6% on the top ten discounted retail offers available in the market
- Customer switching in Queensland, which has typically been below the switching rate in other regions at approximately 10% per annum, increased to approximately 20% per annum over the last year.

1. Introduction

Alinta Energy entered the South East Queensland electricity retail market in August 2017, in a joint-venture with the Queensland Government-owned CS Energy. On entering the market, Alinta Energy launched the Home Saver Plus offer to residential customers and the Business Saver Plus offer to business customers. The Home Saver Plus offer provides a 25% discount on electricity usage rates for 24 months where a customer pays their electricity bill in full and on time, with the Business Saver Plus offering a 20% discount on electricity usage rates where the same conditions are met.

Since the entry of Alinta Energy, there is some evidence of greater discounting activity in the South East Queensland retail market.

In analysis of the South East Queensland market, the [Australian Energy Market Commission](#) (AEMC) found that Alinta Energy has had a positive impact on competition, which has led to lower prices for retail electricity customers. Canstar Blue (a consumer comparison website) conducts annual surveys of retail electricity customers. In its most recent survey of over 1,500 Queensland customers, Alinta Energy received the highest rankings in all categories including 'overall satisfaction' and 'value for money'. Other retailers including AGL, Energy Australia, Origin and Click Energy have previously been ranked highly in this survey.

Alinta Energy engaged Deloitte Financial Advisory (Deloitte) in June 2018 to undertake a high level review of its impact on competition in the South East Queensland retail market, including by reference to the annual average electricity price and discounting activity.

In undertaking this review, we have focused on the impact that Alinta Energy has had on competition in the South East Queensland retail electricity market. We have not considered whether any other retailer had a similar impact on competition when entering the market. Similarly, in finding that Alinta Energy contributed to increased competition in the market, we have not assessed the optimum level of competition in the market.

Our report is based on publicly available information gathered from Energy Made Easy, Alviss Consulting, the Australian Energy Market Operator's (AEMO) Retail Transfer Statistical Data, the Australian Energy Regulator's (AER) Retail Statistics and the AEMC's 2018 Retail Energy Competition Review. We did not receive, and have not relied on, any information from Alinta Energy in the course of this review.

Our analysis is conducted on retail electricity offers available as of the end of June 2018. In Queensland, retail electricity offers typically change in July every year. Any changes post end of June 2018 are not captured in the analysis.

This report sets out the findings of our analysis and is structured as follows:

- Chapter 2 provides an overview of the Queensland retail electricity market
- Chapter 3 contains an overview of Alinta Energy's South East Queensland retail offer
- Chapter 4 discusses a summary of our findings
- Chapter 5 summarises our conclusions.

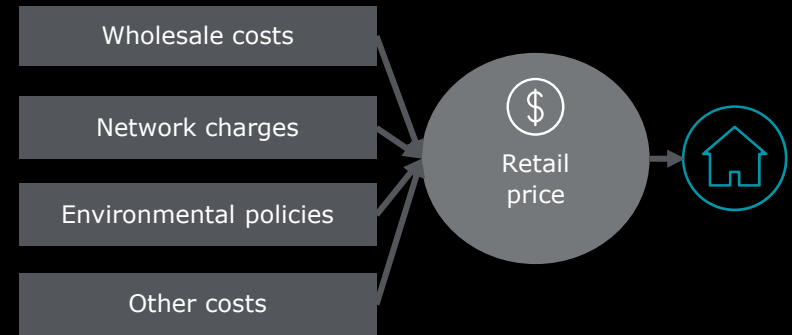
Overview of the Australian electricity supply chain and the role of retailers

In Australia, the electricity market supply chain has three main components:

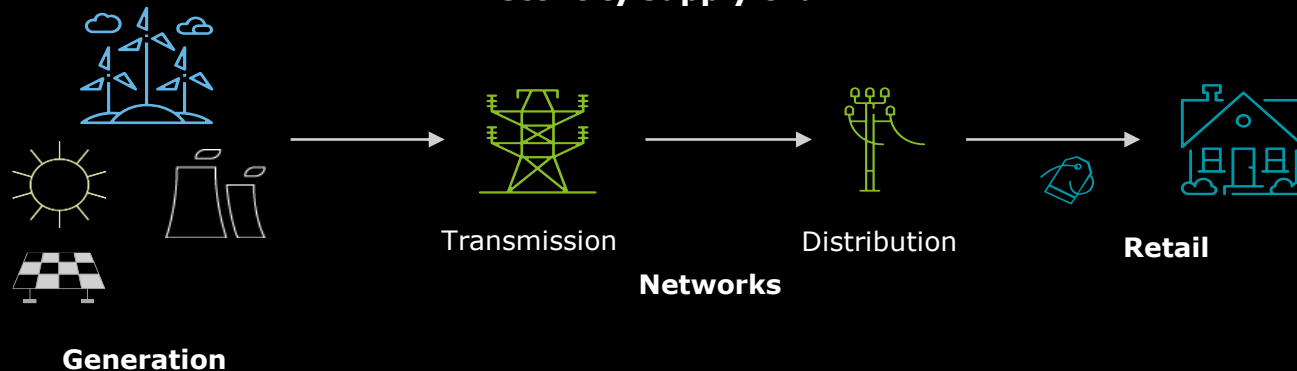
- **Generation:** The production of electricity, which is traded through a central spot market, and through contracts between generators and large customers
- **Networks:** Electricity produced by generators is transmitted along the transmission and distribution 'poles and wires' to electricity consumers
- **Retail:** Retailers purchase electricity from generators and provide electricity to end customers such as households and small businesses.

Electricity retailers combine the cost of electricity along the supply chain, and provide a single electricity price to customers. This reflects wholesale and network charges, costs of environmental policies, and any other components. Retailers manage risk on behalf of their customers by removing the customer's exposure to wholesale markets, and manage the complexity of the market.

Electricity retail bill components



Electricity supply chain



2. The Queensland retail electricity market

The Queensland electricity market is part of the National Electricity Market (NEM). The NEM includes the states and territories of Eastern Australia including:

- New South Wales
- Victoria
- Queensland
- South Australia
- Tasmania
- The Australian Capital Territory

These regions are connected through interconnectors, which facilitate the trade of electricity between regions.

In general, the electricity markets in the NEM are governed under common, national arrangements. However there are some differences between regions, particularly in how retail markets are regulated and operated.

Retail electricity contestability was introduced in South East Queensland in 2007, providing customers with a choice of retailer. The Queensland Competition Authority (QCA) retained a role in setting regulated retail prices in South East Queensland until July 2016, when prices were fully deregulated. Following the deregulation of prices, retailers have full discretion to develop retail offers for customers within the limits of the National Energy Retail Law, the National Energy Retail Rules, and state based regulations.

In regional Queensland, retail electricity contestability remains limited, with most customers supplied by Ergon Energy Retail (Ergon retail). Ergon Retail's prices continue to be regulated by QCA.

Figure 1: The National Electricity Market



Retail offers

Customers in South East Queensland (and in the NEM more broadly) are supplied under either a market offer or a standing offer. According to the [AEMC's 2018 Retail Energy Competition Review](#), the main difference between the two offers is the terms and conditions under which electricity or gas can be supplied, and the resulting impact on price. A standing offer includes standard terms and conditions, including that:

- Retailers must inform customers about price increases
- Prices cannot change more than once every six months
- There is a minimum amount of time before customers can be disconnected if they do not pay their bill.

In contrast, there are limited standard terms and conditions attached to market offers, and retailers are able to determine most of the terms and conditions under which they supply electricity or gas. These offers are usually, but not always, cheaper than standing offers.

All retailers must provide a standing offer. Customers may choose to be supplied under a standing offer, but more commonly they are assigned to a standing offer where they have not selected a market offer. The AEMC's 2018 Retail Energy Competition Review reports that in Queensland, 48% of customers were supplied under a standing offer in 2017. While this is a higher proportion of customers relative to other states, the AEMC included regional Queensland in this figure. The proportion of customers on a standing offer in South East Queensland only is likely to be significantly lower.

All retail electricity and gas offers are broadly made up of:

- A fixed daily charge
- Consumption charges
- Other elements such as solar feed-in tariffs.

The fixed and consumption charges each retailer offers are set in July (January in Victoria) of each year. Typically, these changes do not change significantly during the year.

Market offers often include a discount on charges. There are two types of discounts in the retail markets; "guaranteed discounts," and "conditional discounts." Guaranteed discounts apply to charges regardless of when and how a customer pays their bill. In contrast, a conditional discount only applies where certain conditions are met, generally where a customer pays on time and in full or sets up a direct debit. The period of time that the discount is applied is usually set. After this time period if the customer has not selected an alternative market offer, it rolls onto the standing offer available from its retailer.

Retailers offer discounts to customers in a number of different ways. Some discounts apply to usage charges only, while other discounts apply to the whole bill. This, in combination with the fact that the underlying charges to which discounts apply are different under each retailer, has led to criticism that it is difficult for customers to compare retail offers on a like-for-like basis and make an informed choice.

Discounts tend to change during the course of the year as retailers seek to attract and retain customers. Discounts are also not always uniform over a state, with some areas targeted with higher discounts in an effort to attract more customers in that area.

State of the Queensland energy market

The South East Queensland retail electricity market has typically been concentrated, with significant market share resting with the large, first tier retailers. Figure 2 presents a breakdown of market share by retailer as of June 2016.

At this time, Origin had over 50% of market share, followed by AGL with approximately 28%. EnergyAustralia and smaller retailers made up the remaining approximately 20%.

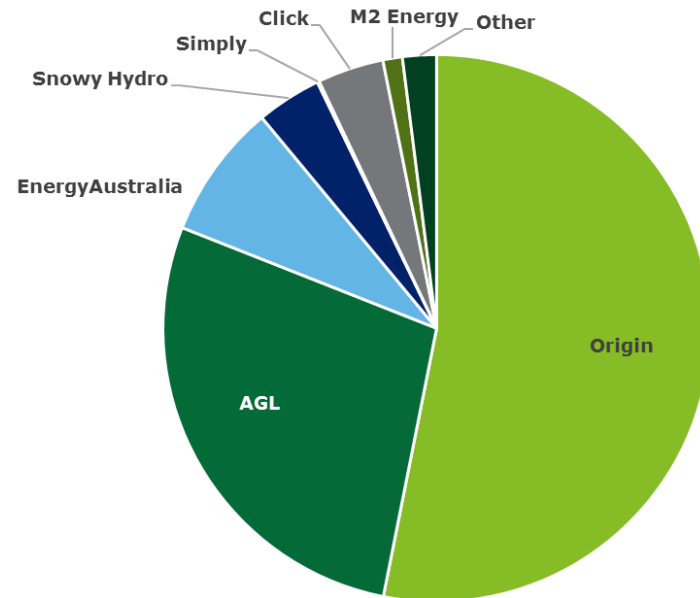
Over the last year, the market share of smaller retailers operating in South East Queensland has increased, with the combined market share of Origin and AGL falling from approximately 78% to 73% in 2018 according to the [AER](#).

There are currently 18 electricity retailers licensed to retail electricity to small customers in South East Queensland.

These include:

- 1st Energy
- AGL
- Alinta Energy
- Anaysim
- Diamond Energy
- Dodo Energy
- Click Energy
- EnergyAustralia
- Energy Locals
- Lumo
- Mojo
- Origin Energy
- Powerdirect
- Powershop
- Qenergy
- Red Energy
- Sanctuary Energy
- Simply Energy

Figure 2: Retail electricity market share, June 2016



Source: Deloitte analysis of AER State of the Energy Market 2017 data

3. Alinta Energy's entry into Queensland

Alinta Energy is a retailer of gas and electricity and a generator of electricity in a number of different markets within Australia and New Zealand. It has operated in Australia for over 20 years.

[Alinta Energy](#) provides retail services to a approximately 780,000 electricity and gas retail customers. Currently, Alinta Energy provides electricity to retail customers in Victoria, South Australia, New South Wales and Queensland; and gas to retail customers in Victoria, Western Australia, South Australia and New South Wales. Alinta Energy also holds a number of generation assets across Australia and New Zealand. This includes a number of gas generation plants in Victoria, Queensland and Western Australia, a brown coal generation plant in Victoria, and a co-generation plant in New Zealand. In total, Alinta Energy holds a generation portfolio of 1,957 MW.

Alinta Energy's Queensland market entry

In August 2017, Alinta Energy and CS Energy (a Queensland Government owned electricity generation company) entered into a [50/50 retail joint venture](#) to provide electricity to retail customers in South East Queensland. Under the joint venture, CS Energy provides wholesale electricity, with Alinta Energy managing the retail business.

Following the establishment of the joint venture, Alinta Energy launched new retail market offers for residential and business customers in the South East Queensland retail market. The "Home Saver Plus" offer provides a 25% discount on electricity usage rates for 24 months where a customer pays on time and in full. The "Business Saver

Plus" offer provides a 20% discount on electricity usage rates for 24 months where the same conditions are met.

As of end of June 2018, Alinta Energy supplies electricity to residential and small business customers in the South East Queensland market under either a market offer or a standing offer.

Alinta Energy's market offer [Home Saver Plus offer](#) is comprised of:

- Fixed charge: 108.9c (incl. GST) per day
- Single rate usage: 28.6c (incl. GST) per kWh
- Time of use usage charge: 38.5c per kWh peak, 28.6c per kWh shoulder, 24.2c per kWh off peak (all incl. GST).

The offer has remained constant since then, other than an increase in the pay on time discount to 28% in March 2018.

Alinta Energy's standing offer for customers in the South East Queensland market is also Alinta Energy's default retail offer. Charges under Alinta Energy's Standing offer are comparable to those under its Home Saver Plus offer, but this offer does not provide a discount on usage charges for customers who pay on time and in full.

Alinta Energy's [Business Saver Plus offer](#) is comprised of:

- Fixed charge: 141.9c (incl. GST) per day
- Single rate usage: 30.8c (incl. GST) per kWh
- Time of use usage charge: 34.1c per kWh peak, 27.5c per kWh off peak (all incl. GST).

4. Impact of Alinta Energy in the Queensland retail market

The entry of Alinta Energy into the South East Queensland retail electricity market has improved the competitive landscape in the market. Alinta Energy entered the market offering the largest discount on the consumption component of bills at the time.

That Alinta Energy had an impact on competition in the South East Queensland market is supported by the findings of the AEMC's 2018 Retail Energy Competition Review. The AEMC found:

Following price deregulation in South East Queensland, there was an approximately four per cent increase in switching from Big 3 to Tier 2 retailers. Feedback from the retailer survey suggests that this trend is a result of Alinta Energy entering the market in July 2017 and offering high discounts. This resulted in competitors providing better offers to customers in South East Queensland in an attempt to retain or gain customers.

Further, the AEMC notes that in consultation retailers also commented that: *Alinta Energy's aggressive entry into the market was promoting competition and better price offerings to consumers.*

We have looked at three different measures to analyse Alinta Energy's contribution to improving competition in the Queensland retail market, including:

- Discounted retail electricity offers as of end of June 2018, using offers from the AER's comparator website [Energy Made Easy](#)
- The average weighted discount on the top ten retail offers (that is, the ten offers that provide the lowest bills including discounts) in the South East Queensland

market, using monthly tracking data from July 2017 to June 2018, sourced from [Alviss Consulting](#)

- Customer switching as reported by [AEMO](#) and the [AER](#).

Our analysis focused on residential and small business customers. This is because Alinta Energy's entry into the market in August 2017 was targeted at supplying these customers. Further, data and information about retail offers to these particular segments of the market is freely available. The retail offers and prices that large users are supplied under are generally commercial-in-confidence and this market has historically been more competitive than the mass market.

Retail electricity prices

The Australian Energy Regulator's website Energy Made Easy allows customers to compare retail electricity offers available in the market. It collects data from retailers on all retail market and standing offers available and provides comparator bill estimates based on benchmark consumption profiles for different customer types. These include household sizes from one to five plus people.

We used Energy Made Easy to compare how Alinta Energy's discounted retail electricity offer compared to other discounted retail offers available in the South East Queensland market as of June 2018. We looked at both single rate offers and time of use offers for this analysis.

Single Rate

We used Energy Made Easy to estimate benchmark retail electricity bills for residential customers in the Energex Network in South East Queensland on discounted single rate offers. We estimated bills for one to five plus person households, assuming no pool and no controlled load.

For each household size, the Alinta Energy Home Saver Plus - Single Rate offer provided the lowest estimated discounted annual bill compared with other discounted single rate offers available in the market.

Figure 3 compares Alinta Energy's discounted Home Saver Plus Single Rate offer against other discounted offers available in the South East Queensland market. Compared to the median offer calculated by the AER on Energy Made Easy, the Alinta Energy Home Saver Plus estimated bills were 13% to 16% lower (depending on household size), or approximately \$159 to \$365 (incl. GST) lower per year.

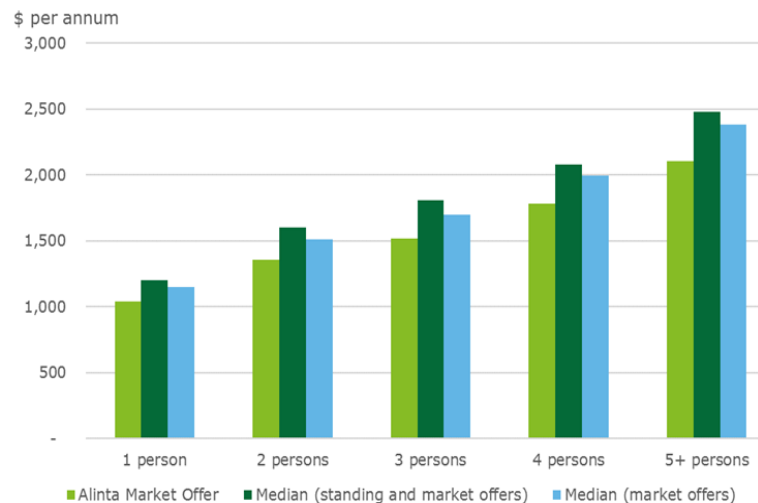
Excluding standing offers, Alinta Energy's discounted Home Saver Plus estimated bill was approximately 9% to 12% lower than the median discounted offer on Energy Made Easy, or \$105 to \$275 (incl. GST) lower per year.

Time of use

We replicated this analysis for all discounted time of use offers available to residential customers in South East Queensland.

Overall, bill estimates were similar across the set of discounted time of use offers to bill estimates under the set of single rate offers. As with the single rate offers, the discounted Alinta Energy Home Saver – Plus Residential

Figure 3: Discounted single rate bill benchmarks



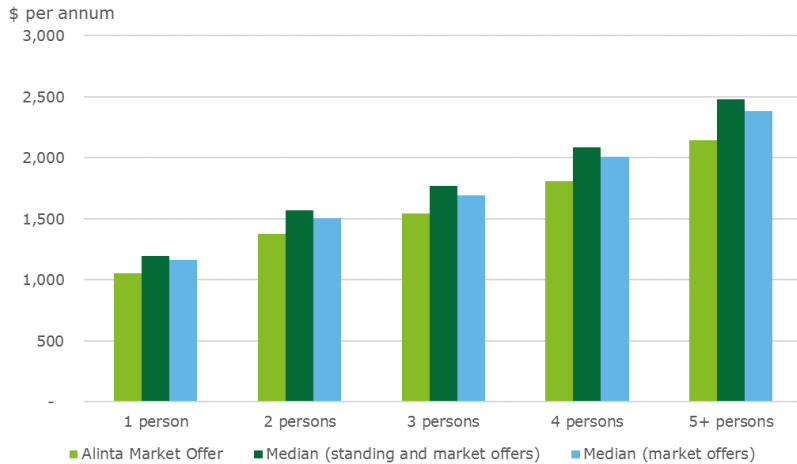
Source: Deloitte analysis of data from Energy Made Easy

Two Rate offer provided the lowest estimated bill across the market for all household sizes when available discounts were included.

The discounted Home Saver Plus – Residential Two Rate offer was approximately 12% to 14% lower than the median discounted offer, and 9% to 10% lower than the median discounted offer excluding standing offers.

The results of this analysis are presented in Figure 4 (on page 12).

Figure 4: Discounted time of use bill benchmarks



Source: Deloitte analysis of data from Energy Made Easy

Small Business

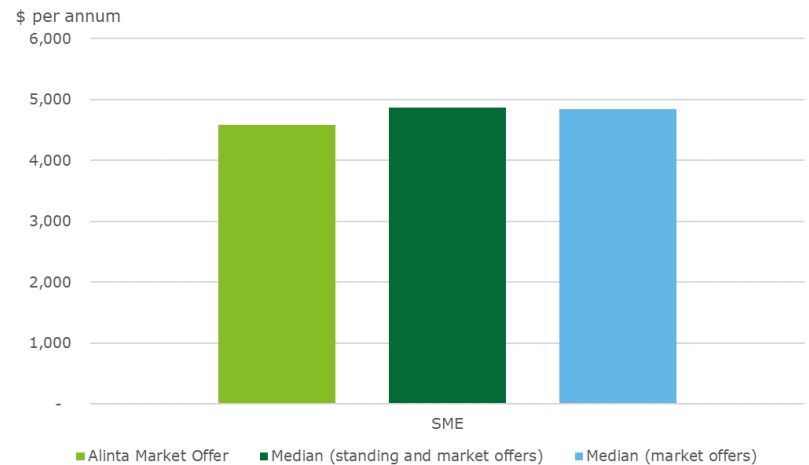
Using Energy Made Easy, the analysis undertaken for residential customers was replicated to estimate discounted offers available to small business customers in South East Queensland.

Energy Made Easy does not have built in consumption benchmarks for small business customers, so we assumed annual electricity consumption of 16,524 kWh. This was estimated as the average consumption of 'non residential customers not on demand tariffs' from the 2016/17 Energex Benchmarking Regulatory Information Notice.

Our analysis indicates that Alinta Energy’s discounted Business Saver Plus offer provides the sixth lowest discounted bill estimate out of 42 retail electricity offers (excluding offers with a demand component). This is approximately 6%, or \$275 (incl. GST) per annum, lower than the median offer. If standing offers are excluded, Alinta Energy’s discounted Business Saver Plus offer is approximately 5%, or \$257 (incl. GST) per annum, lower than the median offer.

While Alinta Energy’s discounted Business Saver Plus offer is not the lowest offer in the market, all offers that provide a lower discounted bill estimate for small business customers were introduced to the market after the entry of Alinta Energy.

Figure 5: Discounted small business bill benchmarks



Source: Deloitte analysis of data from Energy Made Easy

Alinta Energy’s contribution to discounting in the South East Queensland market

Since Alinta Energy’s entry into the market in August 2017, our analysis shows that most retailers have retained the same fixed and consumption rates as before their entry. However, there is evidence that supports more competitive discounting in response to Alinta Energy’s market entry.

We analysed monthly tariff tracking data on single rate residential tariffs available in South East Queensland from July 2016 to June 2018. The dataset, sourced from Alviss Consulting, includes the fixed and consumption charges and different categories of discounts (ie. guaranteed discounts off the bill and usage charges, and various conditional discounts off the bill and usage charges).

Figure 6: Weighted average discount on the top ten single rate offers (Residential)



Source: Deloitte analysis of tariff data from Alviss Consulting and Energy Made Easy

This provides some insight into how competitors have responded to Alinta Energy’s entry into the market and how offers available to customers have changed over the two years.

Figure 6 presents the weighted average discount offered on the top ten retail offers available to residential customers in South East Queensland. The top ten retail offers are those that provide the lowest annual retail electricity bill estimate including discounts. This was estimated using:

- The retail offers with the lowest discounted bill estimates for three person households on a single rate plan were calculated using Energy Made Easy, with the top ten retail offers selected
- New offers made after the entry of Alinta Energy were excluded to maintain a consistent sample over the time period
- Similar retail offers that provided identical bill estimates in Energy Made Easy were combined
- Alinta Energy offers were excluded from the analysis to remove the effect of Alinta Energy’s discounts on the results
- Discounts on the entire bill and on usage were combined by estimating the average proportion of the bill from fixed and variable components using the Energy Made Easy bill estimation.

Prior to the entry of Alinta Energy, the weighted average discount available on the top ten retail offers was approximately 8%. It had been relatively constant at this level for the previous twelve months.

In the year following the entry of Alinta Energy, the weighted average discount available on the top ten retail offers increased steadily to its current level of over 15%.

Similar analysis was undertaken on retail electricity offers available to small business customers. Using the Alvis Consulting dataset, we analysed monthly tariff tracking data on single rate small business tariffs available in South East Queensland from July 2016 to June 2018.

The weighted average discount available to small business customers was estimated by adopting the same approach to select the tariff set and calculate the discount as the residential analysis. As with the analysis on residential customers, the analysis is based on the top ten retail offers which are those that provide the lowest bill estimate inclusive of discounts.

As outlined previously, most of the offers that provided cheaper bill estimates than Alinta Energy were introduced after Alinta Energy entered the market and are not reflected in this analysis to maintain a consistent data set over the time period.

In the year prior to Alinta Energy's entry into the market, the average discount available on top ten retail offers was approximately 4.7%. This increased by over 50% for the following twelve months, and is approximately 8.6% as of June 2018.

Overall, the increase in discounts offered under the existing top retail offers and the entry of new low cost offers, demonstrate a significant improvement in competitive outcomes in the South East Queensland small business market.

Figure 7: Weighted average discount off top ten single rate offers (small business)



Source: Deloitte analysis of tariff data from Alvis Consulting and Energy Made Easy

Customer switching

Customer switching behaviour can be used as an indicator of competitiveness in retail markets. However, a switching rate doesn't typically provide much information on its own and can be difficult to interpret without supporting information.

For example, a low switching rate could imply that customers are generally happy with their retailers and overall good outcomes. It could also imply a lack of potential offers to switch to, incomplete information, or

difficulty switching. Similarly a high switching rate may indicate positive outcomes if customers are changing to offers better suited to them, but may also reflect a dissatisfaction with providers and generally poor outcomes.

The Australian Energy Market Operator (AEMO) tracks monthly electricity customer switching data. Figure 8 presents annualised switching data in each region.

Customer switching in Queensland has typically been relatively low at approximately 10% per annum, which is below the switching rate in other regions. However, in the last year, switching the Queensland retail electricity market has increased to approximately 20% per annum. This is similar to New South Wales and South Australia switching rates although below Victoria which has the highest switching rate in the NEM.

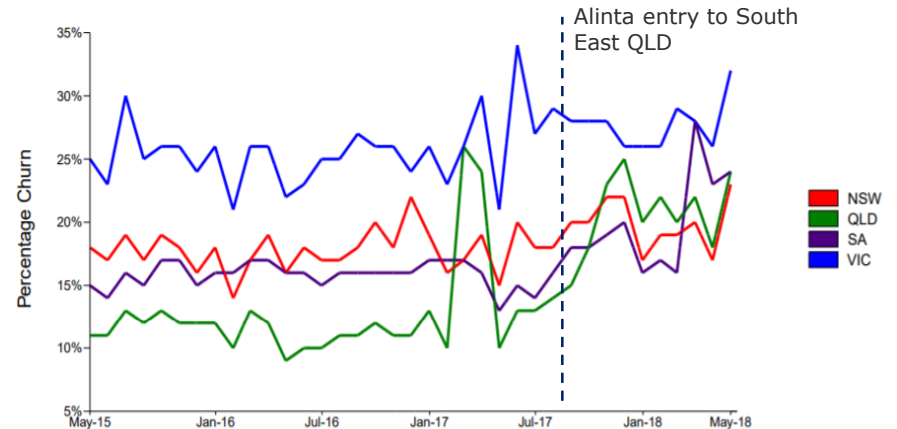
The spike in the Queensland customer transfer rate between January 2017 to May 2017 observable in Figure 8 is the result of the creation of a number of new National Metering Identifiers (NMI). A NMI is a unique identifier for each electricity network connection point in Australia.

The AEMC Retail Energy Competition Review 2018 discusses the increase in switching rates and decrease of first tier retailer market share in South East Queensland, stating the evidence suggests this trend:

"...is a result of Alinta Energy entering the market in July 2017 and offering high discounts. This resulted in competitors providing better offers to customers in South East Queensland in an attempt to retain or gain customers"

Given the Alinta Energy market offer provides the lowest estimated discount bills for residential single rate and time

Figure 8: Historical monthly annualised electricity customer transfer rate



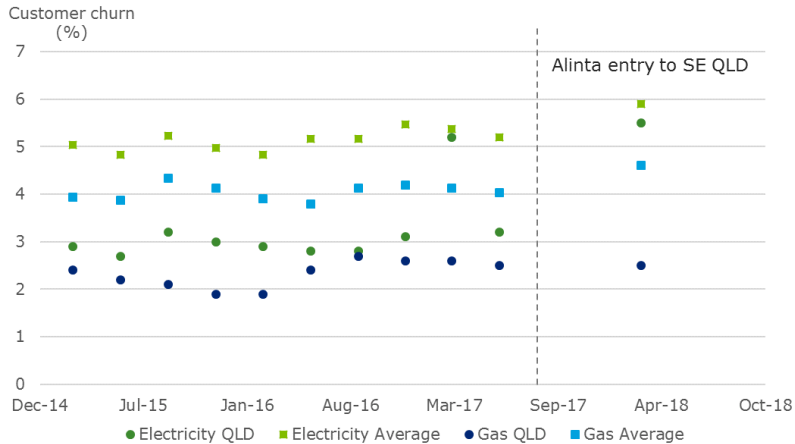
Source: AEMO Monthly Retail Transfer Statistics May 2018

of use customers, switching towards Alinta Energy is likely to generate positive outcomes for customers.

The AER also publishes quarterly switching rates for retail electricity and gas in each region. Figure 9 (on page 16) presents quarterly switching for retail electricity and gas customers in Queensland, and averages across the rest of the NEM.

As per the AEMO data, the switching rate for electricity customers in Queensland has typically been lower than other regions. However, in the March 2018 quarter, the switching rate increased by 73% over the average rate since the start of 2015 to 5.5%. Over the same period, switching in other regions only increased by 7% over the average rate.

Figure 9: Historical quarterly electricity and gas customer transfer rate



Source: Deloitte analysis of AER retail statistics data.
 Note the AER has withheld data from the September 2017 and December 2017 quarters due to data quality concerns.

Switching rates for gas customers did not move notably over the March 2018 quarter in Queensland, or more broadly across the regions. This provides further evidence that the change in switching behaviour over the last year has been driven by factors unique to the South East Queensland retail electricity market, which may include the entry and behaviour of Alinta Energy in the retail electricity market. As stated in the AEMC Retail Energy Competition Review 2018, relatively lower gas switching rates in South East Queensland could be "...due [to] Alinta Energy's entry into the market was [being] only for electricity."

5. Conclusions

Alinta Energy's entry into the South East Queensland retail electricity market has contributed to improved competitive outcomes in the market. Alinta Energy's discounted Home Saver Plus provided the lowest estimated annual discounted retail electricity bill in the market as of end of June 2018 and its discounted Business Saver Plus offer provided the sixth lowest estimated annual discounted retail electricity bill. Following the entry of Alinta Energy discounting activity in the market has increased, resulting in benefits for electricity consumers across the South East Queensland market, not just those supplied by Alinta Energy.

There are a number of implications for retail electricity markets that can be extracted from the impact that Alinta Energy had on the South East Queensland retail electricity market:

- Electricity consumer can save money by switching retailers, particularly to new entrants who may be motivated to offer more aggressive retail offers in order to attract and retain a customer base
- The entry of new retailers into the retail electricity market can change the dynamics of the market. These retailers can and do challenge the market share of existing retailers
- There are a number of different measures that could be used to assess the competitiveness of the different electricity retail markets in the NEM – switching rates which have typically relied on as a key metric of competition are only one part of the story, with estimated average annual electricity bills and discounting activity providing important context for the

performance of the market

- Similar studies of the impact of new retail electricity market entrants in other NEM markets might provide useful insight into the competitive dynamics of those markets, allowing for an informed discussion of the degree of regulation needed to promote competitive outcomes.

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