

Preface



This year's *State of the energy market* report again provides a comprehensive picture of Australia's electricity and gas markets, and how they are being experienced by consumers at a time of immense system change.

The report documents how our energy markets are performing as they continue to transition to a decarbonised future. This transition creates both opportunities for new investments and business models as well as challenges, such as reliability issues with ageing fossil fuel power plants, and coordinating wholesale market entry and exit.

While we have seen the volatility in energy markets subside since the turbulent events of June 2022, several pressures still remain in our system.

Increasing concerns about energy affordability present the backdrop to this report. Energy Consumers Australia's sentiment survey reports that 52% of households are more concerned about paying their energy bills than a year ago. Overall, we have seen numbers of customers in energy debt rise across most jurisdictions since mid-2022, while average energy debt levels have decreased in some jurisdictions but increased in others.

We have also seen the impact of significant government intervention aimed at reducing energy prices and bills. The AER has a significant role in assisting the NSW Minister administer arrangements in that state relating to capped coal prices. In addition, the Commonwealth, State and Territory Governments have funded significant bill relief packages for eligible customers.

We at the AER remain focused on protecting vulnerable consumers, while enabling consumers to participate in energy markets. Our vulnerability strategy, *Towards energy equity*, was released in late 2022 and we are continuing to work through new and tangible initiatives to protect consumers experiencing vulnerability. This includes our Better Bills Guideline to make energy bills simple, uncluttered, and easy to understand, which is mandatory from the end of September 2023. We have implemented new protections to support consumers impacted by family violence, and we are progressing additional work on billing delays and overcharging. We are also working on an energy 'game changer' to better share the costs and risks of vulnerability more equitably across the energy sector to improve outcomes and we are looking at ways this could take shape. We have made a number of enhancements to our price comparator website, Energy Made Easy, to provide consumers with a better user experience. We launched a public beta test site in June 2023 and we are on track to deliver the fully enhanced site by the end of this calendar year.

We will continue to build trust in the energy sector through diligent market surveillance and reporting, and our compliance and enforcement priorities will:

- › improve outcomes for customers experiencing vulnerability
- › make it easier for consumers to understand their energy plan and empower them to engage in the energy market
- › support power system security and the maintenance of critical infrastructure in the National Electricity Market
- › support a more efficient and transparent gas market under the new Gas Market Transparency Measures.

This report highlights a range of challenges in our energy markets that require continued monitoring, analysis and policy attention.

From an affordability perspective, it is vital that we find ways to ensure the benefits of consumer energy resources (such as rooftop solar PV, or small-scale batteries) are shared by all customers. This will require effective whole-of-system integration, which would avoid more costly alternatives of additional grid and generation investment.

In relation to system security, despite good progress, we highlight the potential for localised high costs of Frequency Control Ancillary Services, and we have seen an increased reliance on AEMO directions to manage system strength in South Australia. A lack of visibility of consumer energy resources, plus apparent high rates of technical non-compliance with certain standards, may also raise system security risks.

This report highlights the coordination challenges required to ensure new generation is built before existing coal-fired power plants retire. While the pipeline for new investment appears healthy, not enough of that pipeline is committed. The need for new investment is pressing and widespread across the NEM. In addition, it is vital that coal exits in an orderly way. This report highlights the need for greater certainty about an orderly timetable for coal exits, as well as appropriate incentives to maintain generation units until they exit on this timeline.

The greatest challenge identified through this transition relates to the timely and least-cost delivery of major transmission projects. These projects are important enablers of the transition. They are also large and complex, particularly impacting on local communities. These investments have been progressing more slowly than planned, and their costs have been escalating significantly, intensified by international and domestic supply chain issues.

Finally, we have raised concerns in relation to open and competitive markets. Our concerns are around reduced liquidity of exchange-traded hedging products, the declining number of clearing service providers for electricity derivatives, and the levels of concentration of ownership of flexible generation capacity, particularly in NSW and Victoria. The AER's anticipated new powers in relation to contract market monitoring will allow us to better monitor participant behaviour and gain sharper insights on issues of competition and market power.

I recommend the *State of the energy market 2023* report to all stakeholders as a source of key industry data as we work collaboratively to respond to the challenges and opportunities the transition presents and help make energy consumers better off now and in the future.

Clare Savage
AER Chair
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