Annual retail markets report 2019–20

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AUSTRALIAN ENERGY REGULATOR

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Executive summary

The AER reports on the performance of the retail energy market and energy businesses, including information on energy affordability and trends in disconnection of customers for non-payment of energy bills, as well as monitoring and enforcing compliance with obligations in the Retail Law and Rules. Our *Annual retail markets report 2019–20* tracks outcomes in this context, and helps guide us as the regulator to the issues that matter most to consumers.

The COVID-19 pandemic has sharpened the AER's focus on ensuring energy consumers are protected.

Social restrictions imposed to limit the spread of COVID-19 resulted in the closure of businesses and sharp increases in unemployment and underemployment from March 2020. Income reductions for those households experiencing job losses heightened cost of living concerns. An increase in the amount of time people spent at home significantly increased household electricity and gas use, and consequently increased energy bills.

In response to mounting financial hardship, the Australian Government introduced income support measures (the Jobkeeper allowance and an increase in the Jobseeker allowance) while some state governments introduced energy bill support measures. These initiatives mitigated the worst of the financial effects of the pandemic on many Australians.

However, energy debt levels for residential and small business customers increased sharply from the onset of the pandemic. Energy debt between March 2020 and June 2020, rose from $35 million to $45 million for small business customers, and from $133 million to $156 million for residential customers.

In March 2020 the AER released a Statement of Expectations for energy businesses, with updates in August and November 2020. The statements set out the AER's expectations of participants to offer payment support to all residential and small business consumers in financial stress and to prevent their disconnection. The statement marks the first time small businesses have been covered by payment support arrangements, reflecting the significant risk faced by this customer group during the pandemic. Additional protections through the Statement of Expectations resulted in 43,000 fewer customer disconnections from April to November 2020 compared to the same period in 2019.

The AER sought more regular and detailed voluntary reporting from retailers on customer outcomes during the pandemic. The COVID-19 dashboard data has allowed the AER to assess the effectiveness of support measures and to respond quickly to emerging trends.

To support energy retailers, the AER submitted a rule change that allows retailers to defer payments of network charges for customers affected by the COVID-19 pandemic.

We are pleased by the response from energy retailers and networks to quickly introduce support for energy customers during the early stages of the pandemic. Some retailers allowed customers to defer paying energy bills (referred to as deferred debt arrangements). By August 2020 close to 60,000 customers had entered into these arrangements.

Despite the pandemic, the retail energy market continued to grow – the AER authorised 16 new retailers to sell electricity and 5 to sell gas in 2019–20. Smaller retailers continue to erode the market position of the larger incumbent retailers, increasing their share of customers in all market segments.

In addition to new entry, retailers introduced products that cater to different customer needs. Examples include subscription offers that provide simple, consistent bills, and offers that pass wholesale costs through to the customer (suited to customers with battery storage or flexible energy use).

A widening gap between incomes and energy costs over the past decade has made paying energy bills a major concern for many Australian households, especially those on low incomes. We started to see some price relief in 2019–20, but energy prices remain above historical levels.

One of the AER's core priorities is that consumers should pay no more than necessary for safe and reliable energy. There was a significant reduction in standing offer electricity prices with the introduction of the Default Market Offer (in south east Queensland, NSW, and South Australia) and Victorian Default Offer, on 1 July 2019. Median electricity market offer prices also fell between June 2019 and June 2020 in Queensland, NSW, South Australia and the ACT, but rose in Victoria and Tasmania. Electricity prices in each jurisdiction were below their 4 year peak and there are opportunities for savings for consumers who engage in the market.

Gas market offer prices eased in 2020 in Queensland and Victoria, but remained elevated elsewhere. Standing gas offer prices, however, continued to rise in most jurisdictions.

It is pleasing to see that the proportion of residential electricity and gas customers on market contracts (76% and 86% respectively, in 2019–20) continued to increase over the past year, as did the proportion of small business gas customers (75% in 2019–20).

We strive to provide people with information and the means to engage with the market and get the best deal for themselves and their families. EnergyMadeEasy – our independent and free price comparison website – provides key information for consumers to compare the various offers.

While recent trends for energy prices are encouraging, energy affordability is about more than just the price we pay. Support for customers facing payment difficulties is essential to keep them connected to electricity and gas services.

Retailers have a responsibility to customers experiencing financial hardship or who are otherwise struggling. Effective identification of customers, and use of payment plans and hardship programs, are crucial to minimising the build-up of customer debt. Despite the pandemic, the proportion of residential electricity customers on hardship programs and payment plans in 2019–20 decreased from the previous year. While this may to some extent reflect alternative short-term support arrangements introduced by retailers, we consider that customers are best served by having access to formalised hardship protections. The successful completion rate of hardship programs, however, remains low (32%), indicating that more needs to be done to support customers in these arrangements.

Consumer trust in their retailer and the energy market is essential. It is important for consumers to be confident that their retailer is doing the right thing and, if not, that

they are appropriately sanctioned. To support this, consumer protection is one of the highest priorities for our compliance and enforcement work – especially for customers in vulnerable circumstances.

In 2019–20 our compliance activity focused on 4 priority areas: retailer assistance to customers in financial difficulty; protection of customers using life support equipment; accurate and timely provision of retailer data to the AER and the Australian Energy Market Operator; and supporting retailers' and distributors' transition to metering contestability to ensure consumer and market benefits are delivered. These continue to be our areas of focus in 2020–21.

We instituted civil proceedings in relation to 3 matters: 2 against EnergyAustralia for alleged failures to support customers experiencing financial stress and breaches of life support obligations, and one against AGL for failing to submit retail market performance data on time.

Other important retail focused compliance and enforcement outcomes included the payment of 18 infringement notices, audits of 13 retailers and distributors, and acceptance of court enforceable undertakings from 3 energy businesses.

The COVID-19 pandemic has provided challenges for retail energy consumers, businesses and the AER as the regulator. Despite serious issues including rising debt levels, encouraging signs for consumers in 2019–20 included a downward trend in retail prices, and more consumers moving from standard contracts to market contracts. The pandemic has also highlighted the ability of energy retailers to respond quickly to consumers' needs.

1 COVID-19 and the retail energy market

From late January 2020 we started to see the first cases of COVID-19 in Australia. Following the rapid spread of the virus in other countries, the Prime Minister in February activated the Australian Health Sector Emergency Response Plan. The plan has a focus on preparing the health system to understand and manage the virus, manage initial cases and provide information to the community to manage the risk of exposure.

The government's response to the pandemic evolved in March following an exponential rise in case numbers. Restrictions on travel and non-essential activities led to the closure of many businesses.

To limit the economic impact of widespread restrictions, the Australian Government rolled out a stimulus package to support businesses and households. Support under the package included doubling the value of Jobseeker payments, and introducing a Jobkeeper wage subsidy to keep employees connected to their employer where they would otherwise not be kept on.

Economic support throughout 2020 reduced the severity of the financial impact on many households and businesses. Despite this, the COVID-19 pandemic resulted in an 'unprecedented fall in employment, a dramatic drop in hours worked, a significant increase in underemployment, and a record number of people leaving the labour force.'[1]

While businesses were largely operating under 'new normal' conditions by the end of November 2020, the economic recovery is likely to be protracted. As support measures are wound back, we will likely see a further wave of households and businesses facing financial difficulties.

Energy is an essential service and energy businesses have a role to play in protecting and supporting households and businesses in vulnerable circumstances. While this role has always existed, it has been amplified by the need to help customers through the economic effects of the COVID-19 pandemic and recovery. The following discussion looks at actions and outcomes in the energy sector specific to the COVID-19 pandemic. Given ongoing work in this area, actions and outcomes beyond 2019–20 are included. A broader discussion of outcomes for customers in vulnerable circumstances over 2019–20 is included in chapter 4.

We are encouraged by the energy industry's response to the pandemic. Energy retailers and networks responded quickly to voluntarily introduce additional customer support measures. They have also worked closely with the AER and other market bodies to establish new measures to track customer outcomes.

[1] National Skills Commission, *A snapshot in time: The Australian labour market and COVID-19*, 1 July 2020, available at https://www.nationalskillscommission.gov.au/snapshot-time-report.

1.1 AER action

Recognising that the 'normal' consumer support framework may not be sufficient in a period of heightened financial stress for many energy customers, the AER took early action to provide additional support to energy customers and retailers. Measures included releasing a Statement of Expectations on the support the AER expects energy businesses to offer customers experiencing financial stress, and a rule change allowing retailers to defer payments of network charges for customers affected by the COVID-19 pandemic.

The AER developed these measures in consultation with energy retailers, network businesses, government, ombudsmen, consumer representatives and market bodies. This engagement included monthly roundtables with consumer and community organisations, including charities and financial counsellors, to make sure we understood what was happening on the ground for consumers.

Victorian energy businesses do not operate under the National Energy Retail Law (Retail Law), and so retailers operating in that state are not subject to AER oversight. But retailer actions in Victoria were broadly similar to those in jurisdictions covered by the Retail Law. The AER worked closely with the Essential Services Commission (ESC) to align policy responses. Some Victorian customers may have faced harsher financial stress than customers in other jurisdictions, given the extended period of lockdown in that state.

1.1.1 Statement of Expectations

To support energy customers experiencing financial stress as a result of COVID-19, in March 2020 the AER released a Statement of Expectations to energy businesses. The statement set out the AER's priorities for supporting customers, and principles it expects energy retailers to follow to avoid imposing unnecessary hardship on the community. The AER published updated Statements of Expectations on 1 August and 1 November. The current Statement applies until 31 March 2021.[2]

The principles in the Statement of Expectations relate to both residential and small business customers (ranging anywhere between a small family business to a medium sized enterprise). The principles differ from financial protections under the Retail Law such as payment plans and hardship programs, which extend only to residential customers. Expanding protections to small businesses recognises the unique circumstances faced by that community during the pandemic.

The AER's priorities over the COVID-19 pandemic period include:

- ensuring retailers meet the needs of customers in vulnerable circumstances, and that customers can access the energy they need
- protecting customers who may be unable to safeguard their own interests, including customers requiring life support equipment or who are experiencing financial difficulty
- actions needed to ensure the safety and reliability of energy supply

[2] https://www.aer.gov.au/publications/corporate-documents/aer-statement-of-expectations-of-energy-businesses-protecting-customers-and-the-energy-market-during-covid-19

- being responsive to the rapidly evolving pandemic situation, and preparing for our recovery.

The Statement of Expectations requires retailers to:

- offer a payment plan or hardship arrangement to all residential and small business customers that indicate they may be in financial stress
- be ready to modify an existing payment plan if a customer's changed circumstances make this necessary
- not disconnect any residential or small business customer in financial stress. Initially a blanket ban on disconnection, retailers since August 2020 can disconnect customers for non-payment if the customer does not engage with the retailer
- for any customer disconnected for non-payment, reconnect the customer immediately following contact, and waive of disconnection, reconnection and contract break fees
- defer any referrals of customers to debt collection agencies for recovery actions, or credit default listing
- prioritise clear communications with customers about the availability of retailer and other support.

Support for the Statement of Expectations has been high from both industry and consumers. It has provided a targeted and consistent approach to dealing with customers experiencing financial stress, setting clear expectations on the standard of conduct expected from retailers.

The Statement of Expectations has evolved as we move through the COVID-19 pandemic. The AER's future approach to managing ongoing impacts will be influenced by the extent to which customers are in sustainable arrangements that limit the accumulation of energy debt where possible. Our Consumer Vulnerability Strategy will help identify and address new and emerging vulnerability issues that arise as a result of the pandemic and other events in the coming years (chapter 4).

Regardless of any specific requirements imposed, the AER expects retailers to be proactive in assisting customers to minimise and reduce accrued debt and to recognise that customers best understand their own capacity to pay. We also encourage customers to work with their retailer to address their needs. Early engagement between retailers and their customers can enable support arrangements to be put in place before energy debt gets out of control.

1.1.2 Network deferral rule change

Recognising that the Statement of Expectations may add to the risks and costs facing energy businesses, the AER and other market bodies, explored ways to support energy businesses in focusing on their customers. Measures included adapting regulatory approaches and exploring options to balance risks and costs across the energy sector.

In May 2020 the AER proposed a rule change to alleviate financial pressures and avoid the risk of a retailer failure contagion that could put pressure on larger retailers. The rule, which became effective in August 2020, allows energy retailers to defer

payment of network charges for up to 6 months if they relate to customers affected by the COVID-19 pandemic. The rule will remain in place until February 2021. Similar arrangements were introduced in Victoria.

While use of the scheme was limited in their initial period of operation, it provides an important safeguard for small and medium sized retailers should a large number of their customers be unable to pay their bills.

1.1.3 Data on customer outcomes

The AER has sought more regular and detailed voluntary reporting from retailers on customer outcomes over the COVID-19 pandemic period. The data allows the AER to act quickly and support the market where needed, and to assess the effectiveness of measures such as the Statement of Expectations. The AER analyses this data to provide insights to jurisdictional representatives and other market bodies, and regularly publishes a COVID-19 dashboard on its website.[3]

The data is largely a subset of the performance indicators collected in our quarterly reporting cycle. It relates to customer debt levels, payment plans and hardship programs, disconnections, credit collection, and call centre performance. Debt information is collected on a more granular basis than otherwise, with information on customers repaying 30, 60 and 90 day debt, and customers on deferred debt arrangements.

Retailers have provided this more regular and detailed data to the AER voluntarily. The response rate from retailers varies across indicators. Retailer responses for most indicators cover a large majority of energy customers, so the data provides a good indication of market trends, despite not being as robust as data collected through normal regulatory processes.

We worked closely with the ESC in determining the data to collect under this process. The ESC publishes similar data on its website for Victorian customers.

Energy bills are typically issued every 3 months. That, along with debt measures not triggering until a bill is at least one month overdue, means there will be a lag between customers starting to experience financial stress and trends emerging in the data. Despite this lag, we have started to see some indications that more customers are facing payment difficulties compared to before the pandemic (section 1.4). Ongoing government support may also mean that the full customer impact has not yet been felt.

1.2 Industry assistance

The AER acknowledges industry efforts to quickly introduce voluntary support for energy customers during the early stages of the COVID-19 pandemic.

Most retailers committed to measures that support customers facing financial distress. These measures included access to deferred debt arrangements or payment plans, assisting customers with advice on energy use and accessing government assistance, and restrictions on disconnections and debt collection.

[3] https://www.aer.gov.au/communication/retail-market-data-dashboard-covid-19.

Energy networks in NSW, Victoria and South Australia introduced measures to rebate or defer network charges for customers experiencing financial stress.

Following these initial voluntary measures, energy businesses then worked closely with the AER to introduce consistent support measures through the Statement of Expectations. Again, the AER recognises the support provided by the energy sector through that process.

Due to COVID-19 restrictions and staff shortages, many retailers' call centres have been significantly impacted. As a result, response times have been slower and/or contact hours limited. However, most retailers have encouraged other means of communication, including through their websites, apps, email or online chat.

1.3 Customer experience

Social restrictions imposed to limit the spread of COVID-19 resulted in a sharp increase in unemployment and underemployment from March 2020. The impact was most pronounced in the entertainment, accommodation and food services sectors, which recorded 25% to 30% reductions in employee jobs by May 2020.[4] Other industries had falls in employment of up to 11% over this period.

Income reductions for those households experiencing job losses heightened cost of living concerns, including energy affordability. But not all households were impacted to the same extent, with an increase in government support payments cushioning the impact for some households. The National Centre for Social and Economic Modelling, for example, estimated that average disposable income for the lowest 20% of households grew by around 9% over this period due to additional payments through the Australian Government's Jobkeeper and Jobseeker programs.[5] These lower income households are more dependent on government assistance than other households. Around 57% of households in the lowest equivalised disposable income quintile relied on government pensions and allowances as their main source of income.[6]

Affordability concerns do not just arise from income impacts. Social restrictions required people to spend more time in their homes in some jurisdictions, including for work where possible. This resulted in a significant increase in electricity and gas use by households, and subsequently higher energy bills. Smart meter data for Victorian households, for example, shows that average electricity usage was 11.4% higher in winter 2020 than in winter 2019. Household gas usage is also likely to have risen.

The combination of reduced income and higher energy bills resulted in more households and small businesses seeking payment support from their retailer. With government assistance being reduced from September 2020 and ending in March 2021, more households may encounter affordability concerns over the next

[4] National Skills Commission, *A snapshot in time: The Australian labour market and COVID-19*, 1 July 2020, available at https://www.nationalskillscommission.gov.au/snapshot-time-report

[5] https://www.canberra.edu.au/about-uc/media/newsroom/2020/september/natsem-nowcasting-reveals-reduced-income-inequity-in-australia-thanks-to-covid-19-measures

[6] ABS, *Household Income and Wealth, Australia*, 2017–18.

6 months. It is important that energy retailers continue to offer assistance to their customers in line with the AER's Statement of Expectations.

1.3.1 Debt

The energy debt[7] levels of both residential and small business customers increased sharply from the onset of the pandemic. The change in debt between Q3 2019–20[8] and Q4 2019–20 was particularly marked, increasing from $35 million to $45 million for small business customers, and from $133 million to $156 million for residential customers.[9] This was driven more by increases in the average *amount of debt* held by customers, rather than an increase in the *number of customers* with an energy debt.

We have further insight into electricity debt trends from our COVID-19 dashboard data provided voluntarily by retailers from June 2020.[10] The number of residential and small business customers with electricity debt fell between late June and early November by 11% and 8% respectively, while the overall dollar amount of debt remained relatively consistent (figures 1.1 and 1.2).

For residential electricity customers, there was a large increase in the number of customers with short-term debt (30–60 days) between early June 2020 and early November 2020, from 109,000 customers to 189,000 customers. The total value of short-term debt for residential customers over that period increased from $29 million to $43 million.

The number of small business customers facing short-term electricity debt also increased between early June and early November (from 16,100 customers to 18,800 customers), but the total value of debt reduced.

These trends indicate that the pandemic has resulted in some customers experiencing financial stress for the first time, as well as escalating debt among customers already facing payment difficulties. The effectiveness of retailer programs in identifying customers requiring support will continue to be a key factor in managing new debt.

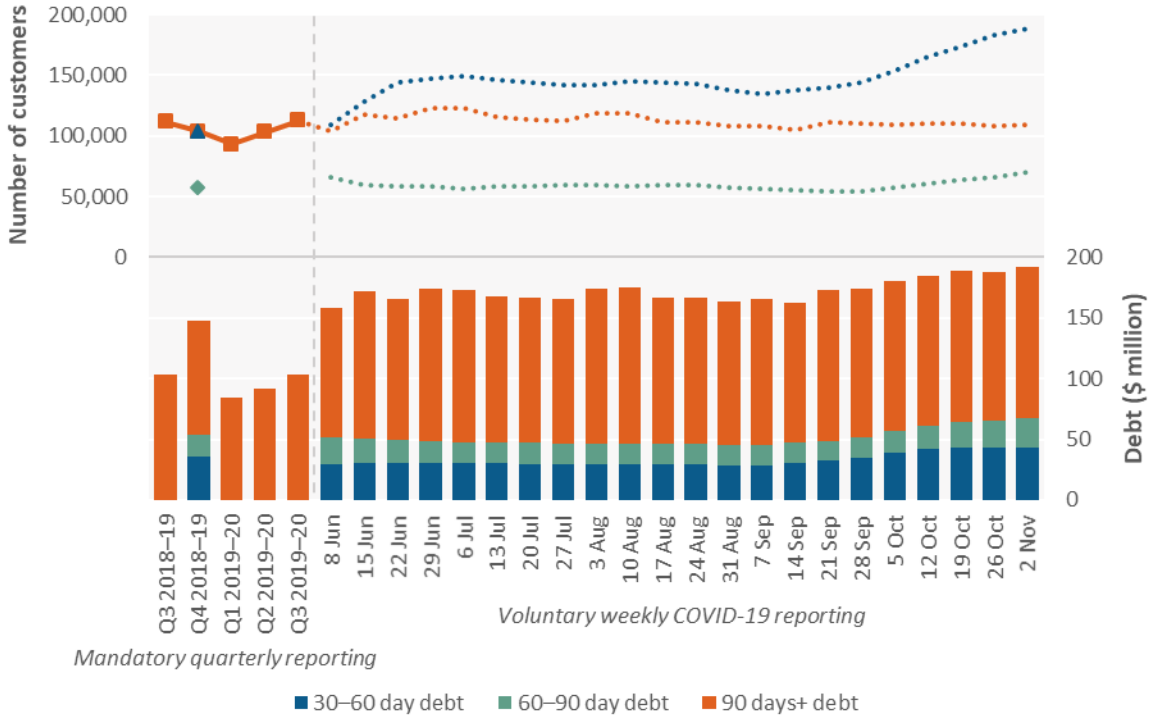
7 Energy debt refers to electricity and gas debt that has been outstanding for 90 days or more, unless otherwise stated.

8 Guide to quarters: Q1 covers July, August and September; Q2 covers October, November and December; Q3 covers January, February and March; Q4 covers April, May and June.

9 Based on 90 day energy debt collected through our quarterly reporting cycle.

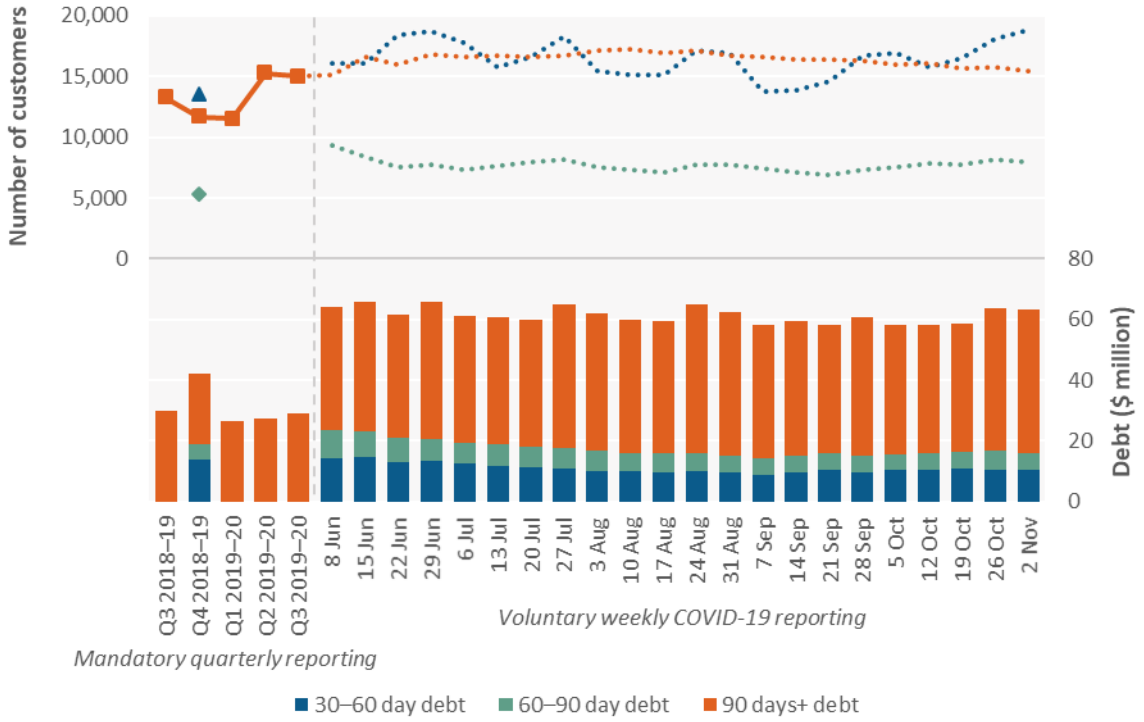
10 This electricity debt data (and weekly data in figures 1.1 and 1.2) does not cover all retailers. Response rates for retailers varied across different debt categories. Short-term debt data (30–60 days and 60–90 days) covers fewer retailers, and does not include data for one Tier 1 retailer.

Figure 1.1: Residential electricity customer debt



Source: AER retail energy market quarterly performance updates; AER COVID-19 retail market data dashboard as at 2 November 2020.

Figure 1.2: Small business electricity customer debt



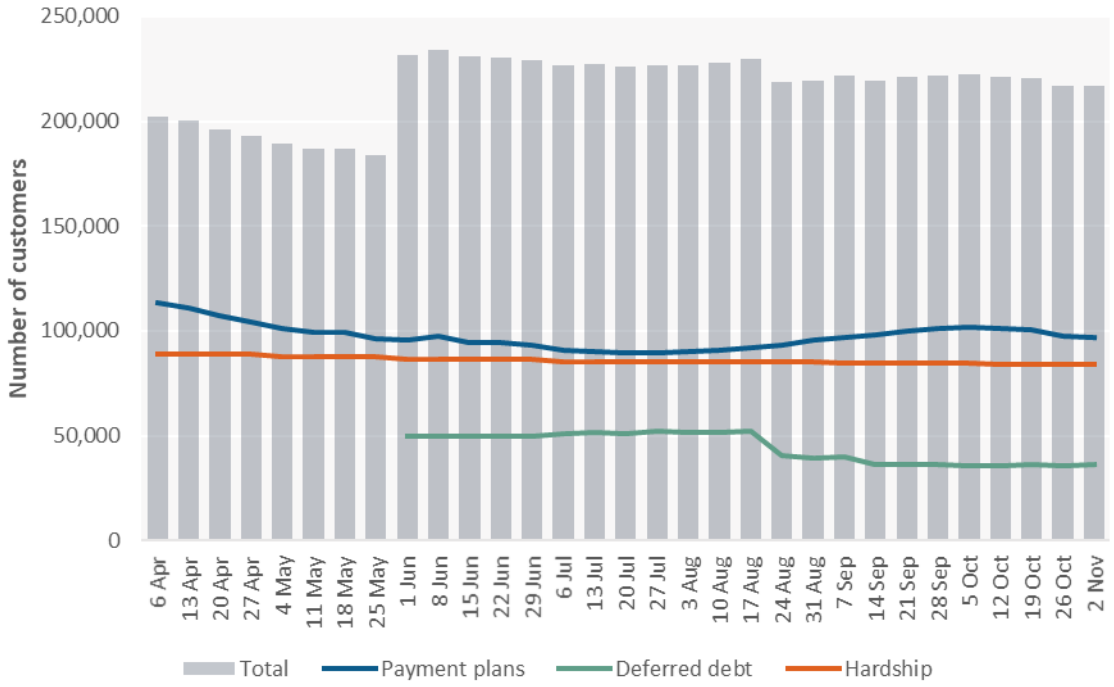
Source: AER retail energy market quarterly performance updates; AER COVID-19 retail market data dashboard as at 2 November 2020.

1.3.2 Customer support

Initial support from larger retailers focused on deferring energy bills for customers in financial stress (referred to as deferred debt arrangements). Around 52,500 residential customers and 6,000 small business customers elected to defer payments by August 2020 (figure 1.3). More recently, some retailers looked to shift customers onto standard payment assistance measures. By early November 2020, the number of customers on a deferred debt arrangement had reduced to around 36,000 residential customers and 2,000 small business customers. This shift away from deferred debt arrangements reflects the AER's focus in its most recent Statement of Expectations on moving customers onto sustainable payment plans or hardship programs. Customers on formal payment assistance programs can access a wider range of support including checks that they are on the cheapest offer from their retailer, and energy efficiency advice. Payment plans also enable customers to start repaying whatever debt they can afford. This enables customers to chip away at their debts.

The number of electricity and gas customers on payment plans or hardship programs trended downwards from March to July 2020, before increasing from August. This increase coincided with a scaling back of deferred debt arrangements from some retailers. We expect use of payment plans to continue to increase over the coming months as retailers close deferred debt arrangements. In early November 2020, as has been the case throughout the pandemic period, fewer customers were on payment plans than prior to the pandemic. Likewise, there were fewer customers on hardship programs compared to prior to the pandemic.

Figure 1.3: Residential customers accessing retailer support



Note: COVID-19 weekly data used is reported on a voluntary basis, and does not include all retailers.

Source: AER COVID-19 retail market data dashboard as at 2 November 2020.

Average debt of customers on entry to hardship programs in October 2020 was $1,270 for electricity customers and $741 for gas customers, up 2% and 5% respectively from levels in March. The average debt being managed under hardship programs also increased over this period, up 15% for electricity customers and 7% for gas customers (to $1,413 and $694 respectively).

Restrictions on disconnections placed on retailers through the AER's Statement of Expectations meant there were 43,000 fewer disconnections from April to November 2020 compared to the same period in 2019. A small number of retailers recommenced disconnections for non-payment from 10 August 2020, for customers who have not paid their bills and have not responded to contact from their retailer. But total disconnection numbers since 10 August remain well below the equivalent period in 2019. The Statement of Expectations makes it clear that customers in financial difficulty who are in contact with their retailer will not be disconnected – even if they can't afford to pay anything right away.

Almost half of all disconnected customers are reconnected within the same week.[11] This suggests better engagement between retailers and customers could further reduce the number of disconnections.

The number of customers referred for debt collection from April to November 2020 was also well below levels for the same period in 2019, reflecting restrictions on retailers taking this action as set out in the Statement of Expectations.

1.3.3 Customer engagement

The Consumer Policy Research Centre found energy providers were engaging more with their customers than providers in other sectors including credit, insurance and telecommunications. Around 20% of consumers reported examples of proactive engagement from their retailer. It is encouraging to see that some retailers have temporarily repurposed credit collection functions to contact customers in debt to assist them with options for repayment. However, not all reported behaviour was positive. Around two-thirds of energy customers who sought payment assistance from their retailer in Q1 2020–21 reported a negative experience.[12]

Complaints to ombudsmen schemes significantly reduced across most jurisdictions in Q4 2019–20 from the preceding quarter, but have since risen. This recent increase may reflect support measures introduced by some retailers over Q3 2019–20 (such as deferred debt arrangements) being wound back. Billing issues drove much of the increase in complaints in Q1 2020–21.

Similar to the trend for ombudsman complaints, customer switching between retailers was significantly lower in April to June 2020 compared to earlier in the year and the equivalent period in 2019. This may in part have been driven by customers focusing on accessing and maintaining financial support through their existing retailer during that period.

[11] This figure does not capture customers that switch to a different retailer post disconnection.

[12] CPRC, *Nationwide Consumers and COVID-19 Survey*, Policy briefings for July, August and September: https://cprc.org.au/consumers-and-covid-19-from-crisis-to-recovery/

2 Market overview

Key findings

- Tier 2 retailers gained market share across all market segments in 2019–20 compared to a year earlier.
- Tier 1 retailers continue to hold the greatest market share in NSW, South Australia and south east Queensland.
- Ergon Energy, ActewAGL and Aurora Energy continue to dominate arrangements in regional Queensland, the ACT and Tasmania respectively.
- The proportion of residential customers on market contracts increased in both electricity and gas. The proportion was steady in the small business electricity market segment, but rose in gas.
- The proportion of residential customers on market contracts increased in all jurisdictions other than Tasmania.
- Switching rates remained steady from Q4 2018–19 onwards, but dropped sharply in Q4 2019–20. Victoria has had the highest rate of switching from one retailer to another every year since 2015–16.
- 16 new retailers were authorised to sell electricity and 5 were authorised to sell gas in 2019–20.

In this chapter we report on:

- market structure and competition in the retail energy sector
- the proportion of residential and small business customers on market and standing offer contracts
- customer switching between retailers
- market and policy developments.

2.1 Market structure

In this section, we report total customer numbers and market share for all retailers across each of 6 market segments – residential, small business, and large customers across electricity and gas. In data accompanying this report, we also break down customer numbers by retailer in each jurisdiction.

The structure of the market can influence competitive outcomes. High market concentration may indicate a lack of competition, while changes in market concentration over time can provide insight into the ability of new entrants and smaller competitors to attract new customers.

In our analysis, we categorise retailers as Tier 1 retailers, primary regional retailers or Tier 2 retailers:

- **Tier 1 retailers** comprise Origin Energy, AGL and EnergyAustralia, which collectively service the majority of the retail markets in NSW, South Australia and

south east Queensland. These retailers acquired the initial customer base in each jurisdiction when retail energy markets were deregulated.

- **Primary regional retailers** comprise Ergon Energy in Queensland, ActewAGL in the ACT and Aurora Energy in Tasmania. These government owned retailers[13] each largely operate only within one distribution area, where they hold the highest market share, and are subject to price regulation.
- **Tier 2 retailers** refers to all other retailers. These range from small operators with few customers to significant players in the market (e.g. Alinta Energy and Red Energy).

In its annual review of the retail energy market, the Australian Energy Market Commission (AEMC) found that electricity markets in south east Queensland, NSW, Victoria and South Australia have characteristics consistent with competitive markets.[14] It found that competition is less effective in electricity retail markets in the ACT, Tasmania and regional Queensland. Those markets are smaller, and continued price regulation may deter entry by new retailers. In regional Queensland, a subsidy paid only to Ergon Energy through the Queensland Government's Uniform Tariff Policy also deters new entry.

The AEMC generally finds that gas retail markets are less competitive than electricity markets, given their smaller size, and difficulties in sourcing gas and pipeline services in some regions. Gas markets in all regions are more concentrated than electricity markets.

Energy market legislation defines small and large customers by reference to energy consumption thresholds that apply in each jurisdiction.[15]

2.1.1 New retailers

The AER is responsible for authorising new retailers to enter the energy market. During 2019–20, we authorised the following new entrants to:

- sell electricity:
  - Localvolts
  - SmartestEnergy Australia
  - CleanTech Energy
  - CleanCo Queensland
  - Active Utilities Retail
  - Energy On
  - Energy Services Management
  - Radian Holdings

[13] ActewAGL is a 50:50 joint venture between the ACT Government and AGL.

[14] AEMC, 2020 Retail energy competition review, Final report, 30 June 2020.

[15] National Energy Retail Regulations. Small customers – which includes all residential customers, and business customers that consume below, for electricity, 100 MWh pa except in SA (160 MWh) and Tasmania (150 MWh) and, for gas, 1 TJ pa (referred to in this report as 'small business customers'). A large customer is any business customer that consumes at or above these thresholds.

  - Y.E.S. Energy (SA)
  - MTA Energy
  - Balance Commodities and Energy
  - OVO Energy
  - Electricity in a Box
  - Humenergy Group
  - Hanwha Energy Retail Australia
  - Bright Spark Power
- sell gas:
  - Energy On
  - Discover Energy
  - OVO Energy
  - Humenergy Group
  - Tas Gas Retail.

Of these new retailers, 4 commenced marketing electricity offers and 2 commenced marketing gas offers to small customers in 2019–20. A number of existing retail brands also expanded into new jurisdictions.

2.1.2 Market share

Residential electricity

There were 52 retailers supplying electricity to 6,423,649 residential customers in 2019–20. Not all retailers operate in every jurisdiction. NSW had the most active market in 2019–20, with 46 retailers supplying electricity customers. Queensland had 36 active retailers (most operating only in the south east), South Australia had 30 and the ACT had 8. There is limited retail competition in Tasmania (4 retailers) and regional Queensland (5 retailers).

Figure 2.1 below shows that Tier 2 retailers gained market share in 2019–20. Those gains were spread across multiple retailers.

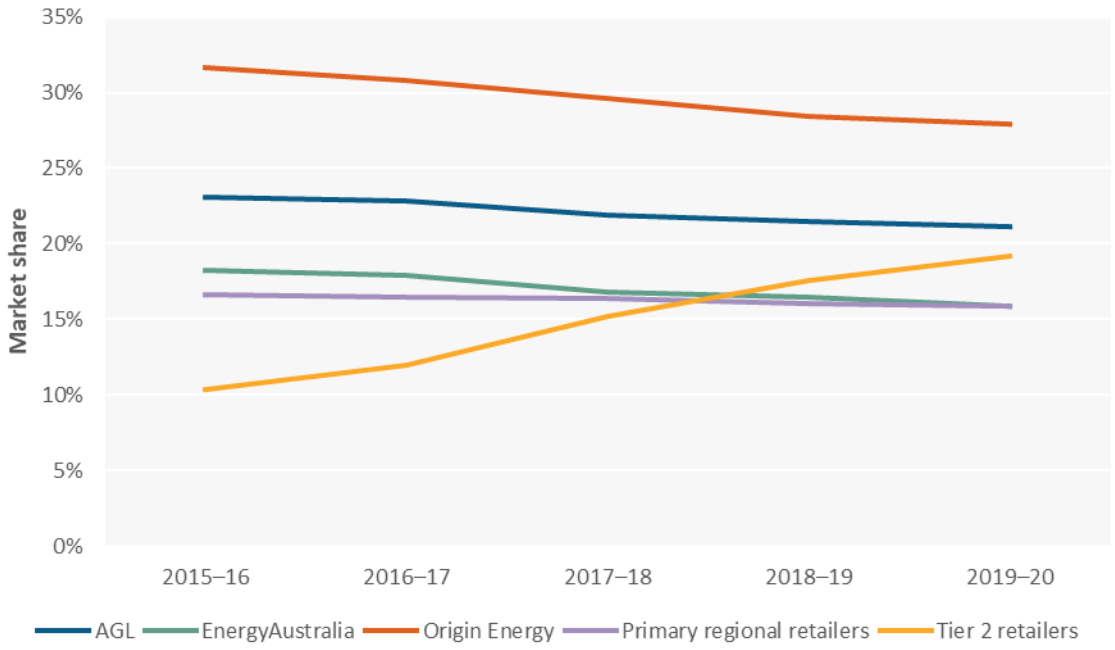
All three Tier 1 retailers lost market share, as did the primary regional retailers. This continued a trend over recent years.

Residential gas

With 18 retailers supplying gas to 2,210,511 residential customers, gas is a more concentrated market than the residential electricity market. NSW had 16 retailers supplying gas customers. Queensland had 8 active retailers (6 in regional Queensland), South Australia had 10 and the ACT had 4.

The residential gas market recorded similar trends to electricity (figure 2.2). In 2019–20 Tier 2 retailers gained market share, while Tier 1 and primary regional retailers lost market share. Note that, in the gas market, ActewAGL is the only primary regional retailer.

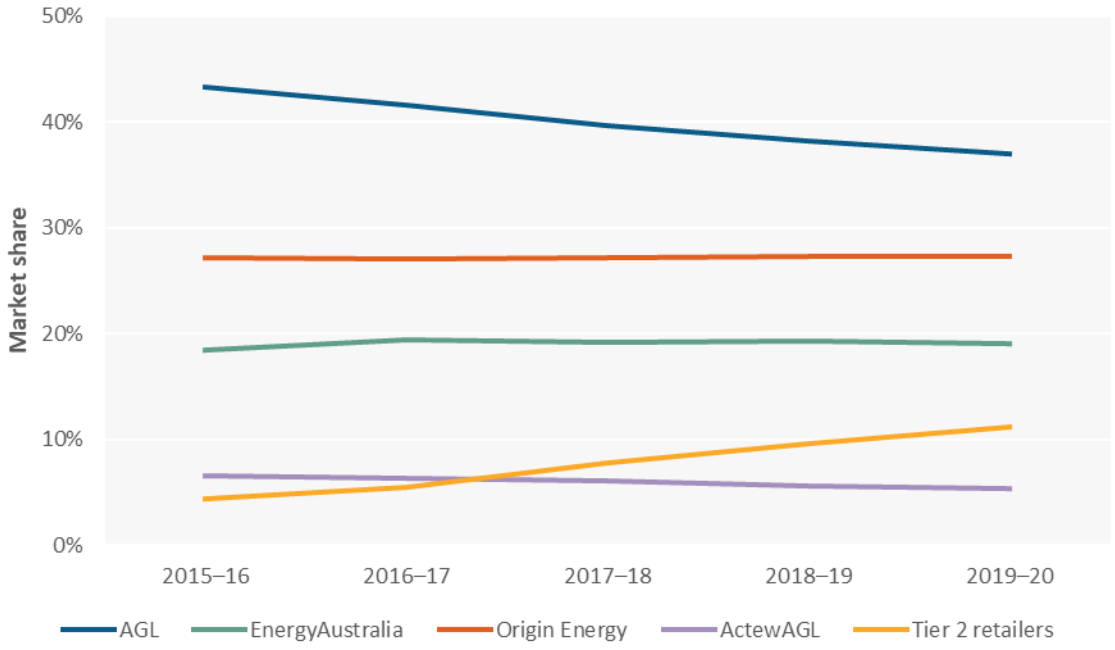
Figure 2.1: Residential electricity market share by retailer category



Note: Data at 30 June of each year. Includes customers in Queensland, NSW, the ACT, South Australia and Tasmania.

Source: AER.

Figure 2.2: Residential gas market share by retailer category



Note: Data at 30 June of each year. Includes customers in Queensland, NSW, the ACT and South Australia.

Source: AER.

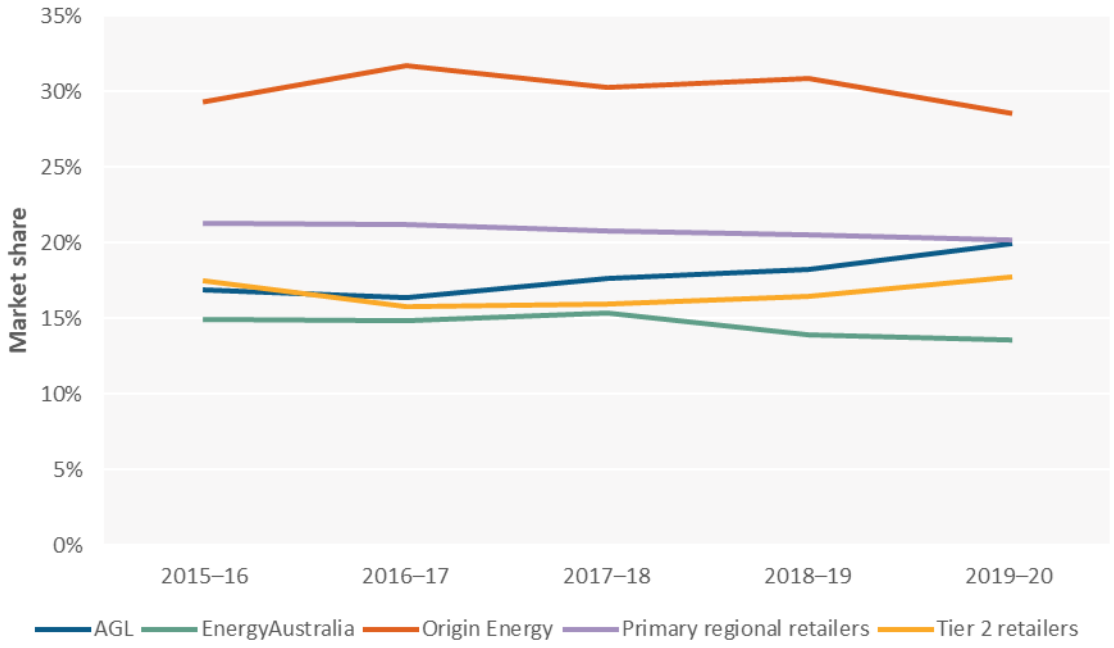
Small business electricity

There were 49 retailers supplying electricity to 665,187 small business customers in 2019–20. AGL was the only Tier 1 or primary regional retailer to gain market share in 2019–20 (figure 2.3). Origin Energy had the largest decline in market share.

As with the residential segment, NSW had the highest number of active retailers with 45 retailers supplying small business electricity customers. Queensland had 38 active retailers (most only operating in the south east), South Australia had 29 and the ACT had 11. There is limited retail competition in Tasmania (4 retailers) and in regional Queensland (4 retailers).

Tier 2 retailers gained market share to reach 17.7%. The gains were spread across multiple retailers.

Figure 2.3: Small business electricity market share by retailer category



Note: Data at 30 June of each year. Includes customers in Queensland, NSW, the ACT, South Australia and Tasmania.

Source: AER.

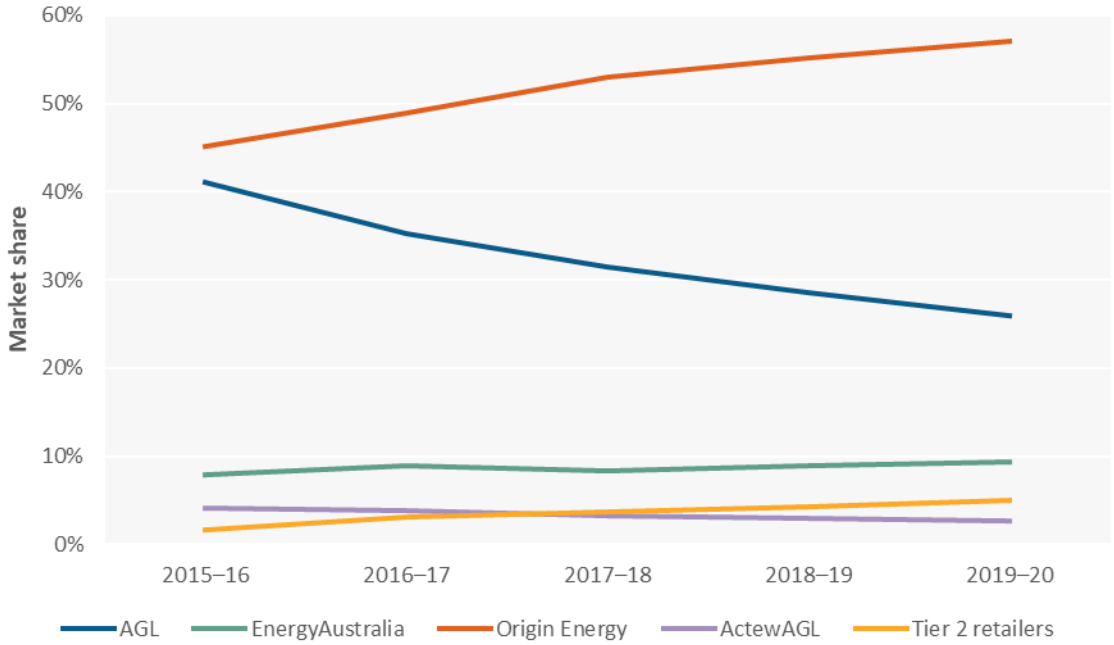
Small business gas

There were 14 retailers supplying gas to 82,717 customers in 2019–20. NSW had 13 retailers in this segment in 2019–20. Queensland had 6 active retailers (most only operating in the south east), South Australia had 9 and the ACT had 3. There were 5 in regional Queensland.

AGL continued its marked drop in market share over recent years (figure 2.4). Origin Energy's market share continued to increase, reaching 57%. EnergyAustralia has a smaller share of the small business gas market (9% in 2019–20) compared to its residential gas market share (19% in 2019–20).

Tier 2 retailers have a smaller stake in the small business gas market compared to the other market segments discussed above. Tier 2 market share increased from 4% to 5% in 2019–20.

Figure 2.4: Small business gas market share by retailer category



Note: Data at 30 June of each year. Includes customers in Queensland, NSW, the ACT and South Australia.

Source: AER.

Table 2.1 shows customer numbers in the residential and small business electricity markets, as well as the percentage change from the previous year and the per cent market share in 2019–20. Among Tier 1 retailers, residential customer numbers were reasonably stable across the 2 years. There were marked changes in the small business segment including AGL's 11% increase, and Origin Energy's 6.5% loss in electricity customers.

There were also some marked gains in the residential electricity market by the larger Tier 2 retailers (including Alinta Energy, Snowy Hydro's Red Energy and Powershop). Red Energy also recorded marked gains in the small business electricity segment compared to the previous year.

Table 2.1: Residential and small business electricity market share by retailer

	Residential customers			Small business customers		
Retailer	2019–20	% change from 2018–19	% share in 2019–20	2019–20	% change from 2018–19	% share in 2019–20
Origin Energy	1,831,948	0.3%	27.9%	189,904	-6.5%	28.5%
AGL	1,390,017	1.0%	21.2%	132,691	11.0%	19.9%
EnergyAustralia	1,044,384	-1.4%	15.9%	90,458	-0.8%	13.6%
Ergon Energy	627,523	1.6%	9.6%	87,056	-0.7%	13.1%
Alinta Energy	352,679	11.4%	5.4%	27,008	-2.7%	4.1%
Red Energy	306,228	9.7%	4.7%	11,166	30.0%	1.7%
Aurora Energy	245,242	0.3%	3.7%	35,280	-1.0%	5.3%
ActewAGL	169,807	-0.9%	2.6%	11,738	-0.5%	1.8%
Simply Energy	133,318	2.7%	2.0%	7,259	13.7%	1.1%
amaysim Energy	95,212	-1.2%	1.4%	4,081	19.5%	0.6%
Powershop	52,871	32.0%	0.8%	3,997	71.5%	0.6%
Powerdirect	47,932	0.8%	0.7%	11,041	-15.4%	1.7%
Dodo	47,839	1.9%	0.7%	1,569	-25.3%	0.2%
Lumo Energy	41,054	11.9%	0.6%	2,771	-3.3%	0.4%
Momentum Energy	28,473	43.0%	0.4%	8,698	7.2%	1.3%
Locality Planning Energy	26,253	30.2%	0.4%	4,952	256.3%	0.7%
Energy Locals	20,504	39.3%	0.3%	2,303	132.6%	0.3%
1st Energy	16,096	14.8%	0.2%	1,803	20.2%	0.3%
Metered Energy	13,950	6.7%	0.2%	109	81.7%	0.0%
Diamond Energy	9,661	0.2%	0.1%	889	7.8%	0.1%
ReAmped Energy	9,352	905.6%	0.1%	127		0.0%
Enova Energy	8,024	47.2%	0.1%	542	37.9%	0.1%
Sumo Power	6,841	40.0%	0.1%	83	23.9%	0.0%
Qenergy	5,488	-2.7%	0.1%	7,100	0.5%	1.1%
Flow Systems	5,270	56.2%	0.1%	373	4.5%	0.1%
CovaU	4,667	26.2%	0.1%	5,650	13.6%	0.8%
Arc Energy	4,469	-	0.1%	442	-	0.1%
OC Energy	4,467	-30.7%	0.1%	438	-25.5%	0.1%
Mojo Power	3,789	47.1%	0.1%	20	300.0%	0.0%
Winenergy	3,613	85.5%	0.1%	56	-79.1%	0.0%
Savant Energy	2,962	14.3%	0.0%	135	-25.8%	0.0%
Pooled Energy	1,645	38.2%	0.0%	15	36.4%	0.0%
GloBird Energy	1,525	-	0.0%	8	-	0.0%
Nectr Energy	1,024	-	0.0%			
Discover Energy	1,010	7114.3%	0.0%	297	14750.0%	0.0%

Retailer	Residential customers 2019–20	% change from 2018–19	% share in 2019–20	Small business customers 2019–20	% change from 2018–19	% share in 2019–20
Evergy	685	13.6%	0.0%	2	0.0%	0.0%
Power Club	627	357.7%	0.0%	160	1233.3%	0.0%
Real Utilities	561	-8.6%	0.0%	20	300.0%	0.0%
People Energy	438	-10.1%	0.0%	20	-25.9%	0.0%
PowerHub	318	695.0%	0.0%	6	200.0%	0.0%
Humenergy	297	-	0.0%			
Future X Power	277	1159.1%	0.0%	48	1100.0%	0.0%
The Embedded Networks Company	272	806.7%	0.0%	7	75.0%	0.0%
Elysian Energy	244	-	0.0%	26	-	0.0%
Tango Energy	213	1231.3%	0.0%	46	-63.5%	0.0%
Next Business Energy	72	-18.2%	0.0%	8,163	10.7%	1.2%
Bright Spark Power	70	-	0.0%			
Enwave Mascot	62	-	0.0%	68	47.8%	0.0%
Sustainable Saving	30	-	0.0%			
Sanctuary Energy	0	-100.0%	0.0%			
BlueNRG				4,778	-3.5%	0.7%
ERM Power				1,683	-27.4%	0.3%
CleanPeak Energy				101	-	0.0%
Total	**6,569,303**			**665,187**		

Note: Data at 30 June of each year. Includes customers in Queensland, NSW, the ACT, South Australia and Tasmania.

Source: AER.

Table 2.2 shows customer numbers across the residential and small business gas markets. Among the Tier 1 retailers, Origin Energy and EnergyAustralia gained both residential and small business customers, while AGL's number decreased. Origin Energy and EnergyAustralia made particularly strong gains in the small business gas segment.

Several Tier 2 retailers saw substantial gains in residential gas customers. This included Snowy Hydro's Red Energy and Lumo Energy, Simply Energy, Alinta Energy, amayism Energy and Dodo.

Table 2.2: Residential and small business gas market share by retailer

	Residential customers			Small business customers		
Retailer	2019–20	% change from 2018–19	% share in 2019–20	2019–20	% change from 2018–19	% share in 2019–20
AGL	818,844	-0.5%	37.0%	21,408	-6.0%	25.9%
Origin Energy	602,748	2.7%	27.3%	47,241	7.6%	57.1%
EnergyAustralia	421,791	1.6%	19.1%	7,711	9.1%	9.3%
ActewAGL	119,029	-1.8%	5.4%	2,265	-4.3%	2.7%
Red Energy	73,064	26.7%	3.3%	136	142.9%	0.2%
Simply Energy	55,677	11.8%	2.5%	544	88.9%	0.7%
Alinta Energy	55,086	17.5%	2.5%	103	-5.5%	0.1%
amaysim Energy	23,996	15.7%	1.1%	413	13.8%	0.5%
Lumo Energy	13,528	68.0%	0.6%	44	91.3%	0.1%
Dodo	12,708	10.7%	0.6%			
Metered Energy	8,240	-8.8%	0.4%			
CovaU	2,822	24.9%	0.1%	2,837	9.1%	3.4%
Savant Energy	1,468	43.6%	0.1%	9	50.0%	0.0%
GloBird Energy	908	-	0.0%	5	-	0.0%
Sumo Power	319	-	0.0%			
Real Utilities	225	-1.7%	0.0%			
Tas Gas	38	-	0.0%			
Discover Energy	20	-	0.0%	1	-	0.0%
Total	**2,210,511**			**82,717**		

Note: Data at 30 June of each year. Includes customers in Queensland, NSW, the ACT and South Australia.

Source: AER.

Large customers

Large customers are those that consume beyond thresholds specified in regulations.[16]

Table 2.3 shows the number of large customers supplied by each retailer in 2019–20 and the per cent change from the previous year. It also shows the market share of each retailer at the end of the current year. In electricity, AGL and EnergyAustralia lost market share while Origin Energy was stable. AGL also lost large customers in the gas market.

Among Tier 2 retailers, both SIMEC ZEN Energy and ERM Power recorded marked gains in market share.

[16] National Energy Retail Regulations. Small customers – which includes residential customers, and small business customers that consume below, for electricity, 100 MWh pa except in SA (160 MWh) and Tasmania (150 MWh) and, for gas, 1 TJ pa (in NSW 1000GJ or 1TJ pa). A large customer is any customer that consumes at or above these thresholds.

Table 2.3: Large customer market share by retailer

	Electricity customer numbers			Gas customer numbers		
Retailer	2019–20	% change from 2018–19	% share in 2019–20	2019–20	% change from 2018–19	% share in 2019–20
Origin Energy	17,907	0.0%	29.3%	2,134	1.0%	46.8%
AGL	11,263	-5.9%	18.4%	1,636	-18.2%	35.9%
EnergyAustralia	7,065	-26.2%	11.5%	534	6.6%	11.7%
SIMEC ZEN Energy	6,213	12.5%	10.1%			
Ergon Energy	4,645	-5.6%	7.6%			
ERM Power	3,175	10.3%	5.2%			
Momentum Energy	2,578	-8.4%	4.2%			
Aurora Energy	1,857	-9.4%	3.0%			
Stanwell	1,667	-7.8%	2.7%			
ActewAGL	1,542	0.1%	2.5%	14	-26.3%	0.3%
Red Energy	688	19.9%	1.1%	7	250.0%	0.2%
Next Business Energy	460	-23.2%	0.8%			
Simply Energy	414	24.7%	0.7%	5	-61.5%	0.1%
Alinta Energy	332	38.9%	0.5%	44	-35.3%	1.0%
BlueNRG	251	-23.9%	0.4%			
Progressive Green	202	-34.4%	0.3%			
Tango Energy	144	-66.8%	0.2%			
CovaU	127	-20.1%	0.2%			
Powerdirect	123	-26.8%	0.2%			
Infigen Energy	90	542.9%	0.1%			
Diamond Energy	87	85.1%	0.1%			
Qenergy	54	5.9%	0.1%			
1st Energy	52	48.6%	0.1%			
OC Energy	44	-22.8%	0.1%			
Winenergy	34	-47.7%	0.1%			
Flow Systems	28	75.0%	0.0%			
Powershop	28	-20.0%	0.0%			
Enwave Mascot	23	76.9%	0.0%			
Elysian Energy	23	-	0.0%			
Dodo	21	-	0.0%			
OzGen	17	41.7%	0.0%			
Delta Electricity	13	225.0%	0.0%			
CS Energy	13	116.7%	0.0%			

	Electricity customer numbers			Gas customer numbers		
Retailer	2019–20	% change from 2018–19	% share in 2019–20	2019–20	% change from 2018–19	% share in 2019–20
Locality Planning Energy	11	-66.7%	0.0%			
Lumo Energy	9	-43.8%	0.0%	12	-29.4%	0.3%
Macquarie Bank	6	0.0%	0.0%			
Real Utilities	4	300.0%	0.0%			
Clean Peak Energy	4	33.3%	0.0%			
Evergy	3	50.0%	0.0%			
Y.E.S. Energy	1	-	0.0%			
People Energy	0	-100.0%	0.0%			
Weston Energy				175	110.8%	3.8%
Total	**61,218**			**4,561**		

Note: Data at 30 June of each year. Includes customers in Queensland, NSW, the ACT, South Australia and Tasmania (electricity only).

Source: AER.

2.1.3 Market and standing contracts

Before price deregulation was introduced in the NEM, governments set retail energy prices. Following deregulation, governments required incumbent retailers to retain standing offers as a transitional measure to allow time to adjust to a competitive market. As the market evolved, governments continued to retain standing offers as a safety net. Prices in standing offers are typically higher than for market offers. Chapter 3 analyses price differences across standing and market offers.

Customers might be on standing contracts rather than generally cheaper market contracts for a variety of reasons. Some customers have never taken up a market contract since deregulation, while others may have reverted to a standing contract at the expiry of a market contract or when moving properties. Some customers face issues accessing market contracts due to credit issues.

Regulatory reforms targeting these concerns continue to progress. The reforms aim to strengthen customer protections, encourage customers to engage (to their benefit) in the market, and make it easier for customers to compare retail offers. A central reform in recent years was the introduction of a maximum price limit on retailers' standing offers from 1 July 2019. Governments introduced a default market offer (DMO) because standing offer contracts were found to no longer operate effectively as a safety net. Standing offer prices had become unjustifiably expensive, and penalised customers who did not take up a market offer.

The AER determines the default market offer as a cap on standing offer electricity prices in south east Queensland, NSW and South Australia. The maximum price is not intended to mirror the lowest price in the market. Rather, it strikes a balance between reducing unjustifiably high prices, allowing retailers to recover costs in servicing customers, and providing customers and retailers with incentives to

participate in the market. Victoria introduced a similar but separate default offer that sets standing offer prices at a level reflecting the costs of an 'efficient' retailer in a contestable market. An update on the DMO and Victorian default offer (VDO) is set out in section 2.3.

Market and standing contracts – electricity

The proportion of Tier 1 customers on market contracts is lower on average than for Tier 2 retailers. This could reflect the position of Tier 1 retailers as incumbents from the time that retail contestability was introduced, allowing them to retain customers that never took up a market contract. Primary regional retailers operate in areas with limited retail competition, so most customers remain on standing offers.

Among Tier 1 retailers, AGL's proportion of customers on market contracts dropped 2% in 2019–20. EnergyAustralia's proportion was steady and Origin Energy's continued its gradual upwards trajectory of increasing market contracts, reaching 84% (figure 2.5).

Figure 2.5: Residential electricity customers on market contracts by retailer category

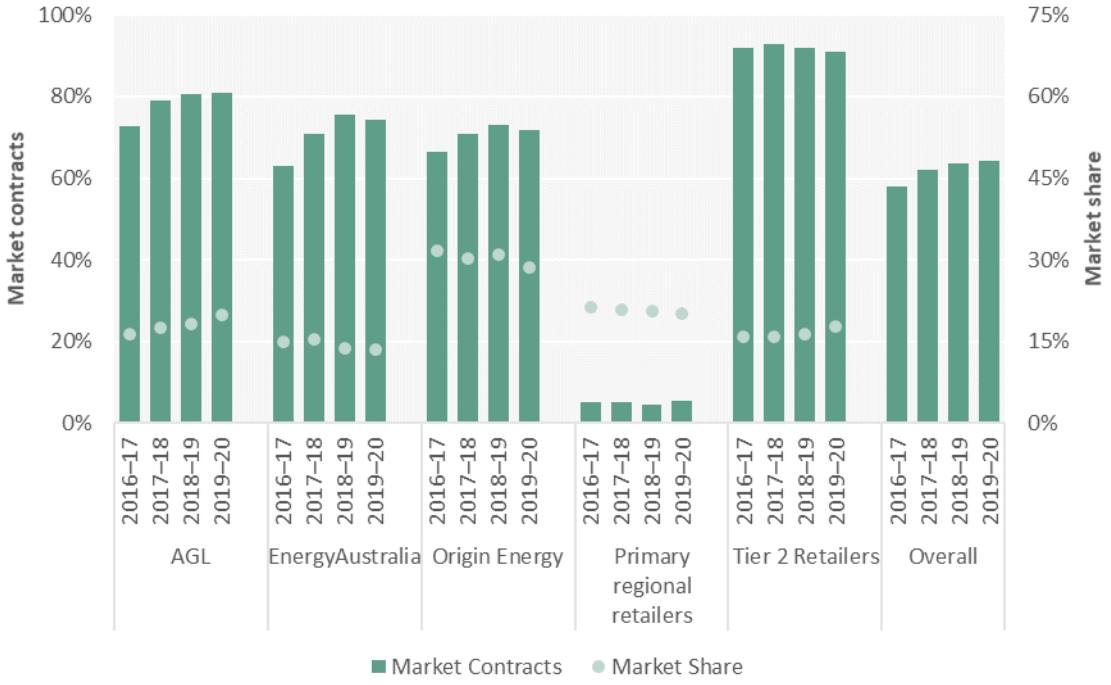
Note: Data at 30 June of each year. Includes customers in Queensland, NSW, the ACT, South Australia and Tasmania.

Source: AER.

The proportion of small business customers on market contracts increased by 1% for AGL, but it decreased for both EnergyAustralia and Origin Energy (figure 2.6). Again, this could relate to a number of reasons, such as new small businesses not establishing a market contract when opening new premises.

Similar to the residential electricity market, the proportion of Tier 1 small business customers on market contracts is lower on average than for Tier 2 retailers.

Figure 2.6: Small business electricity customers on market contracts by retailer category



Note: Data at 30 June of each year. Includes customers in Queensland, NSW, the ACT, South Australia and Tasmania.

Source: AER.

Market and standing contracts – gas

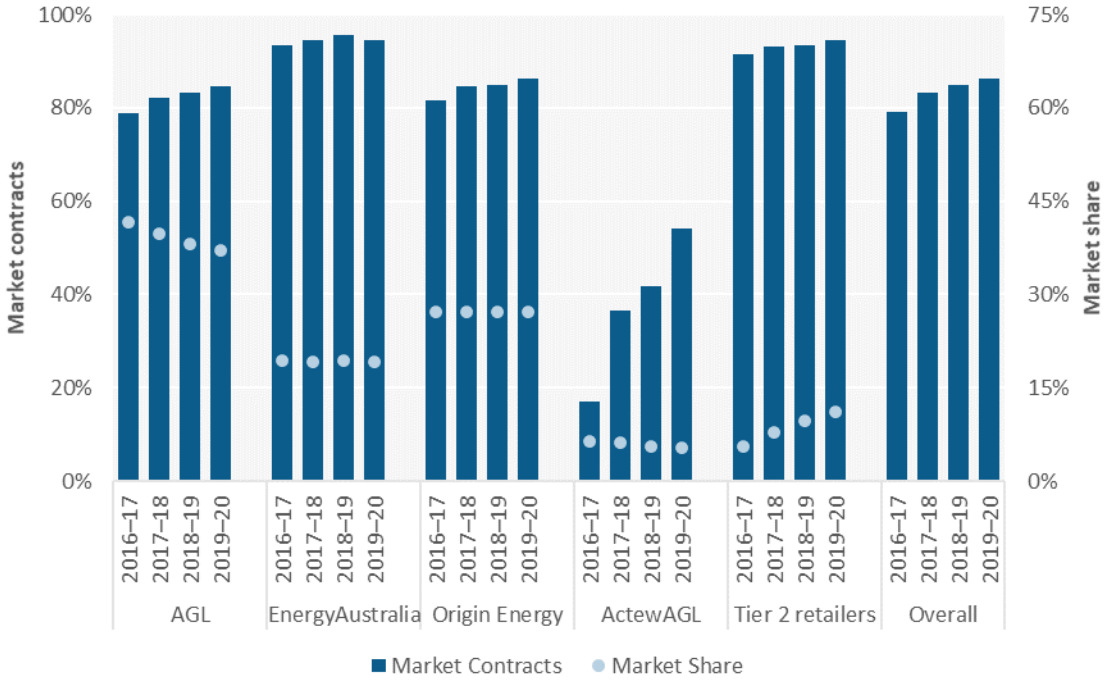
In residential gas, AGL and Origin Energy's proportion of customers on market contracts increased in 2019–20 (figure 2.7). EnergyAustralia's proportion decreased, but from a higher base. EnergyAustralia's level of market contracts is markedly higher than the other Tier 1 retailers.

The average proportion of Tier 2 customers on market contracts is higher than AGL and Origin Energy, and at about the same level as EnergyAustralia.

The proportion of small business gas customers on market contracts is generally low across all 3 Tier 1 retailers compared to the other market segments (figure 2.8). In addition, the level decreased this year for both AGL and EnergyAustralia.

The average proportion of small business gas customers on market contracts across Tier 2 retailers is markedly higher than the Tier 1 retailers. The proportion for Tier 2 retailers also increased this year, although this followed a sharp drop in 2018–19.

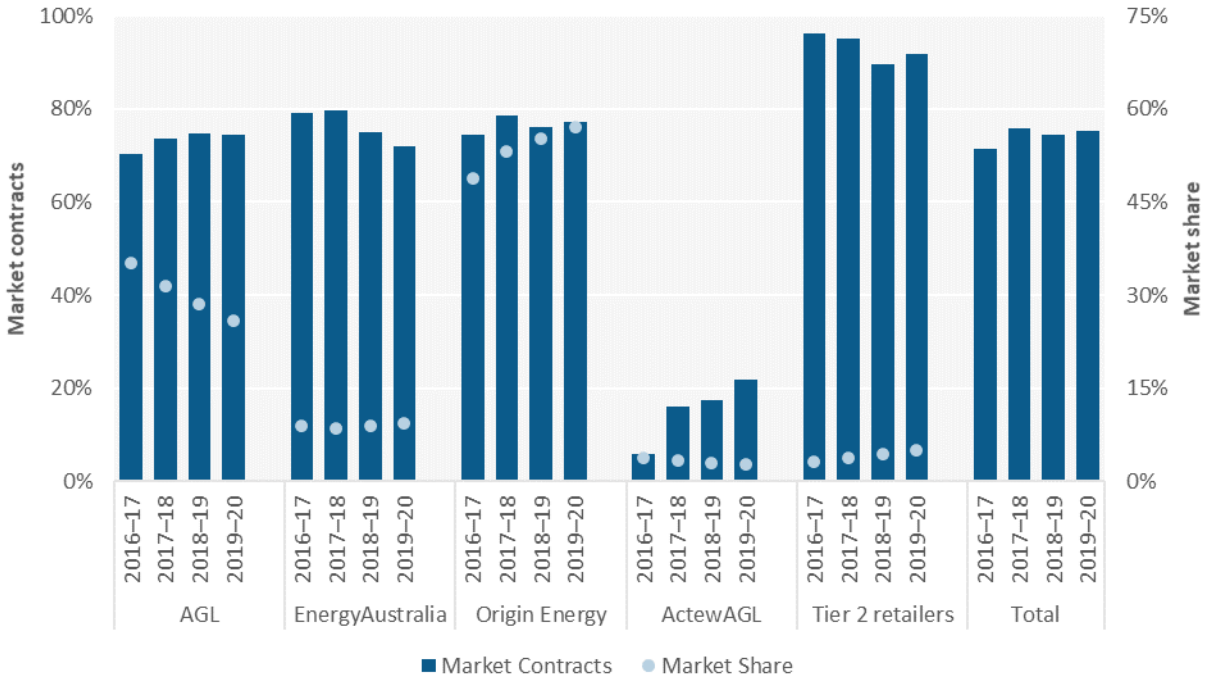
Figure 2.7: Residential gas customers on market contracts by retailer category



Note: Data at 30 June of each year. Includes customers in Queensland, NSW, the ACT and South Australia.

Source: AER.

Figure 2.8: Small business gas customers on market contracts by retailer category



Note: Data at 30 June of each year. Includes customers in Queensland, NSW, the ACT and South Australia.

Source: AER.

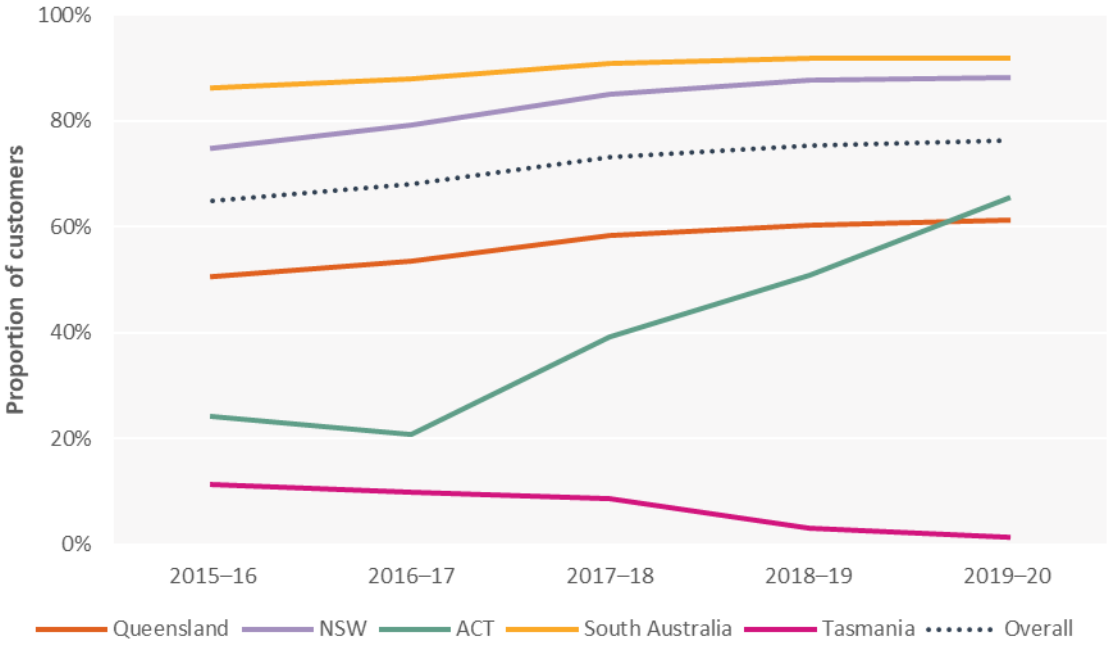
Market and standing contracts – by jurisdiction

Across jurisdictions, there was a general increase in the proportion of residential electricity customers on market contracts, except Tasmania (note we do not cover Victoria here). The proportion of customers on market contracts in a jurisdiction provides an indicator of competitiveness. The proportion is higher in NSW, south east Queensland and South Australia than elsewhere.

In Tasmania, 1st Energy became the state's first new entrant retailer to residential customers in early 2019. Despite the new entry, the proportion of customers on market contracts dropped significantly over 2019, after the Tasmanian Government set standing offer prices at a level that attracted a majority of Aurora Energy's market customers to switch back to the standing offer.

In the ACT the proportion of market contracts rose from 24% to 65% over the past 5 years. The recent increase follows stronger retail competition, with many customers switching to a market offer despite remaining with ActewAGL.

Figure 2.9: Residential electricity customers on market contracts by jurisdiction

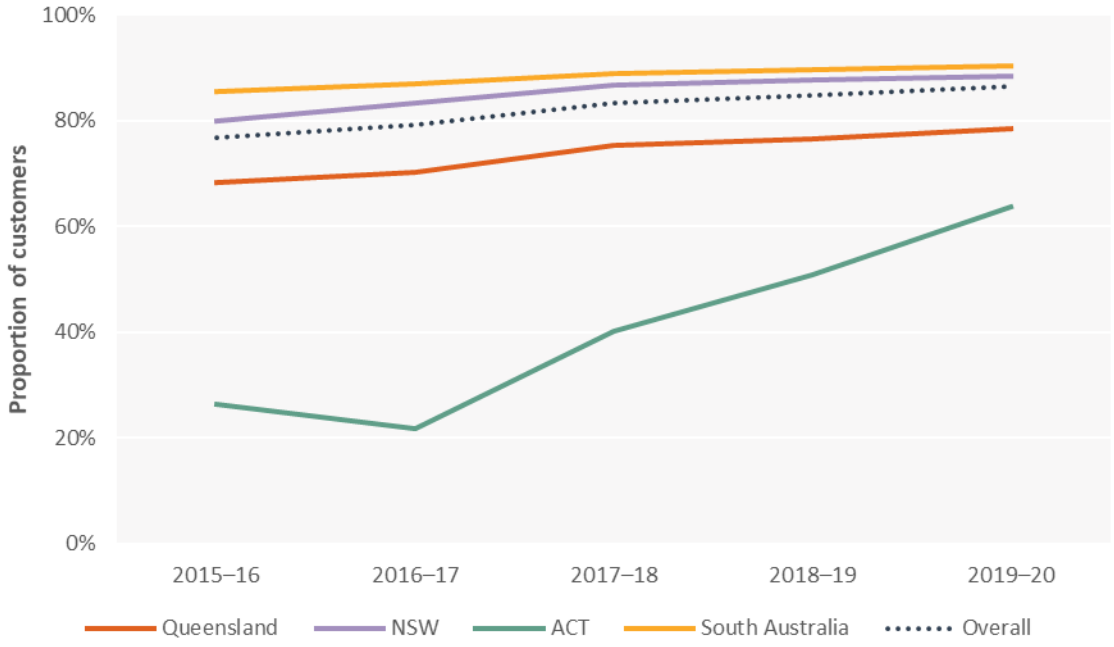


Note: Data at 30 June of each year.

Source: AER.

The residential gas market also saw a general increase in the proportion of customers on market contracts, with a significant increase in the ACT from 26% in 2015–16 to 64% in 2019–20.

Figure 2.10: Residential gas customers on market contracts by jurisdiction



Note: Data at 30 June of each year.

Source: AER.

2.2 Customer switching

The rate at which customers switch between energy retailers provides one indicator of how actively customers engage with the retail market. However, switching rates do not provide a complete picture of engagement within the energy market. Switching may be low in a competitive market if retailers deliver good quality, low priced services that gives customers no reason to change, for example. Customers might engage with the market and decide to stay with their current plan, or might change energy plans with the same retailer.

Customer surveys have regularly found customers find the energy market difficult to navigate. These difficulties impose transaction costs (including time) that customers may face when comparing offers and reinforce poor customer trust. Reforms in recent years aim to address these perceptions of complexity that may limit customer engagement. The Electricity Retail Code introduced in July 2019, for example, sought to make it easier for customers to compare offers by simplifying and standardising how offers are presented. The reforms require marketed discounts to be quoted against a 'reference bill', being the default market offer set by the AER. Some retailers also introduced simpler pricing structures in recent years.

Reforms introduced in December 2019 aim to improve the switching process, providing customers with faster access to prices and products they want. Under the new rules, customers are transferred to a new retailer within two days of a cooling off period expiring.

To capture movement between retailers, we use switching data from the Australian Energy Market Operator (AEMO), which combines switching rates for residential and small business customers. AEMO publishes switching data for all NEM jurisdictions

except Tasmania.[17] Our updated *Performance Reporting Procedures and Guidelines,* effective 1 January 2019, allow us to collect data on customer movement between market and standing contracts *within* retailers.

For electricity, switching between retailers peaked in most jurisdictions in Q4 2017–18 and Q1 2018–19, and has since trended down. Since 2015–16, gas switching has generally mirrored the trends seen in electricity.[18]

This timing coincided with the implementation of consumer engagement programs in some jurisdictions in 2018, which aimed to help consumers navigate the energy market and get a better deal. This was the case in NSW and Victoria with their respective Energy Switch programs and the Victorian Government's $50 Power Saving Bonus.

There was considerable media coverage of high energy prices in mid-2018. Increased awareness of high prices may have led more customers to seek a better energy plan.

Following concerns that consumers who cannot or do not shop around may pay unjustifiably high standing offer prices, the Australian and Victorian governments introduced a Default Market Offer and Victorian Default Offer respectively from 1 July 2019. The schemes regulate the price that electricity retailers can charge most standing offer customers in NSW, South Australia, south east Queensland and Victoria. An update on the DMO and VDO is set out in section 2.3.

We encourage both residential and small business consumers to use Energy Made Easy to shop around for the best energy deal.

2.2.1 Switching rates

Victoria continues to have the highest quarterly rate of switching between retailers, in both the electricity and gas markets. In Q1 2018–19, switching peaked at around 9%, coinciding with the start of the Victorian Government's $50 Power Saving Bonus payment on 1 July 2018. The bonus payment scheme ended on 30 June 2020. The scheme paid Victorian customers $50 if they used the Victorian Energy Compare price comparison website. After peaking in Q1 2018–19, switching steadily declined, with a sharp drop in Q4 2019–20.

Switching also peaked in NSW at around 6% in Q1 2018–19, coinciding with the start of the state government's Energy Switch policy which aimed to help customers navigate the retail markets. The policy, implemented in July 2018, incorporated bill reading technology, a call centre and customer service centres. NSW has the second highest switching rate in both the electricity and gas markets, after Victoria.

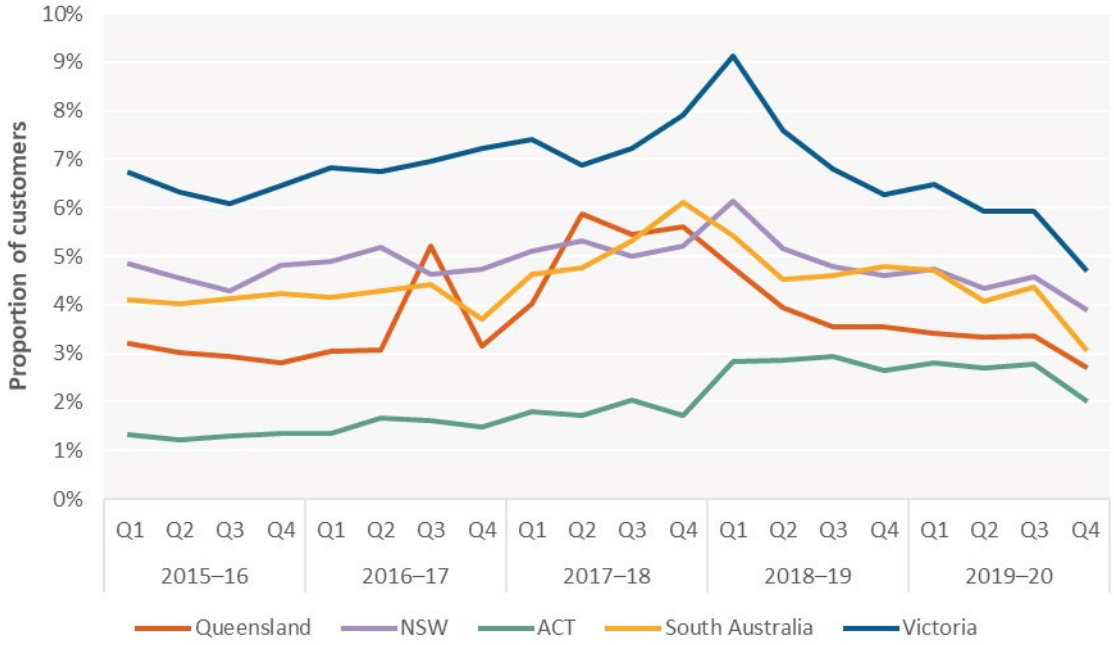
In 2019–20, the ACT continued to have the lowest rate of switching between retailers in electricity, and the second lowest for gas. However, the ACT also has the highest rate of switching within retailers from standing to market contracts.

[17] An explanation of how AEMO's switching data is calculated is available on their website. The AEMC also conducts detailed analysis of switching rates, most recently in its *2020 Retail Competition Review*. Note that AEMC covers annual switching rates, while our analysis captures quarterly trends.

[18] Guide to quarters: Q1 covers July, August and September; Q2 covers October, November and December; Q3 covers January, February and March; Q4 covers April, May and June.

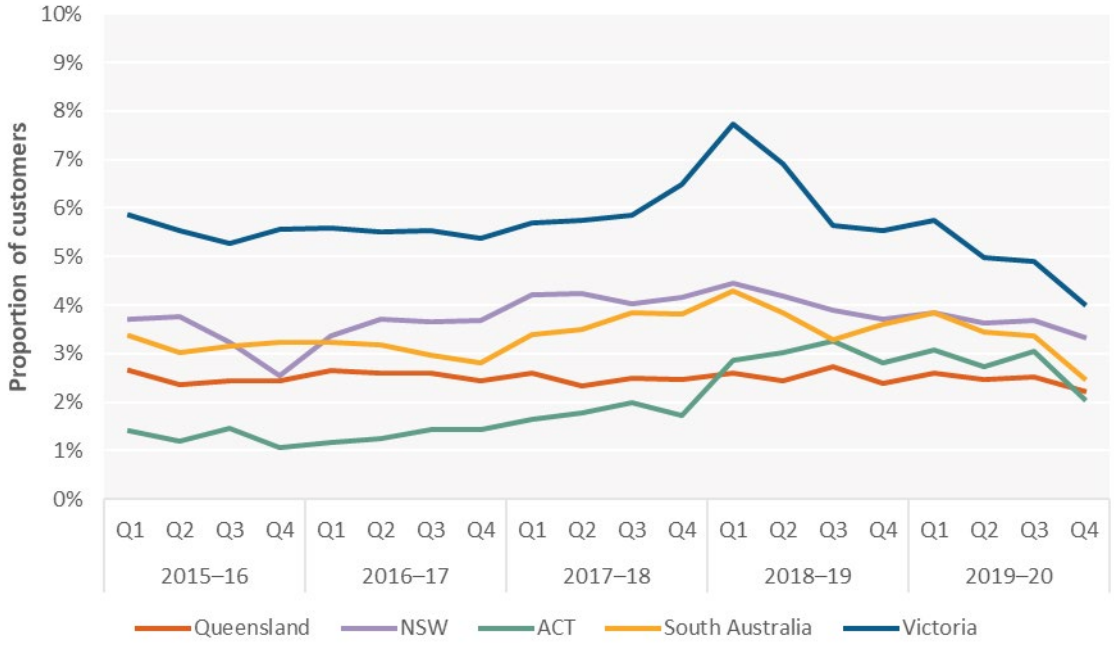
Overall, switching rates followed a similar trend across jurisdictions. Switching rates remained steady at a similar level from Q4 2018–19 onwards, until dropping sharply across all jurisdictions in Q4 2019–20. The sharp drop in Q4 2019–20 may be associated with the COVID-19 pandemic. For instance, it may reflect that more customers fell into debt with their retailer and, as a result, found it difficult to close off their relationship with that retailer and shop around.

Figure 2.11: Electricity switching rate between retailers



Source: AEMO; AER.

Figure 2.12: Gas switching rate between retailers



Source: AEMO; AER.

2.3 New market developments

Events in 2020 were overshadowed by the pandemic. Efforts to improve customers' experience of, and engagement with, the energy market nevertheless continued. Changes have been implemented or are underway to remove barriers to customers' informed participation in the market and increase consumer protection.

2.3.1 Technology innovation allows customers fuller market participation

Most energy customers source their electricity and gas through a retailer that buys energy in wholesale markets and packages it with network services to sell as a bundled product. Retailers monitor and bill customers for the energy they use, and manage the risk of price volatility in wholesale markets. But this retail model is evolving as more customers become active participants in the market and take greater control over their energy use.

Many households now have rooftop solar photovoltaic systems, and some are paired with a behind-the-meter battery.

The usual function of a battery is to maximise the household consumption of electricity generated from solar, for example, when a battery charges during periods of higher generation than the household's demand. There are now a number of market offers where retailers can optimise use of solar and battery systems to minimise consumption from the grid at peak times when prices are high.

Technology is also facilitating the creation of virtual power plants (VPPs), where businesses coordinate the operation of small-scale generators (like residential solar and batteries) to maximise their value in wholesale energy markets and provide network services. This gives end customers fuller, more active participation in the energy supply chain. Retailers play a pivotal role in providing end customers this access.

2.3.2 Pricing reforms to give better price signals

Retailers offer a variety of tariff structures on both market and standing offers. Most residential customers pay a daily (fixed) supply charge plus a simple usage charge. These single rate or 'flat' tariffs apply the same charge for all electricity that a customer uses, regardless of how and when they use it. Tariffs for large business customers typically provide clearer signals of the value of energy at different times.

National Electricity Rule changes that took effect in 2017 require distribution network businesses to make their tariffs more cost-reflective, to signal to retailers the cost of their customers' use of the network and investment in distributed energy resources. Retailers are the focus of tariff reform, because they act as the interface with consumers. They package network tariffs with other costs (such as wholesale energy) in their retail price offers, and decide how to reflect the charges in those offers. It is up to the customer to choose a retail offer that suits their needs, whether that be a flat rate retail tariff or a more innovative product.

New pricing structures include:

- **time-of-use tariffs**, which apply different pricing to electricity use at peak and off-peak times. Higher prices in peak times encourage customers to minimise their use at those times. Customers can reduce their energy costs by reducing use, or by shifting use to off-peak times. SA Power Networks, for example, introduced a 'solar sponge' tariff in 2020 that offers a lower charge during the middle of the day when solar output is highest, to encourage shifting of electricity use to those times.
- **demand tariffs**, which charge a customer based on their maximum point-in-time demand at peak times. Customers can reduce their energy costs by shifting demand to off-peak periods. But even one day of high use at peak times will lead to higher charges for the whole billing period. A demand tariff is the default tariff for households in the ACT when connecting to the electricity network or following a meter replacement.

Some retailers are reflecting these network tariff structures in their retail offers, while others are trialling different price structures. Subscription tariffs, where customers pay a (yearly or monthly) fee based on their typical electricity use, focus on simplicity rather than cost-reflectiveness. Some retailers suggest these tariffs work to gain customers' trust following evidence of low consumer confidence in the energy market.

At the other end of the pricing spectrum, wholesale market spot price pass-through tariffs allow customers to dynamically interact with the wholesale market. These tariffs are best suited to customers with battery storage that can adjust their use of grid supplied electricity during high price periods.

2.3.3 Introduction of the Retailer Reliability Obligation

The Retailer Reliability Obligation (RRO), which commenced on 1 July 2019, aims to promote reliability in the National Electricity Market. It requires retailers to have sufficient forward contracting in place to cover their expected retail load, to strengthen incentives to invest in dispatchable 'on demand' generation resources.

The RRO triggers if AEMO forecasts a reliability gap in a region (a shortage of generation to meet forecast peak demand).The South Australian Minister also has the ability to trigger the RRO in that state.

The same trigger sets the Market Liquidity Obligation (MLO) in motion. It requires the largest generators in a given region to offer standard energy contracts on the Australian Securities Exchange at certain times each day. This process is designed to ensure there are contracts available to smaller retailers.

On 9 January 2020, the South Australia Minister for Energy and Mining triggered the RRO in South Australia for the first quarters of 2022 and 2023. The 2022 order was subsequently revoked.

2.3.4 Update on the Default Market Offer and Victorian Default Offer

The Australian Competition and Consumer Commission's (ACCC) *Retail electricity pricing inquiry report* in 2018 found that standing offer contracts no longer work as a safety net, as originally intended.[19] Prices under these offers were unjustifiably expensive, with retailers using inflated standing offer prices as a basis to advertise artificially high discounts. To address these concerns the ACCC recommended the introduction of a default market offer that would cap what retailers could charge residential and small business standing offer customers.

The Australian Government subsequently introduced a default market offer (DMO) which came into effect on 1 July 2019 in south east Queensland, NSW and South Australia. The DMO price is a maximum price an electricity retailer can charge a residential or small business customer on a standing offer contract. The Victorian Government also introduced new controls on standing offer prices from 1 July 2019 in the form of the Victorian default offer (VDO), following a recommendation from the Thwaites Review.[20] The aim of the VDO is different to the DMO. The DMO is a fall-back price for those not engaged in the market, while the VDO aims to provide customers access to a 'fair' priced electricity offer.

Default Market Offer 2

The AER's initial DMO price determination for 2019–20 (DMO 1) significantly reduced prices for electricity customers on standing offers. The DMO prices for 2020–21 (DMO 2) continue to target objectives of protecting customers from unjustifiably high standing offer prices, while allowing retailers to recover the efficient costs of providing services, and to incentivise market participation by consumers and retailers.

DMO 2 prices decreased or remained flat across regions in comparison to last year's DMO prices, with the significant savings that customers experienced in the first year maintained.

In summary, compared to DMO 1, the DMO 2 prices were:

- lower in South Australia and Queensland; and
- slightly lower or generally flat in New South Wales (depending on the region).

We consulted on how we should take into account the impacts of the COVID-19 pandemic in making the DMO determination for 2020–21. We decided not to make any adjustment to the Final Determination in response to COVID-19. We considered several factors in reaching this decision:

- There was a high level of uncertainty about COVID-19 impacts and limited information to forecast cost impacts.
- The information we did receive suggested COVID-19 cost impacts were likely to be small.

[19] ACCC, Restoring electricity affordability and Australia's competitive advantage, Retail Electricity Pricing Inquiry—Final Report, June 2018.

[20] Thwaites, T, Faulkner, P, and Mulder, T, Independent review into the electricity and gas retail markets in Victoria, August 2017.

- We also considered the potential impact of various COVID-19 related policies, such as Commonwealth and State Government relief measures for customers, and the Energy Networks Australia (ENA) relief package to defer or rebate network charges for affected customers.

We will continue to closely monitor the impacts of COVID-19 on retailers and customers in our DMO 3 determination process.

Following amendments to the Regulations in early 2020, the DMO price cap protections applied to residential time-of-use customers and residential and business solar customers from 1 July 2020. The reference bill protections apply to residential and small business solar tariffs.

Victorian Default Offer 2

The Victorian Essential Services Commission released its draft decision on the VDO price for 2021 on 15 September 2020.[21] The draft decision proposes that VDO prices would fall by approximately 7% and small business prices by approximately 9% from 1 January 2021. The proposed decrease is mainly due to a forecast fall in wholesale electricity purchase costs of 21%. Wholesale costs account for 29% of an annual residential bill (averaged across the five distribution zones).

[21] Essential Services Commission, *Victorian Default Offer 2021: Draft Decision*, 15 September 2020.

3 Pricing and affordability

Key findings

- Energy costs in 2020 remained high by historical standards, but considerable savings can be made for consumers facing energy affordability issues:
  - Low income households on the median standing offer in higher cost jurisdictions, for example, could save up to 2% of their disposable income on both electricity and gas bills by switching to the lowest market offer.
- From 1 July 2019 the Default Market Offer and Victorian Default Offer resulted in a significant reduction in median electricity standing offer prices in the jurisdictions where they apply.
- Median electricity market offer prices fell between June 2019 and June 2020 in Queensland, NSW, South Australia and the ACT, but rose in Victoria and Tasmania. Prices in each jurisdiction were below their four year peak.
- In gas, market offer prices eased between June 2019 and June 2020 in Queensland and Victoria, but remained elevated elsewhere. Standing offer prices were at or near their four year peak across most networks.
- Electricity affordability outcomes were mixed over 2019–20. Affordability improved in NSW and South Australian network areas, where bills as a percentage of income were at their lowest levels in four years.
- Electricity was generally less affordable for customers in regional areas due to higher network charges.
- Gas affordability improved in Queensland and Victoria, but did not change significantly elsewhere.
- Low income households typically spent double the percentage of their disposable income on electricity and gas than did average income households.
- Price offers vary significantly across energy retailers. We encourage customers to use Energy Made Easy and Victorian Energy Compare to check if they are on the best available contract.

This chapter explores energy affordability in the 4 years to 2019–20 in Queensland, NSW, the ACT, South Australia, Tasmania and Victoria, with a focus on the affordability of energy for low income households. It also indicates where energy affordability might head in 2020–21 by looking at prices at September 2020. Information on our methodology can be found in appendix 2.

What we pay for our energy has been front of mind for Australians for some time. A widening gap between the growth in income and the price of electricity and gas over the past decade has made paying energy bills a major concern for many Australian households, especially those on low incomes. In 2018 an Australian Competition and Consumer Commission (ACCC) examination of prices, competition and affordability in the electricity sector led to recommendations for a range of reforms across the electricity supply chain. Key reforms include a Default Market Offer (DMO) that caps

what retailers can charge residential and small business electricity customers on standing offers,[22] and limits on conditional discounting.

People's lived experience of energy prices differs markedly. Customers pay different prices for energy depending on where they live, what network infrastructure is required to supply them and the intensity of competition among retailers in their local area. Our analysis looks at the range of outcomes across distribution areas to capture those differences.

But customers' energy bills are not just driven by the prices they pay. How much energy they use is a key factor in energy bill costs. Our analysis is based on energy use by an average customer in each distribution area, and so does not represent all customers. Households consume different amounts of energy depending on how many people live in their home, the local climate, the energy efficiency of their home and appliances (and how they use them), and whether they use gas as well as electricity. Some households may incur significantly higher or lower energy costs than presented in this report because of these factors. Hardship customers, for example, averaged 7,700 kilowatt hours (kWh) of electricity use in 2019, compared to an average of all customers of 4,500 kWh.[23] This is likely in part due to these households being unable to afford more efficient housing and appliances. Housing tenure is also likely to be a factor – as tenants may have significantly less control over insulation and appliance choices. Energy efficiency initiatives should form part of any policy targeting affordability for those households.

3.1 Summary of findings

Energy has become slightly more affordable over the past 2 years, but it remains expensive by historical standards. Electricity and gas prices increased markedly from about 2008 to 2014 (figure 3.1). Electricity prices increased 10% annually over this period and gas prices increased 7% annually. Price movements subsequently varied, but peaked in 2018 before moderating. While the long term trend in energy prices has been upward, real incomes have shown little growth since 2008.

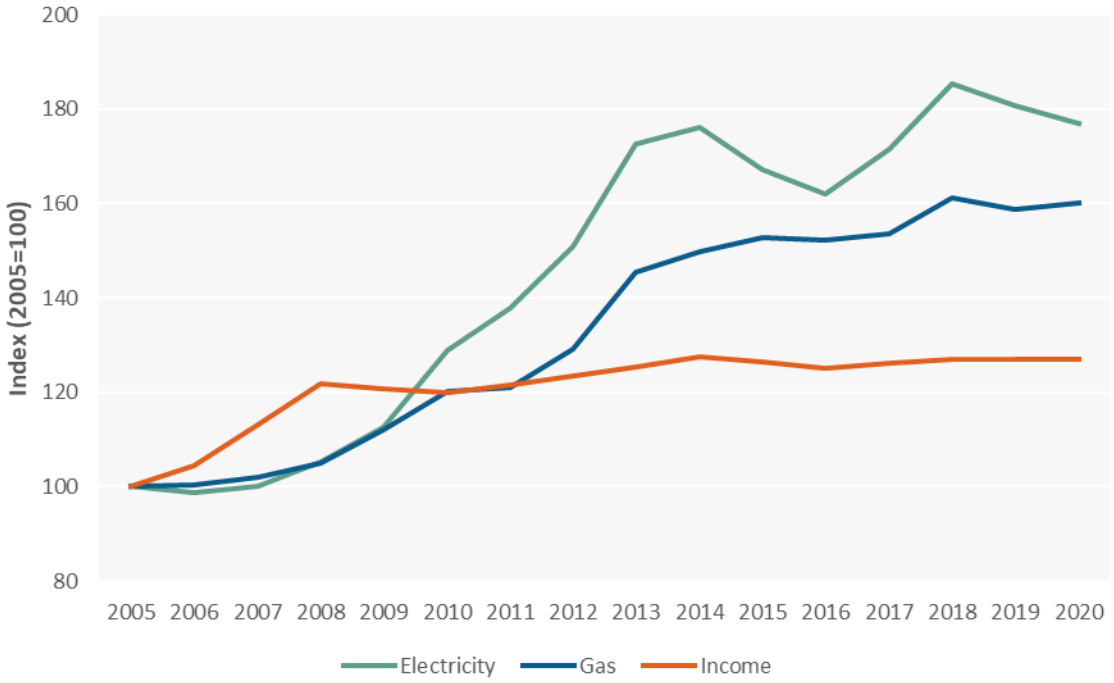
At June 2020, low income households on a typical market offer would have spent between 2.7% and 5.9% of their disposable income on electricity and between 1.6% and 3.7% on gas.[24] A customer on the highest priced offer would have spent up to 6.2% of their disposable income on electricity and 5.4% on gas.

[22] The Victorian Government also introduced controls on standing offer prices from 1 July 2019. The Victorian Default Offer (VDO) price provides customers with access to a 'fair' priced electricity offer based on the efficient costs of running a retail electricity business.

[23] ACCC, *Inquiry into the National Electricity Market, September 2020 report*, p. 37.

[24] The AER has adopted a new improved approach to estimating household income compared to our previous affordability analysis. Outcomes in this report are therefore not comparable to outcomes in previous reports.

Figure 3.1: Long term trends in energy prices and income (inflation adjusted)



Source: electricity and gas index – ABS, *Consumer Price Index*, various years; income index – ABS, *Household Income and Wealth, Australia*, various years.

For customers on standing offers the cost of their energy is typically even higher. However, the gap between annual electricity bills for customers on the median market offer and the median standing offer, has reduced significantly since the introduction of the DMO and Victorian Default Offer (VDO). At June 2020, the difference was typically $100 to $300. This translates into a difference of up to 1% of household disposable income. The difference for gas bills was around $100 to $200 in most jurisdictions (0.2% to 0.6% of disposable income), and $400 in Victoria (1.1% of disposable income).

Electricity was more affordable in Victoria than elsewhere, and least affordable in Tasmania and South Australia. Gas affordability largely varies with household usage, with Victorian households spending the highest proportion of their disposable income on gas.

We encourage households to seek out the best possible energy deal. Energy Made Easy – our independent and free of charge price comparison website – provides the information you need to compare the various offers in your area so you can see if you would be better off under a different deal. Choosing the right deal can make a big difference to your energy bills.[25]

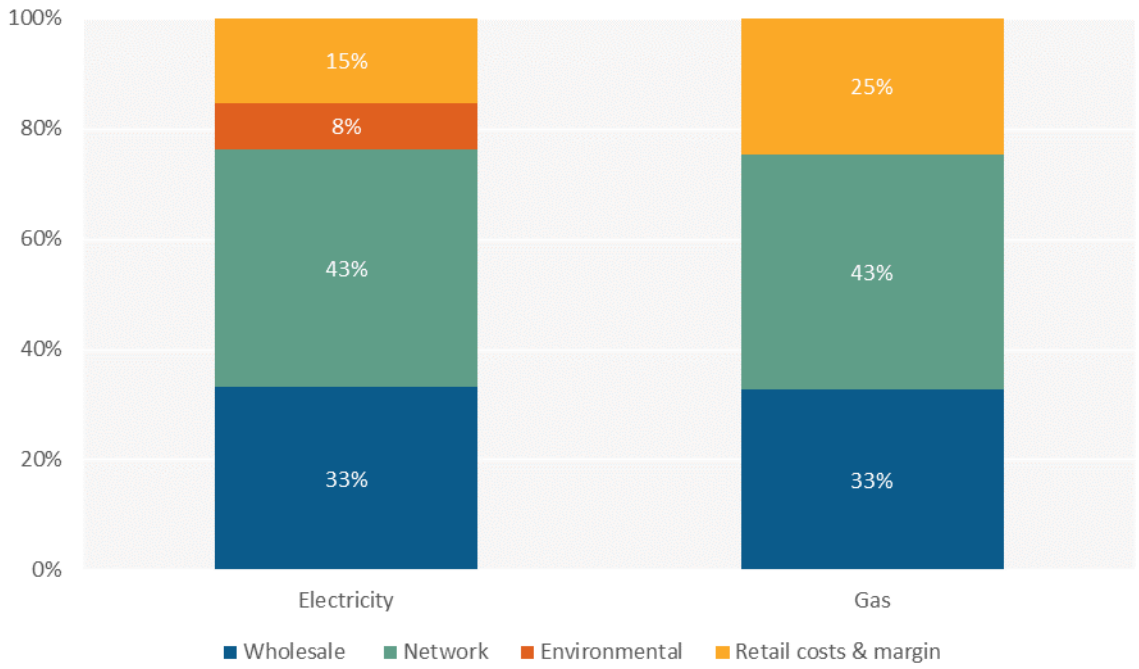
[25] The Energy Made Easy website www.energymadeeasy.gov.au is available for customers in Queensland, NSW, SA, Tasmania and the ACT. Victorian customers can use the Victorian Energy Compare website – compare.energy.vic.gov.au, maintained by the Department of Environment, Land, Water and Planning (DELWP).

3.2 Energy cost update

Retail energy bills largely reflect the underlying costs of producing and supplying energy, including transport (network) costs, costs related to environmental schemes, and retailers' costs and profit margins. Figure 3.2 sets out this cost allocation for electricity and gas. The contribution of each component varies by jurisdiction and distribution area.

Regulatory arrangements and the level of competition in the market are among the factors that impact these cost components.

Figure 3.2: Composition of residential electricity and gas bills



Note: Average data across jurisdictions. Data may not add to 100% due to rounding.

Source: Electricity – ACCC, *Inquiry into the National Electricity Market, November 2019 report*, December 2019; Gas – Oakley Greenwood, *Gas price trends review 2017*, March 2018.

Wholesale energy prices vary across jurisdictions, reflecting the local supply–demand balance and generation/production costs. Network charges are lowest in those distribution areas predominately servicing capital cities, and highest in areas covering regional customers. This largely reflects the type and density of customers serviced by each distribution network, and the terrain of the network area.

Environmental costs include payments to fund renewable energy targets, feed-in tariffs for solar photovoltaic (PV) installations, and state government operated energy efficiency schemes. Retail costs and margins reflect factors including economies of scale, the level of competition and regulatory costs.

Retail competition varies across jurisdictions. NSW, south east Queensland, Victoria and South Australia each had 25–35 retailers making electricity offers at June 2020. The ACT had 7 retailers. Regional Queensland and Tasmania have limited competition with most customers supplied by incumbent government-owned retailers.

Retail markets are generally less competitive in gas than electricity, reflecting the smaller number of customers buying gas services. Victoria's gas market was the most active, with 17 retailers offering gas at June 2020.

The impact of these differences on supply costs and competition across jurisdictions and distribution areas is discussed below.

These following results are representative of an average customer. Bill costs for individual customers will depend on factors including location, tariff type, choice of retailer and energy usage. Customers can use Energy Made Easy or Victorian Energy Compare to work out the cheapest offers for them based on their usage profile.

3.2.1 Residential electricity prices

This section examines the range of electricity bill costs over time in each distribution area, and highlights the median standing and market offer prices. There are 5 electricity distribution areas in Victoria, 3 in NSW and 2 in Queensland. South Australia, the ACT and Tasmania each have one electricity distribution area. Appendix 5 includes a map of electricity distribution areas.

The data provides an indication of the spread of standing and market offers available in the market, and costs per household, based on average usage for residential customers on single rate tariffs. We base bill costs on available offers displayed on government price comparison websites Energy Made Easy and Victorian Energy Compare at June 2017, June 2018, June 2019, June 2020 and September 2020. Pricing data is aggregated across multiple pricing areas within some distribution areas. Price ranges and median price outcomes in distribution areas to some extent reflect differences in underlying costs across these areas, rather than competition within each area. Bill estimates across areas are not directly comparable as each is based on average consumption in the relevant area.

Figure 3.3 shows electricity prices in each distribution area on a cents per kWh basis at June 2020. Electricity prices are highest in South Australia, where wholesale and network costs are above the NEM average. In states with multiple distribution areas, electricity prices are typically higher in those networks servicing rural customers.

Prices reached historically high levels in 2018 and 2019, following successive increases in market and standing offers over the previous decade. While remaining high, electricity prices eased in most distribution areas in 2020 (figure 3.4). The most significant reductions since June 2019 occurred in those jurisdictions with newly imposed price caps – south east Queensland, NSW, South Australia and Victoria. Standing offer prices for residential customers recorded the most significant falls, converging at or near the DMO and VDO price for each network. The median offer decreased by around 10% to June 2020 in south east Queensland, NSW and South Australian distribution areas, and by 12% to 19% in Victorian distribution areas. While primarily reflecting a reduction in high priced offers towards (or below) the new caps, other factors (including changes in wholesale and network costs) also contributed to retailers' decisions on new pricing offers.

Figure 3.3: Residential electricity median market and standing offer prices

Note: Data at June 2020. Based on single rate offers for residential customers and average consumption in each distribution area for 2019–20.

Source: AER analysis using offer data from Energy Made Easy (AER) and Victorian Energy Compare (DELWP). Consumption based on Economic benchmarking regulatory information notice (RIN) responses.

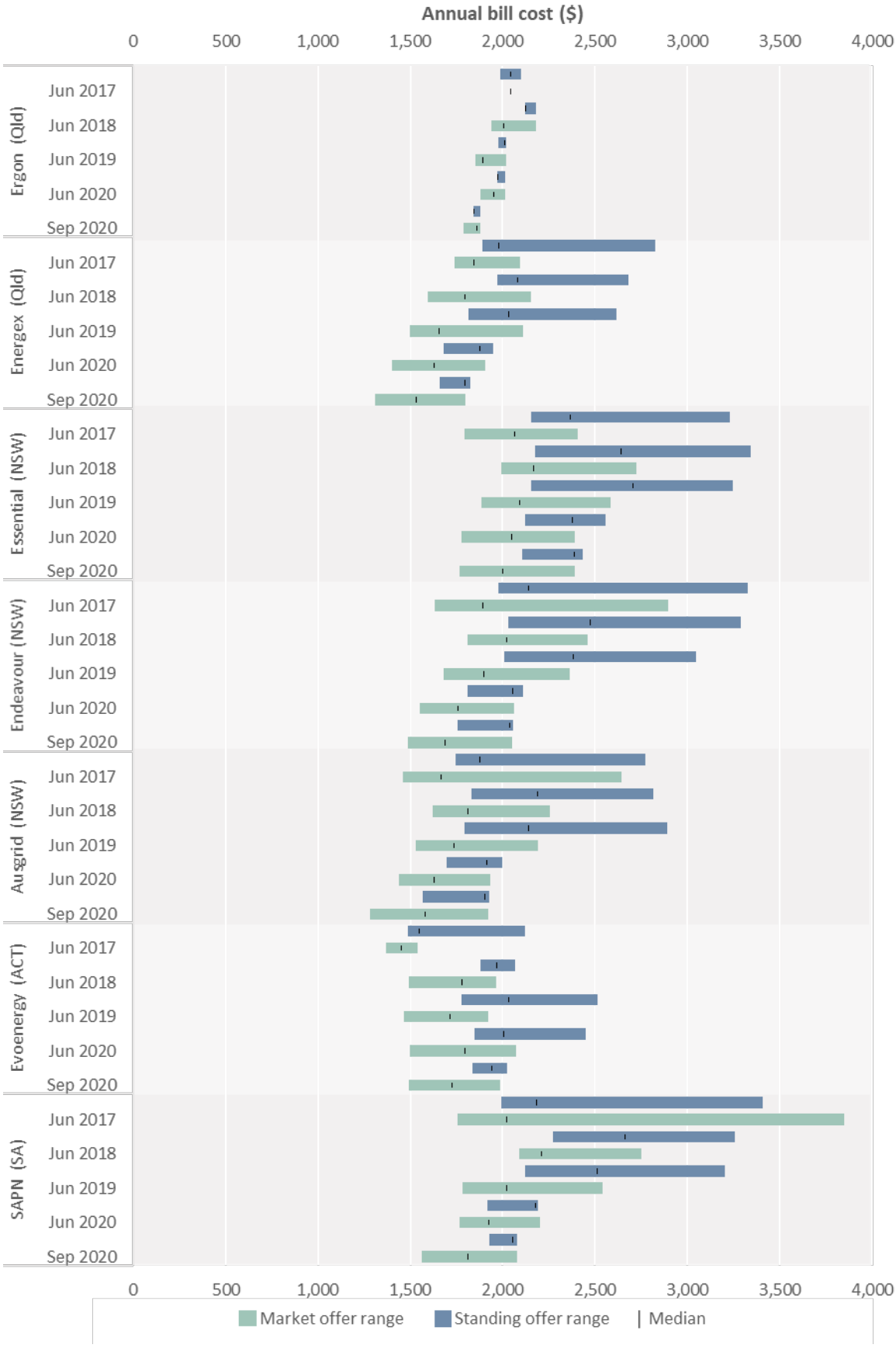
Changes to residential market offers were less pronounced than for standing offers. The median price of single rate residential offers fell by 1% to 6% in south east Queensland, NSW and South Australian distribution areas between June 2019 and June 2020. The range of offers typically reduced slightly, largely driven by decreases in the most expensive offers. The cheapest market offer at June 2020 was lower than that in the previous year in south east Queensland and NSW networks, but higher in South Australia. In Victoria, both median and lowest market offer prices increased between June 2019 and June 2020.

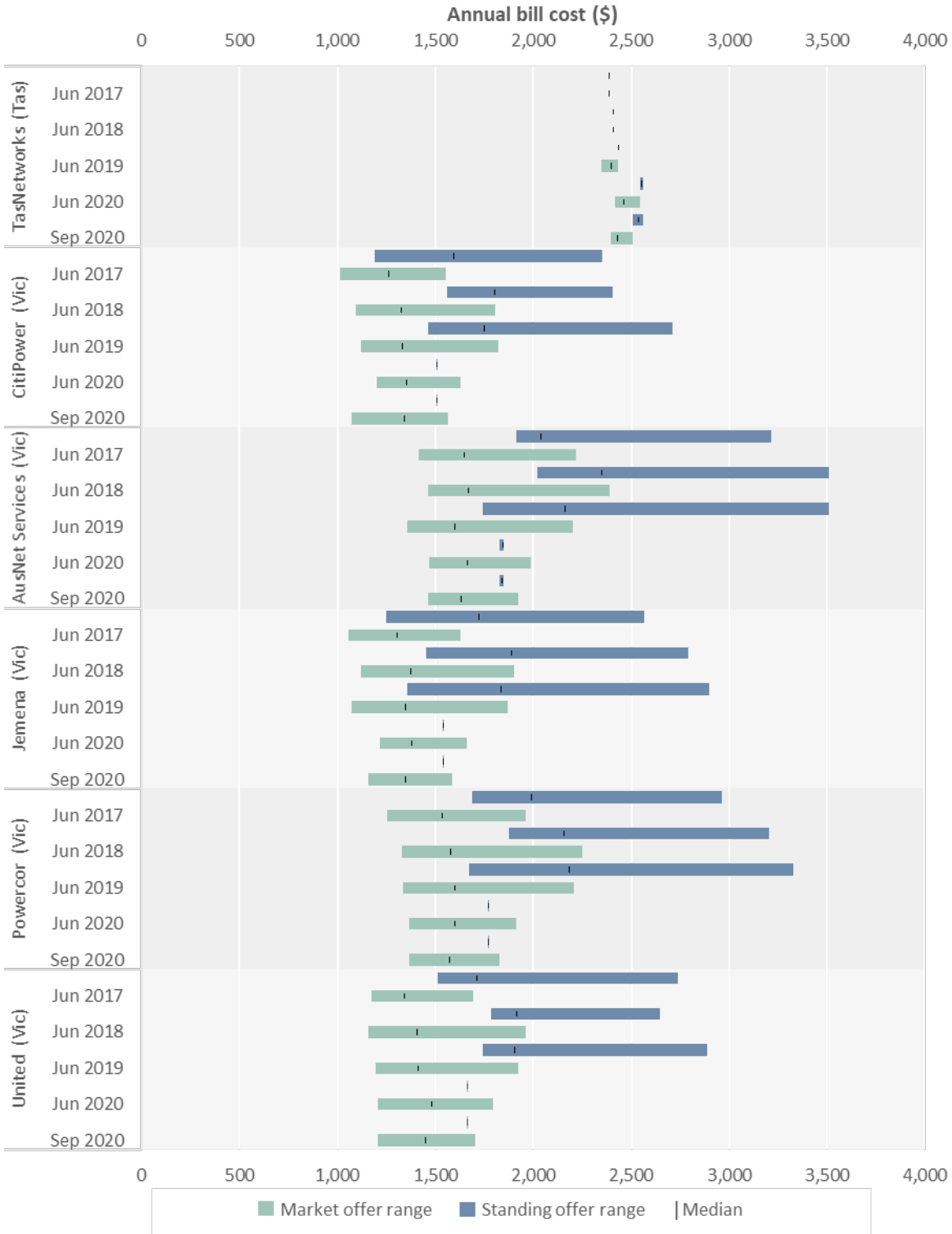
In jurisdictions where the DMO and VDO do not apply, the median standing offer between June 2019 and June 2020 fell 7% in regional Queensland and 1% in the ACT, but rose 3% in Tasmania. The median market offer fell less (or rose more) in each jurisdiction relative to the median standing offer, reducing the price difference between standing and market offers.

Despite the narrowing gap between standing and market offers, significant differences remain. A customer moving from the median standing offer to the cheapest market offer at June 2020 in most jurisdictions could have reduced their annual electricity costs by 20% to 25% ($300 to $600). Potential savings were around 5% ($90 to $140) in regional Queensland and Tasmania, where most customers remain on standing offers.

Market offer prices fell further across all distribution areas between June 2020 and September 2020. Changes in standing offer prices were less pronounced, easing in Queensland, South Australia and the ACT, but remaining fairly stable in NSW, Victoria and Tasmania.

Figure 3.4: Residential electricity market and standing offers





Note: Based on single rate offers for residential customers and average consumption in each distribution area. Average consumption for 2019–20 has been applied to all periods.

Source: AER analysis using offer data from Energy Made Easy (AER) and Victorian Energy Compare (DELWP). Consumption based on Economic benchmarking regulatory information notice (RIN) responses.

3.2.2 Residential gas prices

This section presents the range of gas bill costs in each major distribution area in each jurisdiction, and highlights the median standing and market offer prices. Gas is not available to the majority of residential customers in Tasmania and regional Queensland, and so those jurisdictions are excluded from our analysis. Appendix 6 includes a map of major gas distribution areas.

This data provides an indication of the spread of standing and market offers available in the market, and the cost per household, based on average usage for residential customers. We base bill costs on available offers displayed on government price comparison websites Energy Made Easy and Victorian Energy Compare at June 2017, June 2018, June 2019, June 2020 and September 2020. Pricing data is aggregated across multiple pricing areas within some distribution areas. Price range and median price outcomes in these distribution areas will to some extent reflect differences in underlying costs across these areas, rather than competition within each area. Bill estimates across jurisdictions are not directly comparable as each is based on average consumption in the relevant jurisdiction.

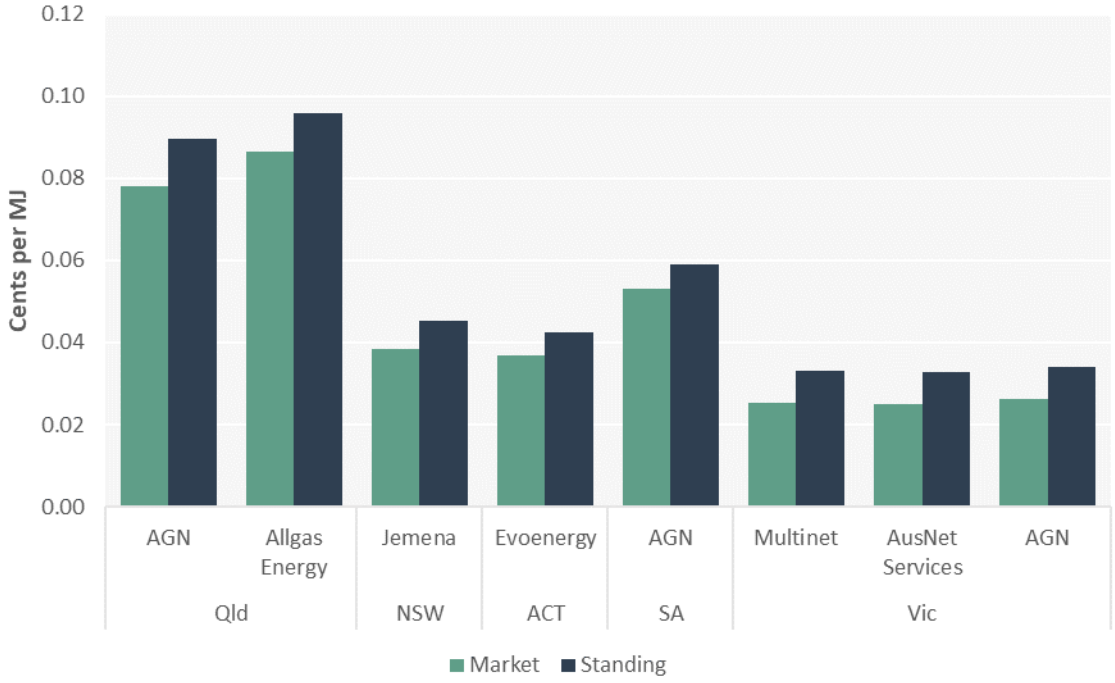
Figure 3.5 shows gas costs in each major distribution area on a cents per megajoule (MJ) basis at June 2020. Gas costs are lowest per unit in Victoria. This relates at least in part to Victoria's relatively high number of gas users creating savings due to economies of scale in pipeline network costs. Victoria also has high household usage, meaning that fixed supply charges are spread over a greater base when assessing costs on a per unit of usage basis. Costs are highest in Queensland, where gas penetration is low.

As for electricity, gas offer prices were at historically high levels over 2018 and 2019, following significant rises in market and standing offers over the previous decade. Market offer prices eased in 2020 in Queensland and Victoria, but remained elevated elsewhere. Standing offer prices, however, continued to rise across most distribution areas (figure 3.6).

A customer moving from the median standing offer to the cheapest market offer at June 2020 in Victoria could have reduced their annual gas costs by 35% to 41% ($700). Potential savings in other jurisdictions ranged from 14% ($150) in South Australia to 24% ($430) in NSW.

Market offer prices fell in NSW by around 4% between June 2020 and September 2020. Prices elsewhere eased by up to 2%. Changes in standing offer prices varied across jurisdictions, increasing in Queensland, Victoria and South Australia, but easing in NSW and the ACT.

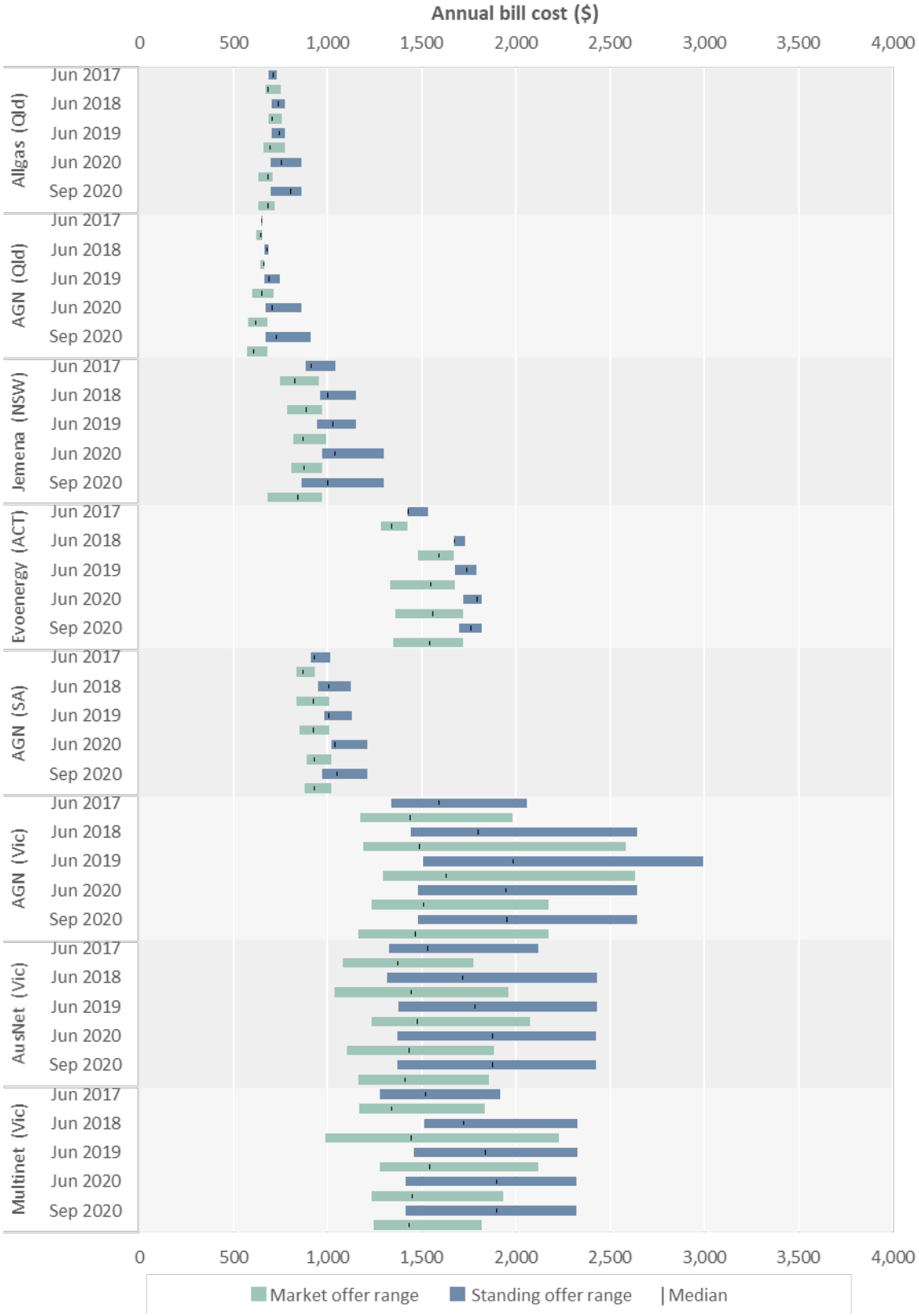
Figure 3.5: Residential gas median market and standing offer prices



Note: Data at June 2020. Based on offers for residential customers and estimated consumption in each jurisdiction.

Source: AER analysis using offer data from Energy Made Easy (AER) and Victorian Energy Compare (DELWP). Consumption based on ACIL Allen report to the AER, *Energy Consumption Benchmarks*, October 2017.

Figure 3.6: Residential gas market and standing offers



Note: Based on offers for residential customers and estimated consumption in each jurisdiction.

Source: AER analysis using offer data from Energy Made Easy (AER) and Victorian Energy Compare (DELWP). Consumption based on ACIL Allen report to the AER, *Energy Consumption Benchmarks*, October 2017.

3.2.3 Discounting practices

Energy retailers often provide discounts to customers who meet certain requirements, such as paying bills on time or paying via direct debit. These types of discounts are a way for retailers to encourage prompt payment of bills, but large conditional discounts can cause financial stress to customers facing payment difficulties. Customers who do not pay on time in effect pay very large late payment penalties, often amounting to hundreds of dollars per year.

The ACCC reported that for customers on electricity contracts with conditional discounts in 2019, 84% achieved those discounts. However, achievement rates were lower for hardship and payment plan customers (69% and 59% respectively).[26]

Rules introduced over the past two years seek to manage the risk to consumers of onerous conditional discounts. The Australian Energy Market Commission's (AEMC) 2018 *Preventing discounts on inflated energy rates* rule change limited retailers' ability to raise underlying energy charges for the purpose of offering larger conditional discounts. Restrictions on how retailers can advertise conditional discounts on electricity offers came into effect in south east Queensland, South Australia, NSW and Victoria on 1 July 2019 under the DMO and VDO rules. And from 1 July 2020, the AEMC's *Regulating conditional discounting* rule change caps the level of payment related conditional discounts and fees in energy offers to reasonable costs (in Victoria, a similar rule caps pay on time discounts by reference to a retailer's cost of debt).

These changes have influenced retailers' approach to discounting, with a general shift away from the use of conditional discounts since 2018. And where headline conditional discounts are offered, they tend to be lower than before.

Conditional discounting in electricity

In electricity, the proportion of advertised offers with a conditional discount declined steadily from 2017 to 2019, from around 70% of all market offers to 54% (figure 3.7). This trend accelerated in 2020 following new rules limiting the size of conditional discounts that can be offered and how they can be advertised. At September 2020 less than 20% of market offers had a conditional discount. Victoria had the highest proportion of offers with conditional discounts (30%), while the ACT had no offers with conditional discounts.

The value of conditional discounts peaked in 2018 and 2019 in most jurisdictions, with average annual bills varying by $300 to $500 depending on whether the customer met the discount conditions (figure 3.8). The largest conditional discounts could reduce a customer's bill by up to 42% (but effectively penalised customers not meeting those requirements by an equivalent rate). Customers not meeting conditional discounts could often pay more than if on a retailer's standing offer.

By September 2020, the value of conditional discounts had eased across all jurisdictions to around $100 to $170. The value of those discount typically represented up to 10% of the annual bill (but up to 26% in Victoria).

[26] ACCC, Inquiry into the National Electricity Market, September 2020 Report, p. 56.

Figure 3.7: Proportion of electricity market offers that have conditional discounts

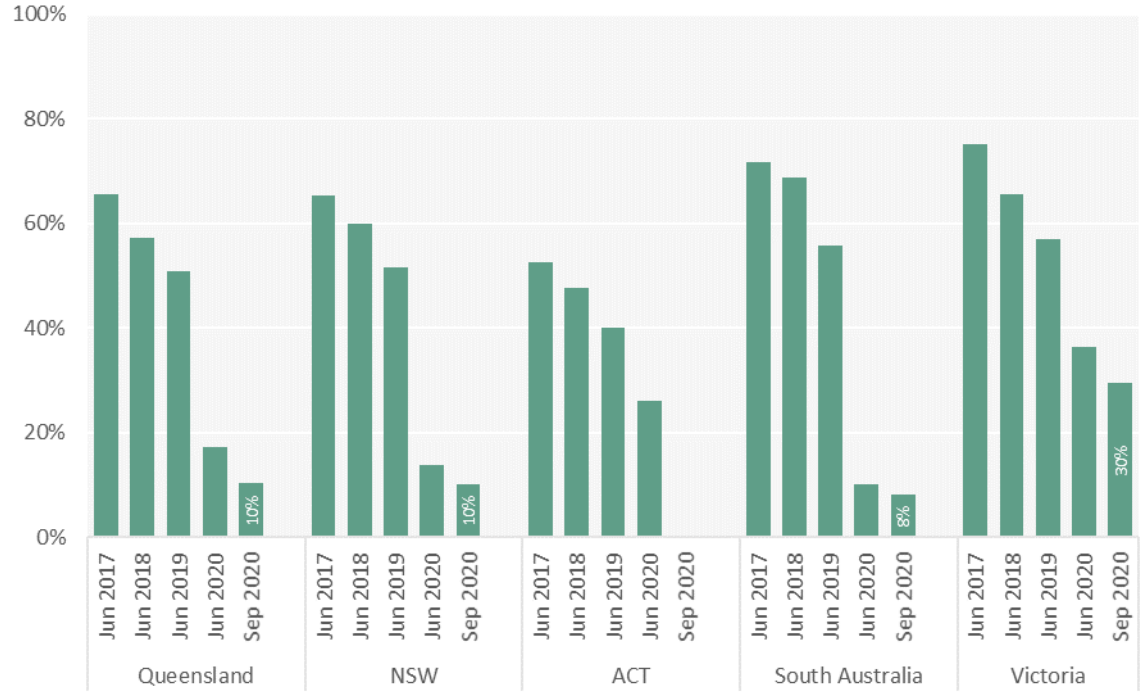
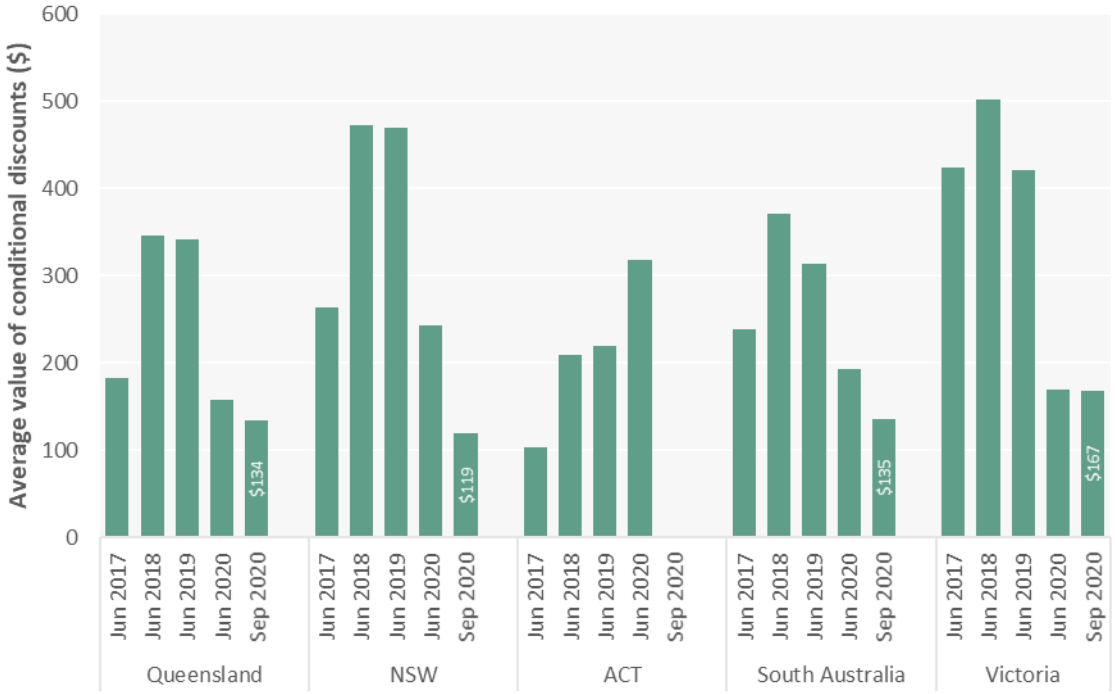


Figure 3.8: Average value of conditional discounts for electricity market offers



Note: Based on single rate offers for residential customers and average consumption in each distribution area.

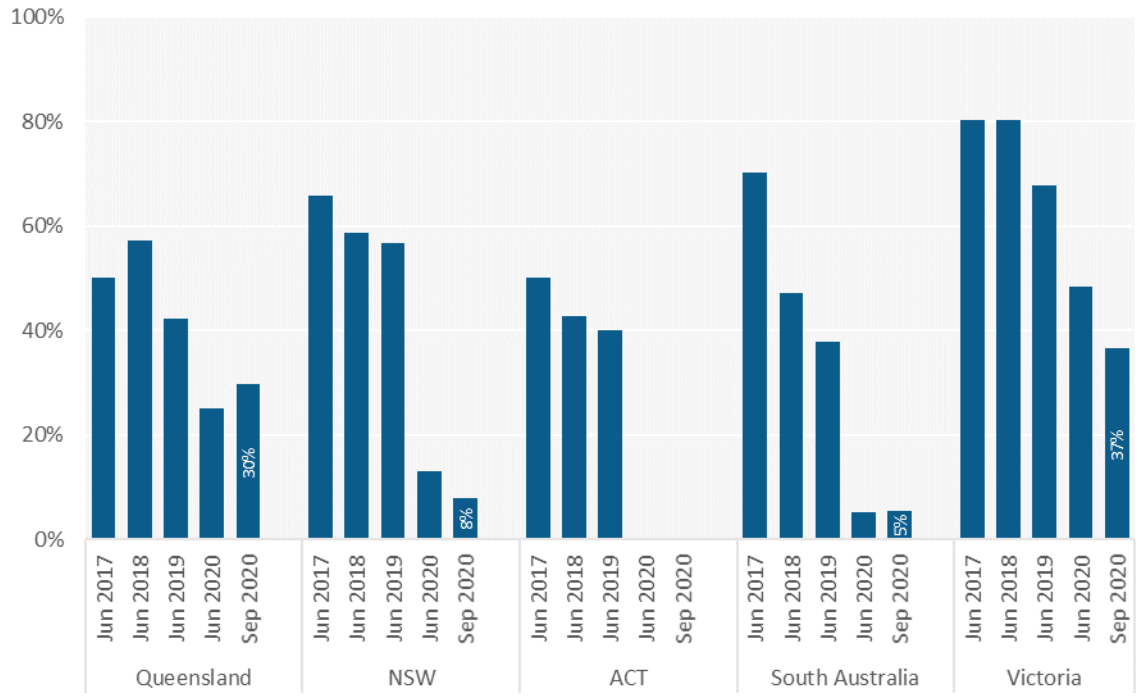
Source: AER analysis using offer data from Energy Made Easy (AER) and Victorian Energy Compare (DELWP). Consumption based on Economic benchmarking regulatory information notice (RIN) responses.

Conditional discounting in gas

For gas, the trend in proportion of market offers with conditional discounts was similar to that of electricity, declining from peaks of 50% to 80% of offers in 2017 to less than 10% of offers in September 2020 in NSW, the ACT and South Australia (figure 3.9). Queensland and Victoria had a higher proportion of offers with conditional discounts (30% and 37% respectively).

The value of conditional discounts peaked in 2018 and 2019 in most jurisdictions (figure 3.10). The largest conditional discounts could reduce a customer's gas bill by up to 35% (but effectively penalised customers not meeting those requirements by an equivalent rate). By September 2020, the average value of conditional discounts was around $50 in Queensland and South Australia, $100 in NSW and $200 in Victoria. The value of these discounts typically represented up to 10% of the annual bill (but up to 27% in Victoria).

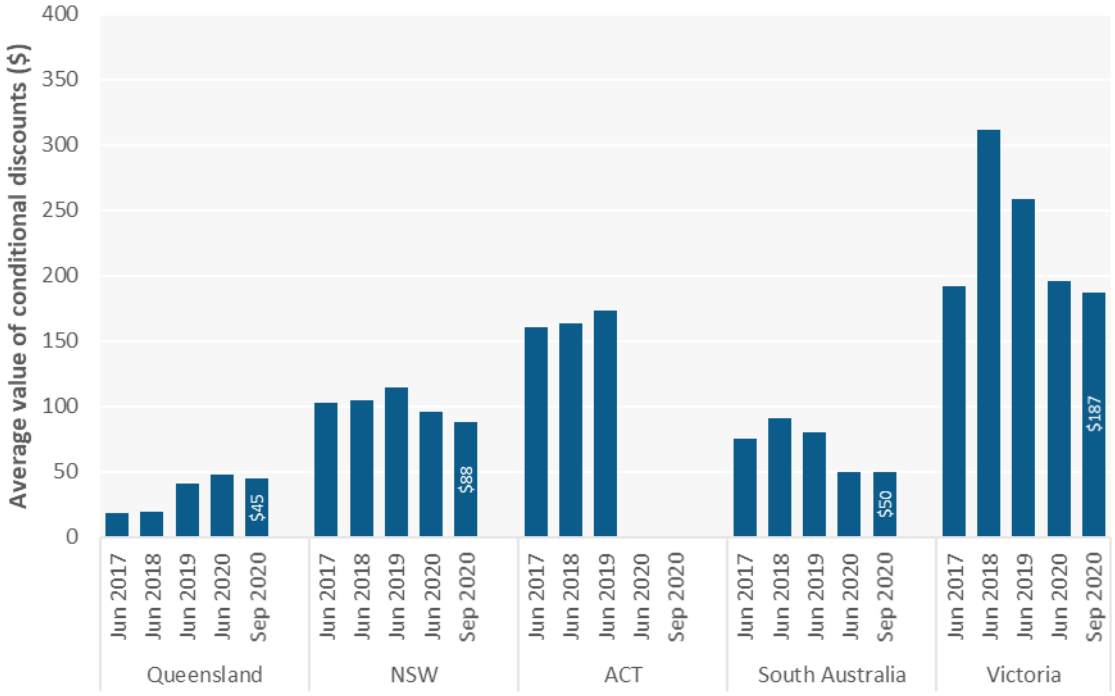
Figure 3.9: Proportion of gas market offers that have conditional discounts



Note: Based on offers for residential customers and estimated consumption in each jurisdiction.

Source: AER analysis using offer data from Energy Made Easy (AER) and Victorian Energy Compare (DELWP). Consumption based on ACIL Allen report to the AER, *Energy Consumption Benchmarks*, October 2017.

Figure 3.10: Average value of conditional discounts for gas market offers



Note: Based on offers for residential customers and estimated consumption in each jurisdiction.

Source: AER analysis using offer data from Energy Made Easy (AER) and Victorian Energy Compare (DELWP). Consumption based on ACIL Allen report to the AER, *Energy Consumption Benchmarks*, October 2017.

3.3 Energy affordability

Energy prices in 2019–20 remained high by historical standards. Electricity bills in particular are a top cost of living issue for households.[27]

Recent reforms aimed at improving affordability focus on price competition at the retail level, including the DMO and VDO which limit standing offer prices and rules on conditional discounting. Further actions that will improve energy affordability include:

- reducing costs across the energy supply chain and increasing the effectiveness of competition
- easier access to concession arrangements relevant to energy customers
- easier access to sustainable payment plans and effective hardship program arrangements for customers facing difficulties meeting their energy costs
- improving access to energy efficiency programs and solar photovoltaic systems for customers experiencing vulnerability.

Affordability reforms are important but need to be complemented by other actions to address barriers to consumers engaging with their retailer and accessing the market,

[27] In a survey of households by Energy Consumers Australia, 25% said that electricity is the bill they were most concerned about, while 73% rated it in their top three. ECA, Shock to the System: energy consumers' experience of the Covid-19 crisis, July 2020.

and addressing market-based complexities (such as inaccessible information, information asymmetry or a lack of easy comparability of offers). Significant progress has been made in some of these areas in recent years, and they remain a focus.

3.3.1 How we assess energy affordability

This section provides an overview of how we assess energy affordability. We measure energy affordability based on how much of their disposable income households spend on energy bills. The 3 key inputs into our analysis are:

- average energy use in each jurisdiction or distribution area
- energy charges, represented as annual bills (based on average usage)
- disposable income for low and average income households in each jurisdiction.

This report focuses on the 5 jurisdictions where the AER has a regulatory role (Queensland, NSW, the ACT, South Australia and Tasmania). Victoria, where the Essential Services Commission has regulatory responsibility, is also included for completeness.

Disposable income represents the income available to households to pay for goods and services after income taxes, levies and surcharges.

The analysis covers broad affordability trends over the past 4 years. It does not account for the specific impacts of the COVID-19 pandemic in 2020. Outcomes for the period March to June 2020 will likely vary from outcomes over the rest of 2019–20 due to:

- higher electricity and gas use by households while stay at home restrictions were in place
- shifts in income for many households. Income shifts are difficult to quantify as income would have fallen in those households experiencing job losses, but risen in those households receiving additional government assistance over the period.

The impacts of the COVID-19 pandemic on residential customers are discussed in chapter 1.

Energy use

Usage charges represent the largest component of energy bills for most households.[28] A customer's energy use therefore significantly impacts energy affordability.

We estimated average annual residential electricity use in each distribution area based on data provided by network businesses on the volume of electricity supplied to customers through the networks (figure 3.11).[29] This measure is an estimate of the volume of electricity billed to customers through their retailer. Total electricity consumption by households includes electricity supplied through distribution networks, as well as that supplied from rooftop solar PV systems.

[28] Most energy offers include usage charges as well as a fixed supply charge. Some offers also include membership fees or additional charges for metering.

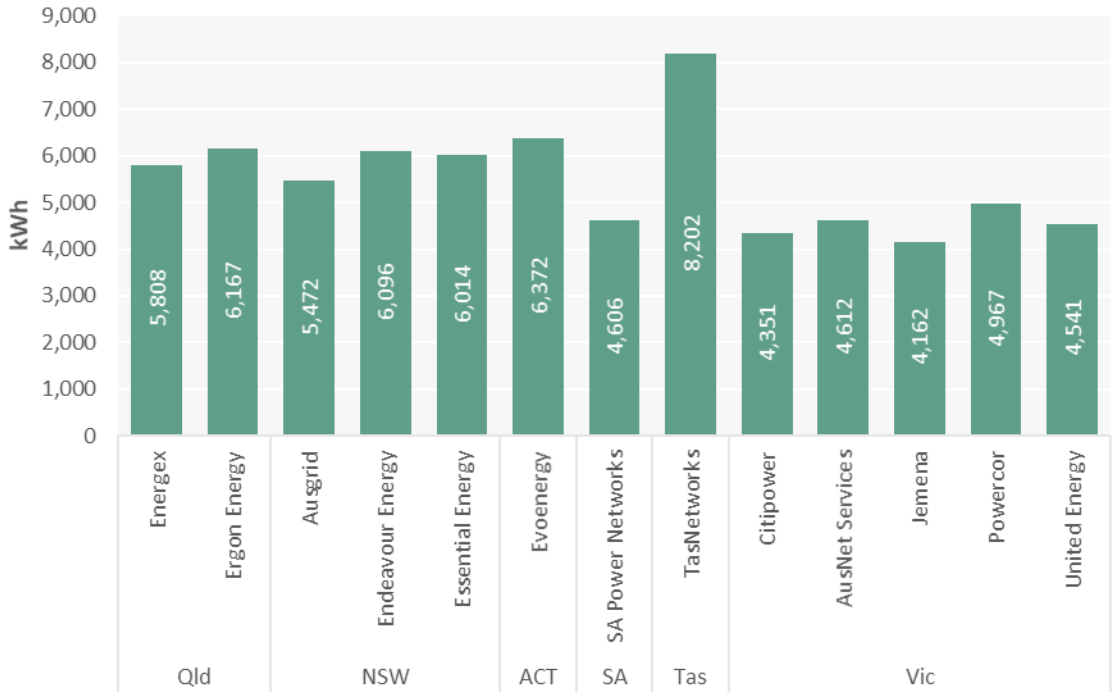
[29] This data is updated annually by network businesses in response to Regulatory Information Notices issued by the AER.

Gas usage levels are obtained through consumption benchmark surveys commissioned by the AER.

Average household electricity use has trended downwards over the past 4 years in most jurisdictions, falling by 5% to 10% in NSW, South Australia, the ACT and Victoria's AusNet Services network. Electricity use lowered less markedly across the remaining Victorian and Queensland networks (by around 1%). Usage increased in Tasmania by 3%. The trend towards lower energy use was largely driven by the uptake of rooftop solar photovoltaic systems. Improving energy efficiency of homes and appliances also contributed. Given these drivers, average outcomes likely obscure a widening gap between usage for those households with the capacity to adopt new technology and other households. The former group would have seen a substantial reduction in electricity use, while other households' usage has likely remained relatively consistent over time.

Electricity usage is highest in the ACT and Tasmania. Key drivers of electricity usage are climate (with greater heating and cooling requirements in some jurisdictions), and the penetration of gas as an alternative fuel. Tasmania in particular has low gas penetration for households. Conversely, most households in Victoria have both electricity and gas connections, resulting in the lowest average household electricity consumption.

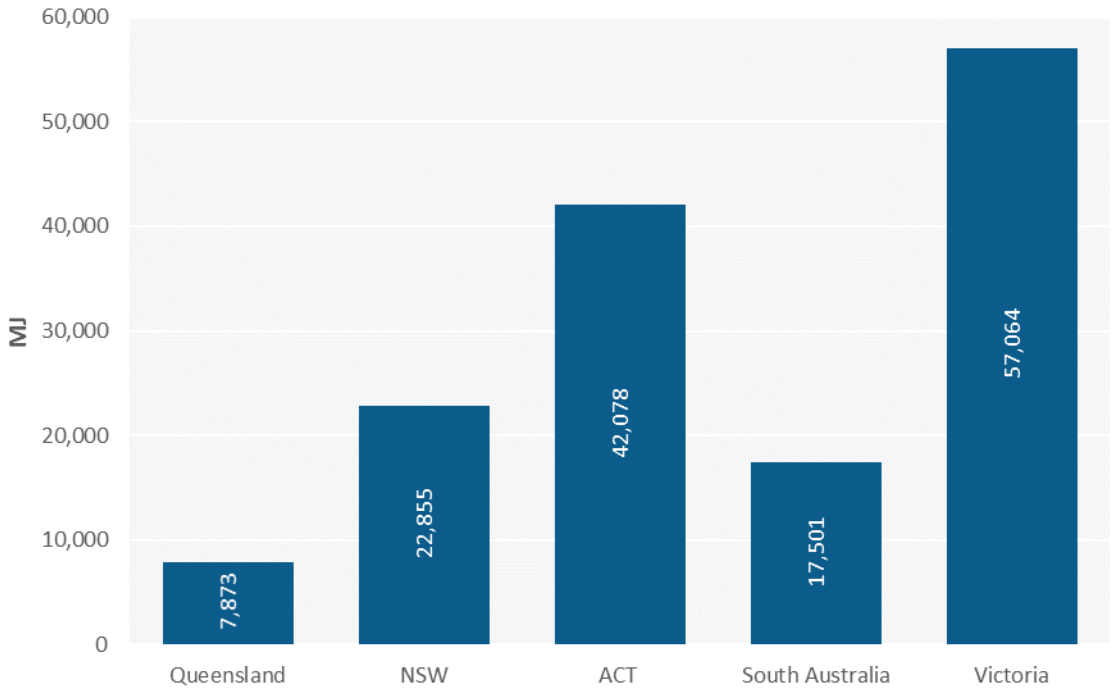
Figure 3.11: Average annual household electricity usage (kWh)



Source: Economic benchmarking regulatory information notice (RIN) responses.

Gas is primarily used in homes for space heating, water heating and cooking. The requirement for space heating is heavily dependent on climate. Customers in colder climates tend to use the most gas (such as those in Victoria and the ACT). The reverse is also true with Queensland customers using the least gas due to having a warmer climate (figure 3.12). Lack of annual gas usage data means that we are unable to explore changes in usage over our period of analysis.

Figure 3.12: Average annual household gas usage (MJ)



Source: ACIL Allen report to the AER, *Energy Consumption Benchmarks*, October 2017.

Energy charges

We sourced electricity and gas offers in Queensland, NSW, the ACT, South Australia and Tasmania from the Energy Made Easy website at June each year from 2017. For Victoria, we sourced offers from the Victorian Energy Compare website. Our analysis relates to generally available single rate or 'flat' offers (where usage charges do not vary by time of day), which remains the most common tariff type in most jurisdictions.

We estimated annual bills for each offer by applying our usage assumptions to the usage charges in each offer, and then adding fixed supply charges and any other ongoing fees. Our analysis is based on the median annual bill cost under both market and standing offers.

For low income households, we adjusted annual bills to account for relevant government concessions.

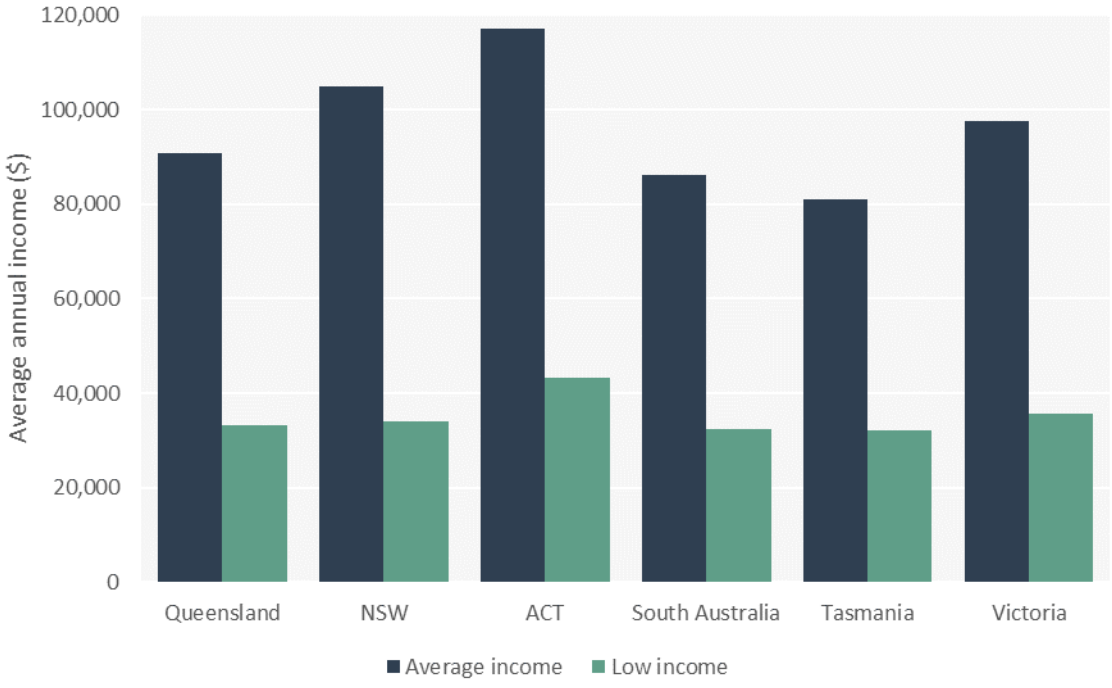
Income

The level of disposable income is a key element in assessing affordability of essential services such as energy. Disposable income represents the income available to households to pay for goods and services after income taxes, levies and surcharges. We use Australian Bureau of Statistics (ABS) data on household disposable income.[30] We present this data as averages for all households and low income households. The ABS updates income data every 2 years.

[30] An explanation of equivalisation is available under 'key concepts' in ABS, 6523.0 – Household income and wealth, Australia, 2015–16.

Average incomes vary across jurisdictions, but this variation is less pronounced among low income households (figure 3.13). The average annual income for low income households was $32,000 to $36,000 in 2019–20 across all jurisdictions except the ACT ($43,000).[31] Average income across all households in 2019–20 ranged from $81,000 in Tasmania, to $117,000 in the ACT. Higher average incomes in the ACT contributed to better energy affordability outcomes in that jurisdiction.

Figure 3.13: Disposable income for average and low income households, 2019–20



Source: Unpublished ABS estimates of household disposable income.

3.3.2 Energy affordability over the past 4 years

In this section, we provide an overall picture of changes in electricity affordability for households. The analysis uses 2 key metrics: the annual cost of energy bills based on the median and range of available offers; and those annual bills as a percentage of disposable household income. This year we also include analysis of the range of offers. Where we refer to 'affordability' in the analysis, we are referring to per cent of disposable income.

Our analysis focuses on low income households, for which energy affordability is critical. We also include some analysis for all households to provide an indication of affordability more broadly, and provide context to the low income household analysis.

We note that the income figures used do not incorporate the impacts of the COVID-19 pandemic. As such, the following analysis is of broader affordability trends.

[31] The income measure used in this report differs from previous years. Results across reports are, therefore, not comparable.

There were mixed results for energy affordability in 2019–20. While NSW and South Australia saw electricity affordability improvements, parts of Victoria and Queensland experienced the opposite. Gas saw stability or improvements in affordability in every jurisdiction.

Energy affordability remains an issue, and low income households in particular continue to spend a significant proportion of their disposable income on energy. Households in regional networks also face less affordable energy than their urban counterparts (reflecting the higher cost to serve these customers).

Electricity affordability

NSW and South Australia recorded state-wide affordability improvements between June 2019 and June 2020. The June 2020 median offers for all distribution areas in those states marked a 4-year low as a proportion of income. South Australian energy remains less affordable than in most states, but the gap has narrowed over the past 2 years, and energy is now more affordable for low income households in South Australia than in Tasmania.

While affordability improved in all NSW distribution areas in 2019–20, average bills in the Essential Energy network are less affordable than bills in the Ausgrid and Endeavour networks, mainly due to Essential's higher network charges. The difference may be greater than indicated by our analysis. Use of average state income across all networks may overstate affordability in regional networks such as Essential Energy (where average incomes are typically lower than across the state more broadly).

In Queensland, there was a slight improvement in the Energex network, which serves south east Queensland, while the median bill in the (regional) Ergon Energy network became less affordable due to an increase in usage. As we use state-wide income estimates, affordability in the Ergon Energy network is likely overstated (customers are likely paying a higher percentage of their income on electricity than shown in our analysis) due to regional incomes generally being lower that state averages. Electricity bills in both Queensland networks remained more affordable than they were in 2016–17 and 2017–18.

The ACT was the only region to see a marked worsening in affordability over the past 4 years, particularly for low income households. This primarily reflected a decrease in average incomes for low income households. But compared to other jurisdictions, the ACT continues to have relatively affordable electricity, due to its relatively high average incomes and low prices on a cents per kWh basis. Victorian and Tasmanian households had relatively stable affordability outcomes.

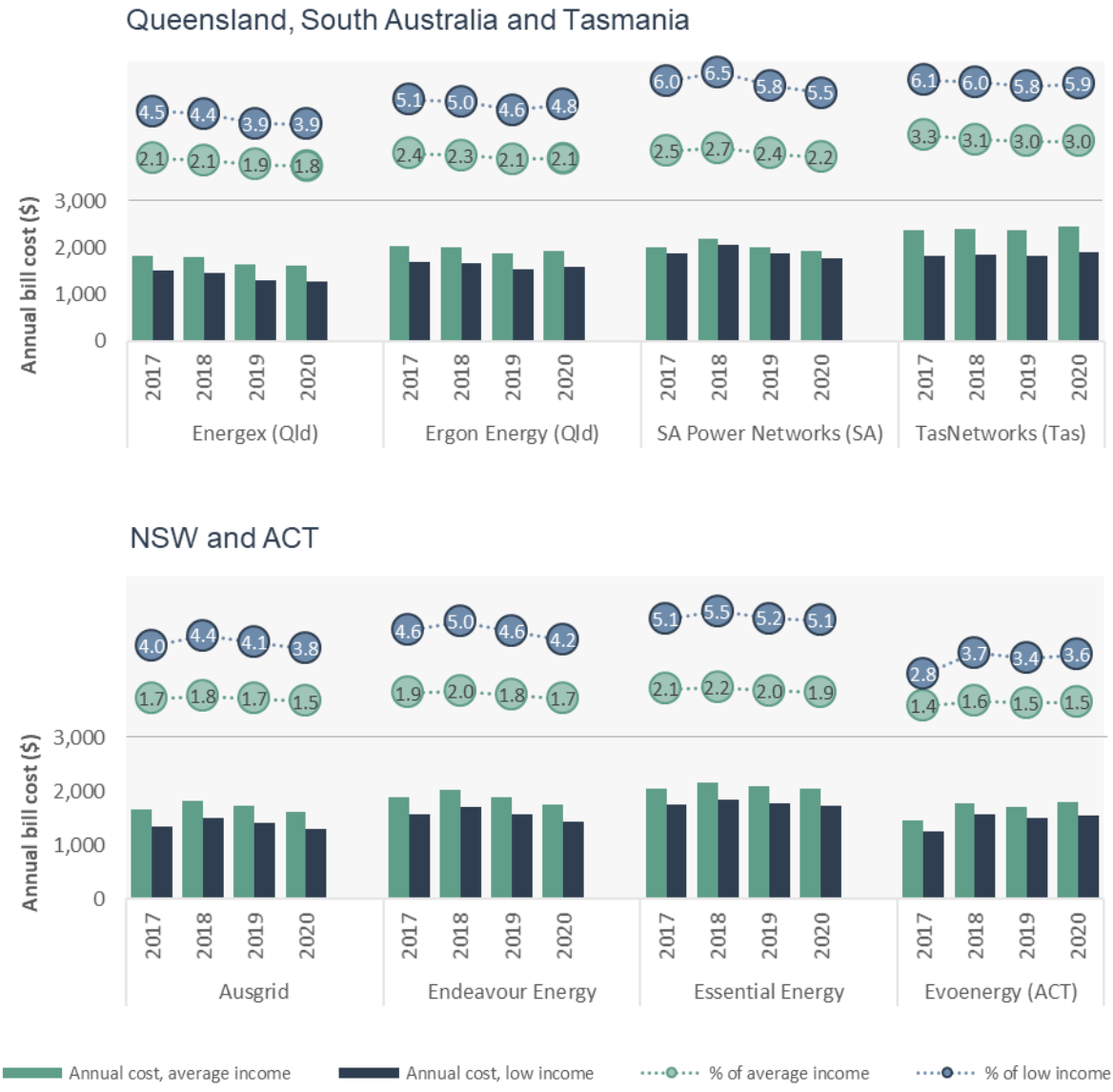
Figure 3.14 shows market and standing offer electricity bills for low and average income households from June 2017 to June 2020. The bubbles above the bars show the percentage of disposable household income spent on electricity by households.

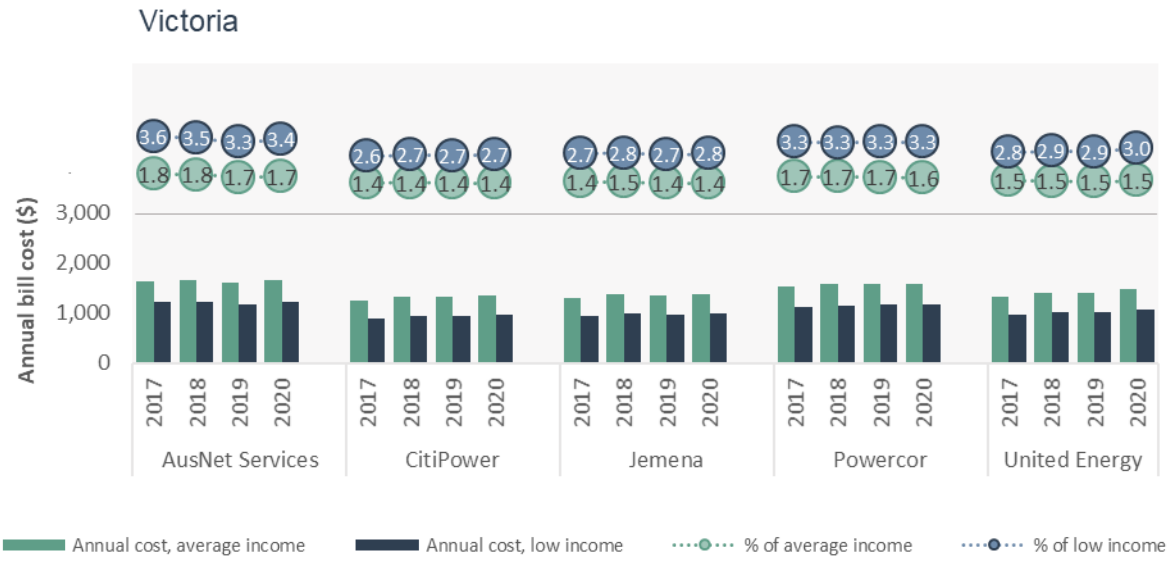
In 2020, Victoria as a whole was the most affordable state for electricity. This stems from relatively low electricity usage levels (linked to high gas penetration), relatively high concessions for low income households and relatively high incomes. But regional households faced less affordable electricity than other households. For households in the Powercor network, this is driven by higher usage rates, while higher bills for households in the AusNet Services network stem from a combination of high prices (driven by higher underlying costs) and reasonably high energy use.

Low income households in Tasmania spent the highest percentages of disposable income on electricity. While Tasmanian electricity costs are low on a per unit basis, Tasmanian households have significantly higher average usage than elsewhere in Australia – partly because of climate, and partly because of the low penetration of gas. Households in South Australia (with high electricity costs) and NSW's regional network Essential Energy (with relatively high energy costs – reflecting higher network costs – and usage) also faced lower affordability than elsewhere.

Low income households on the median market offer in each region paid double the proportion of their disposable income for electricity compared to an average income household. In 2020, low income households on the median market offer spent between 2.7% (in Victoria; CitiPower) and 5.9% (in Tasmania) of disposable income on electricity. By comparison, the average income household spent 1.4% to 3% of disposable income.

Figure 3.14: Median market offer electricity bills for low and average income households





Note: Data at June of each year. Based on offers for residential customers in each jurisdiction. Average household consumption for the financial year ending June of each period was used in annual bill calculations. Per cent of income figures refer to mean disposable income of all and low income households respectively.

Source: Offer data from Energy Made Easy (AER) and Victorian Energy Compare (DELWP). Consumption estimates based on Economic benchmarking regulatory information notice (RIN). Income data are unpublished ABS estimates of household disposable income.

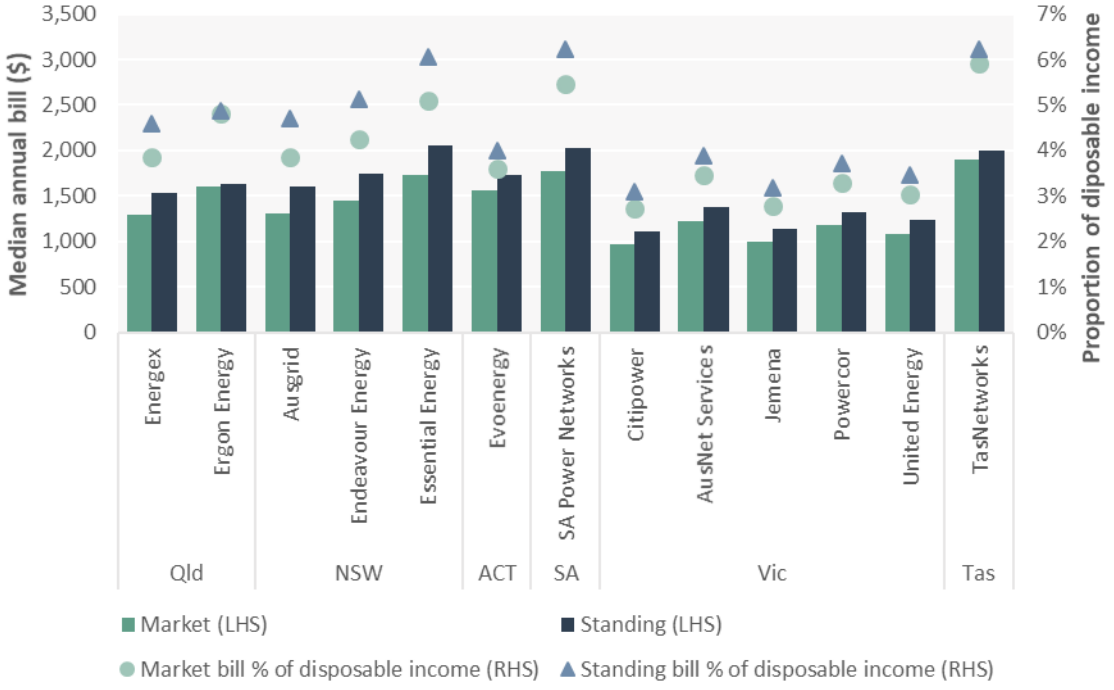
Range of electricity costs and affordability for low income households[32]

Consistent with previous years, bills for customers on standing electricity offers were more expensive than bills for customers on market offers in all networks at June 2020 (figure 3.15). Only a small number of customers are on standing offers in most jurisdictions but, to the extent that these are low income households, these will be the most affected by affordability issues.

Reforms over the past 2 years have focused on encouraging customers from standing offers to cheaper market offers. These include requirements on retailers to inform customers before any change in energy charges or when moving a customer from a market to a standing offer at the expiry of their current offer, and notices on customer bills indicating whether the customer is on the cheapest market offer from their retailer.

[32] The analysis of the impact of electricity bills on low income households takes account of government concessions which lower the bills for these households.

Figure 3.15: Annual electricity bills for low income households on a median market and standing offer



Note: Data at June 2020. Based on single rate offers for residential customers and average consumption in each distribution area. Using mean low income by state or territory.

Source: Offer data from Energy Made Easy (AER) and Victorian Energy Compare (DELWP). Consumption estimates based on Economic benchmarking regulatory information notice (RIN) responses provided by network businesses to the AER. Income data are unpublished ABS estimates of household disposable income.

Households in NSW, South Australia, and south east Queensland have the most to save by switching from a standing to a market offer. Low income households on the median standing offer in the regional NSW Essential Energy network, for example, could save almost 2% of their disposable income by switching to the lowest market offer (figure 3.16). This would mean paying 29% less on electricity bills, or saving almost $600 a year.

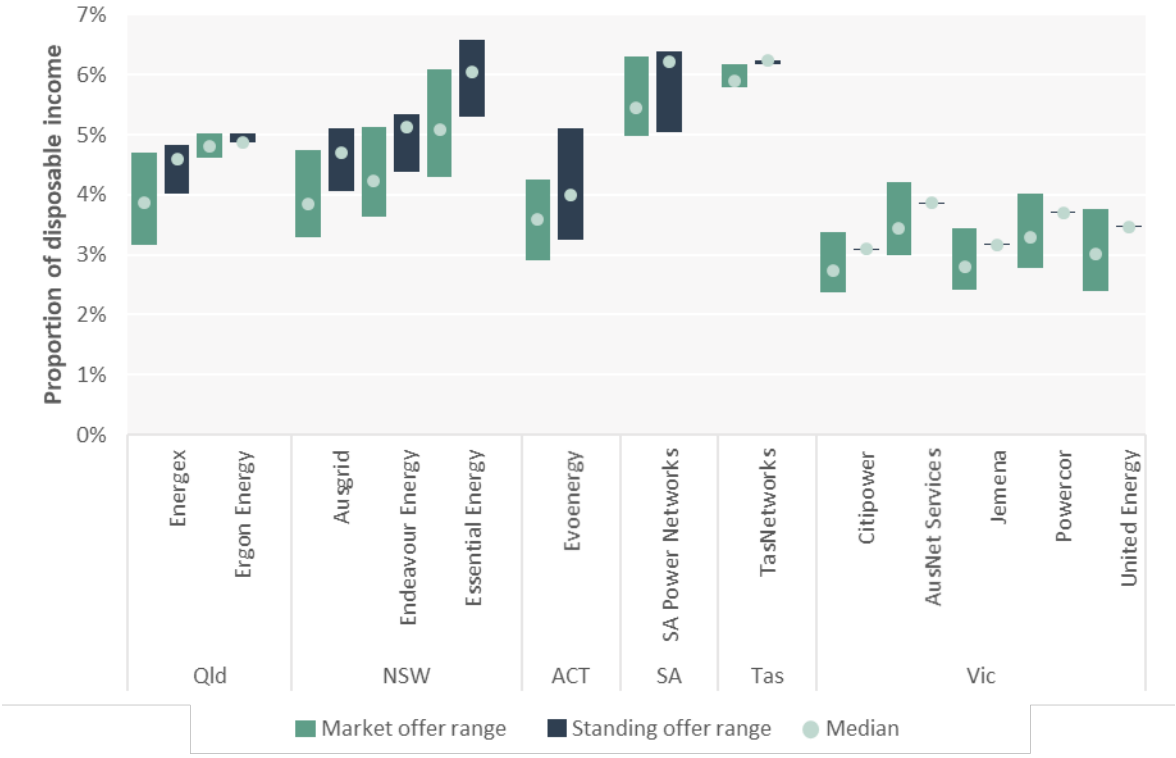
Households in the TasNetworks (Tasmania) and Ergon Energy (regional Queensland) networks had the smallest range in offers to choose from. But low income households still stood to save 0.4% and 0.3% of disposable income respectively by switching from the median standing offer to the lowest market offer. This would save over $140 in Tasmania, and almost $90 in the Ergon Energy network.

In Victoria, prices were lower than other states, however switching from a standing offer to a market offer still provided significant saving opportunities. Across the 5 Victorian networks, low income households could save between $250 (Citipower) and $380 (United Energy) a year by switching from the median standing offer to the lowest market offer.

For those already on market offers, low income households in the Essential Energy (NSW), Energex (Queensland) and Evoenergy (ACT) networks had the largest potential savings. By moving from the median market offer to the best offer, low

income households in the ACT, for example, could save almost $300 a year, or almost 20% of their original bill.

Figure 3.16: Range of annual electricity bills as a proportion of disposable income for low income households



Note: Data at June 2020. Based on single rate offers for residential customers and average consumption in each distribution area. Using mean low income by state or territory.

Source: Offer data from Energy Made Easy (AER) and Victorian Energy Compare (DELWP). Consumption estimates based on Economic benchmarking regulatory information notice (RIN) responses provided by network businesses to the AER. Income data are unpublished ABS estimates of household disposable income.

Gas affordability

Gas affordability improved for households on market offers in Queensland and Victoria between June 2019 and June 2020. This improvement was primarily due to falls in upstream gas prices. In Victoria, the largest improvements occurred in the Australian Gas Networks and Multinet distribution areas, but gas remains the most affordable in the AusNet Services area.

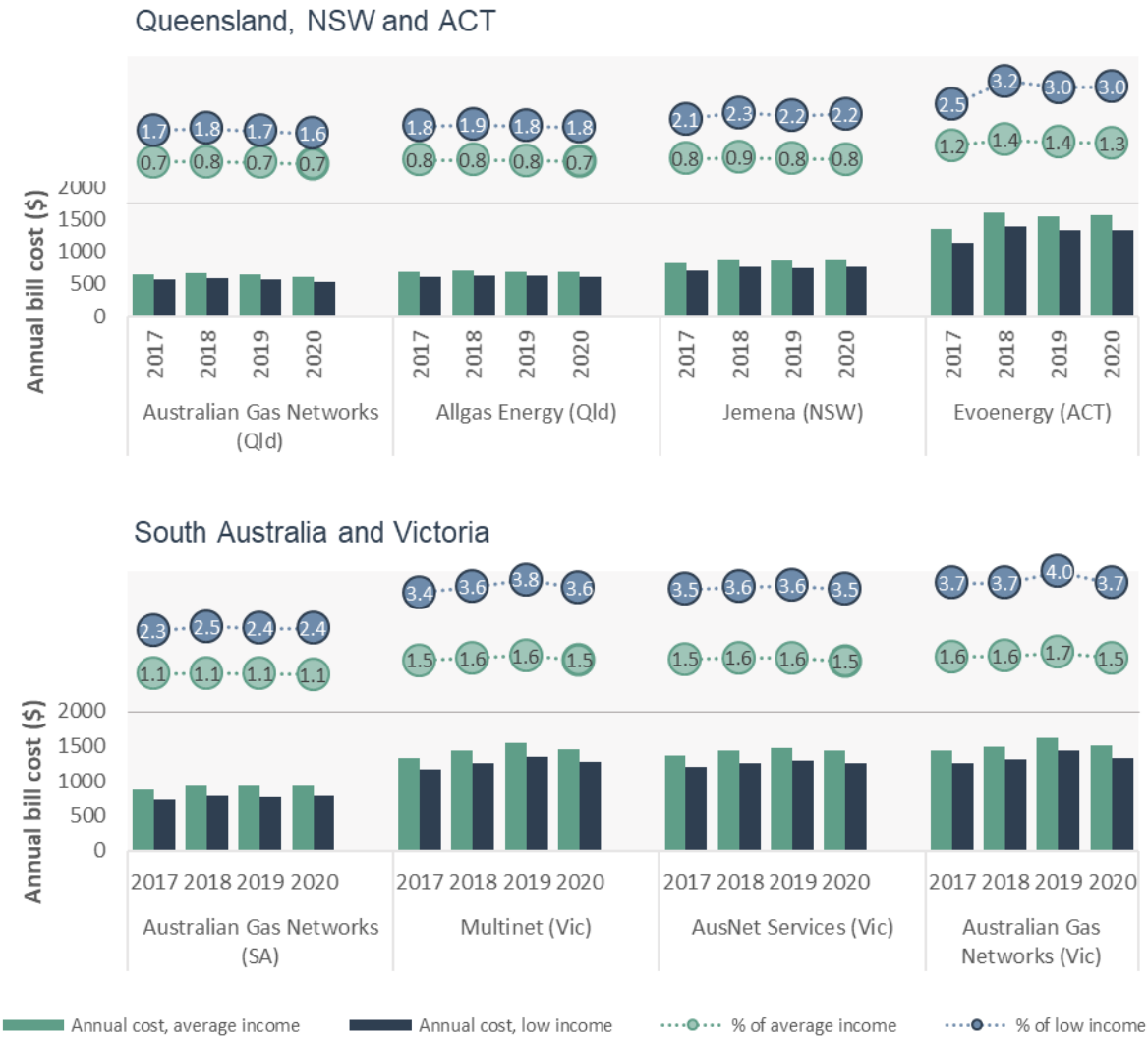
Affordability outcomes were consistent in South Australia and the ACT, and declined marginally for households in NSW. Despite recent improvements in some jurisdictions, gas bills as a proportion of disposable income remained at or above 2017 levels across all distribution areas other than Australian Gas Networks in Queensland.

Victorian and ACT households paid the highest proportion of their disposable income on gas bills. This is largely because households in these regions used more gas than other regions – 57,064 MJ per year in Victoria and 42,078 MJ per year in the ACT. For ACT households, large annual gas costs were partly offset by higher average

incomes. On average, Queensland households use the least gas at 7,873 MJ per year and spend the least on their gas bills despite gas prices being highest there when assessed on a per unit basis.

Figure 3.17 shows market and standing offer gas bills for low and average income households from June 2017 to June 2020. The bubbles above the bars show the percentage of disposable household income spent on gas by households. Low income households on the median market offer in each region paid more than twice the proportion of their disposable income for gas compared to the average income household. In 2020 low income households on the median market offer spent between 1.6% (in Queensland; Australian Gas Networks) and 3.7% (in Victoria; Australian Gas Networks) of disposable income on gas. By comparison, the average income household spent between 0.7% and 1.6% of disposable income.

Figure 3.17: Comparison of median market offer gas bills for low and average income households in 2020



Note: Data at June of each year. Based on single rate offers for residential customers and average consumption in each distribution area. Using mean disposable income for all and low income households by state or territory.

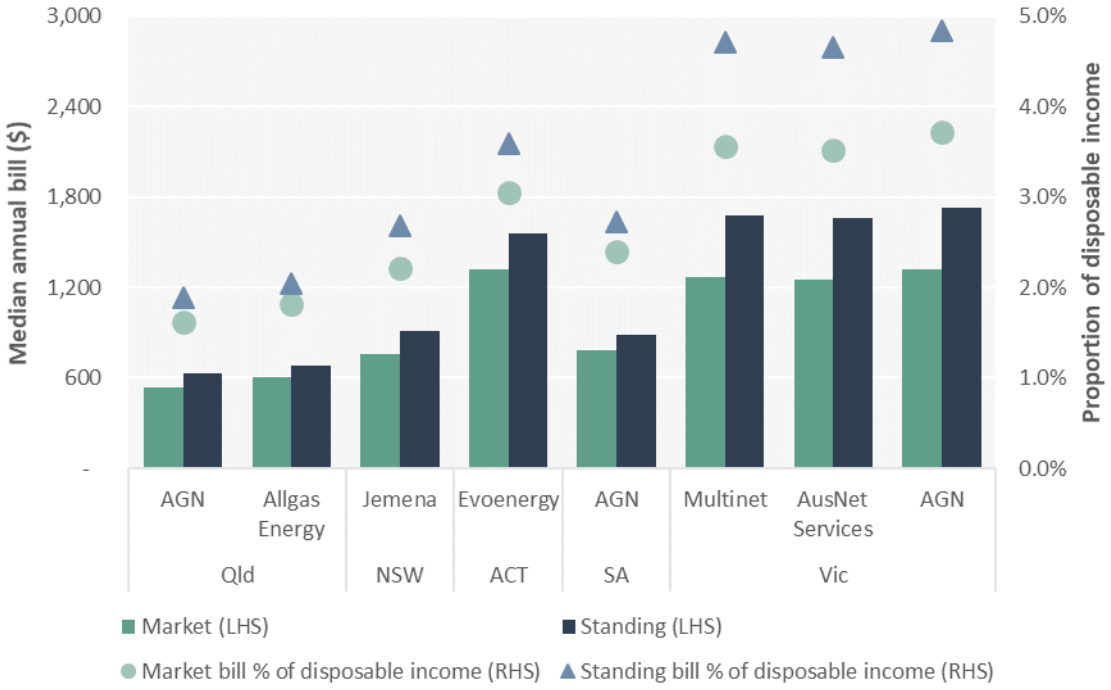
Source: Offer data from Energy Made Easy (AER) and Victorian Energy Compare (DELWP). Consumption based on ACIL Allen report to the AER, *Energy Consumption Benchmarks*, October 2017. Income data are unpublished ABS estimates of household disposable income.

Range of gas costs and affordability for low income households

Gas standing offers remained higher than gas market offers across all regions. Figure 3.18 shows median annual bill costs for market and standing offers as an annual dollar figure, and a proportion of disposable income at June 2020.

The difference in bills between states is largely driven by usage. Gas bills are least affordable for Victorian households due to high average usage, despite facing the cheapest gas prices on a cents per MJ basis (refer to pricing section).

Figure 3.18: Annual gas bills for low income households on a median market and standing offer



Note: Data at June 2020. Based on offers for residential customers and average consumption in each jurisdiction. Using mean low income by state or territory.

Source: Offer data from Energy Made Easy (AER) and Victorian Energy Compare (DELWP). Consumption estimates based on ACIL Allen Report to the AER, *Energy Consumption Benchmarks*, October 2017. Income data are unpublished ABS estimates of household disposable income.

In switching from the median standing offer to the lowest market offer, low income households could save between 0.4% and 2% of their disposable income, depending on what network they're in (figure 3.19).

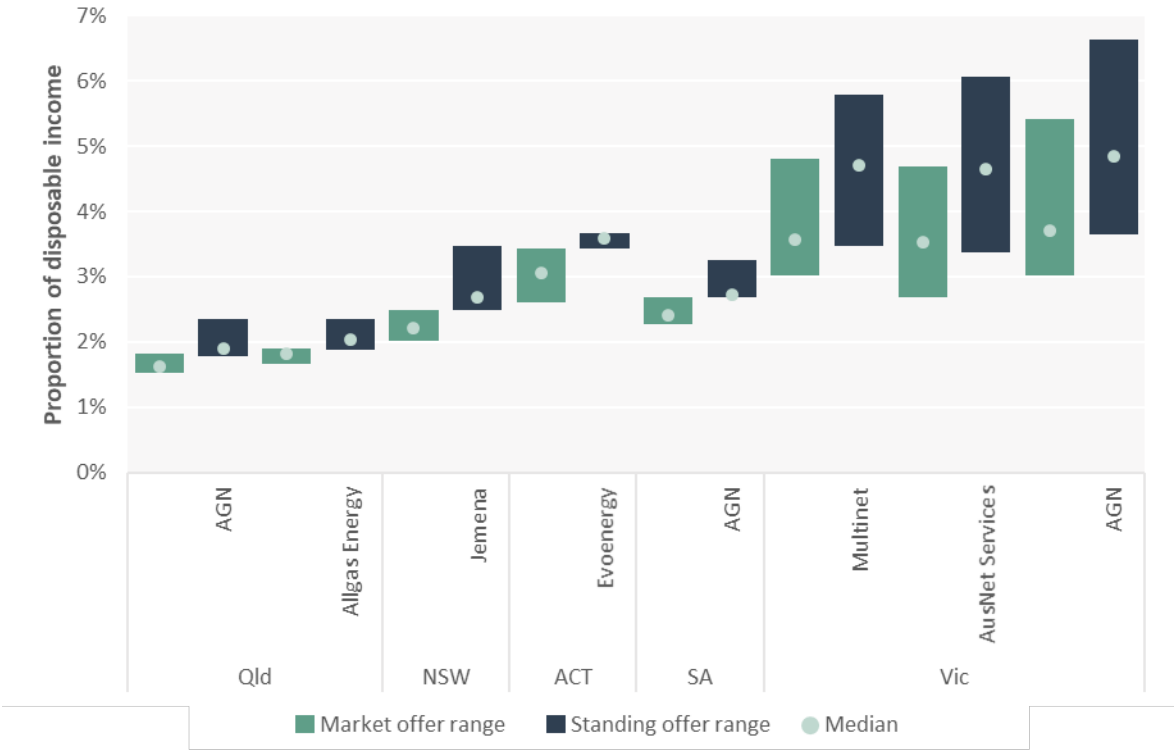
Victorian households in particular could make substantial savings from switching. In switching from the median standing offer to the lowest market offer, Victorians can save between 1.7% and 2% of their disposable income. For low income customers in the Multinet, Australian Gas Networks and AusNet Services networks, this translates

to $606, $649 and $700 per year respectively, based on average gas usage. For the AusNet Services network, this would be a bill reduction of over 40%. For those already on market offers, low income customers in Victoria could save $200 to $300 (15% to 24%) on their annual bill by switching from the median to lowest market offer.

In the ACT, where gas usage is also high, every market offer is either cheaper than or equal to the lowest standing offer. Low income households stand to save 1% of their disposable income, or $430, by switching from the median standing offer to the lowest available market offer. The lowest market offer was around $195 (15%) below the median market offer.

Even in Queensland, where gas usage is lowest, households could save $125 or almost 20% of their gas bill if they switched from the median standing offer to the lowest market offer (and up to $50 by switching from the median market offer).

Figure 3.19: Range of annual gas bills as a proportion of disposable income for low income households



Note: Data at June 2020. Based on offers for residential customers and average consumption in each jurisdiction.

Source: Offer data from Energy Made Easy (AER) and Victorian Energy Compare (DELWP). Consumption estimates based on ACIL Allen Report to the AER, *Energy Consumption Benchmarks*, October 2017. Income data are unpublished ABS estimates of household disposable income.

4 Payment difficulties and hardship

Key findings

Concessions

- The proportion of customers receiving concessions decreased slightly for both electricity and gas customers.

Energy debt (non-hardship customers)

- The proportion of residential customers in debt increased in 2019–20.
- The average debt of residential customers increased in 2019–20. The increase in average debt was likely driven by customers already in debt accumulating more debt.
- The proportion of small business customers in debt and the average debt of small business customers also increased in 2019–20. The increases in the small business debt indicators were sharper than the residential segment. The increases in the number of small business customers in debt were most marked in Q4 2019–20,[33] and the increases in the average small business debt were marked in Q3 and Q4 2019–20.

Payment plans

- Informal deferred debt arrangements, introduced during the pandemic, contributed to fewer customers being on payment plans in 2019–20 than the previous year.
- A lower proportion of payment plans were cancelled in 2019–20 than the previous year.

Hardship programs

- The proportion of residential electricity customers on hardship programs fell slightly in all regions except Tasmania, which had a sharp increase. For gas, the proportion generally remained steady.
- The average debt of electricity hardship customers continued to rise in all jurisdictions except the ACT, where average hardship debt decreased, but average debt on entry to hardship increased. In gas, average hardship debt decreased in all jurisdictions.
- Almost half of all customers on hardship payment plans are not meeting their ongoing energy usage costs.
- Most customers exiting hardship programs are being excluded for non-payment.

[33] Guide to quarters: Q1 covers July, August and September; Q2 covers October, November and December; Q3 covers January, February and March; Q4 covers April, May and June.

Disconnections

- In alignment with the AER's Statement of Expectations, during Q4, retailers did not disconnect customers who may have been in financial distress.
- Disconnections in 2019–20 were significantly lower than in preceding years.
- For residential disconnections, Queensland and South Australia had the highest disconnection rates in both electricity and gas, while the highest rates for small business were in NSW (electricity) and South Australia (gas).

4.1 Introduction

In this chapter we draw on data reported by retailers to illustrate how they manage customers with payment difficulties and hardship issues. We explore:

- concessions
- debt levels
- credit collection
- payment plans
- hardship
- disconnections.

Payment difficulties and hardship are difficult and complex issues. There is no single way that consumers are affected and there is no single solution to resolve affordability issues. Concessions, policies and regulations are among the ways governments support consumers, and hardship programs are a way retailers can support vulnerable customers.

The Retail Law and Retail Rules lay down a framework of the types of assistance energy retailers must provide to customers facing payment difficulties. The AER's *Customer Hardship Policy Guideline* details the expectations around retailer policies and practices.[34]

The implementation of a Default Market Offer, which applies in south east Queensland, NSW and South Australia, also aims to help customers that engage less in the market, by driving more reasonable standing offer prices. In parallel, the Victorian Government has placed controls on standing offer prices from 1 July 2019, with the Victorian Default Offer aiming to provide customers access to a fair priced electricity offer.

Our updated *Performance Reporting Procedures and Guidelines*,[35] which took effect in 2019, expanded the type and detail of information that retailers must report. The new information provides greater insight into the behaviour and treatment of customers who experience payment difficulties and hardship.

[34] The AER's Customer Hardship Policy Guideline.

[35] The AER (Retail Law) Performance Reporting Procedures and Guidelines.

Key terminology – payment difficulties and hardship

Terminology about payment difficulties and hardship can be confusing. We explain the key terminology here to help understand this chapter.

Government concessions

State and territory governments provide a range of concessions that eligible consumers can use towards their energy bills. The concessions target disadvantaged groups such as those in financial difficulty or with specific medical requirements. The concessions are implemented by the consumer's retailer.

Non-hardship debt

This term refers to those customers in debt but not on hardship programs. These customers may be experiencing payment difficulty – which triggers the requirement that retailers offer them payment plans – they may be experiencing hardship that has not been identified or they may simply have not kept up with their energy bills.

Payment plans

Payment plans are intended to provide a framework for customers to repay their energy debt in affordable, regular instalments. Retailers must offer a payment plan to residential customers if a customer informs the retailer they are experiencing payment difficulties, or if the retailer considers the customer is experiencing payment difficulties. This obligation applies to all residential consumers – *not* only those on formal hardship programs. In addition, payment plans are among the minimum forms of assistance that retailers must offer customers on hardship programs.

Payment plans 'cancelled'

This refers to a situation where a customer's arrangement is terminated by the retailer due to non-compliance on the customer's part. The most likely reason for cancellation is non-payment by the customer.

Hardship programs

Hardship programs provide targeted assistance to eligible residential customers who experience ongoing financial difficulty. Often such customers have trouble meeting a standard payment plan arrangement. All retailers are required to publish a hardship policy approved by the AER according to our *Customer Hardship Policy Guideline*.[36] The Retail Law and Retail Rules set down minimum assistance that retailers must provide to customers on hardship programs.

Disconnection

Disconnection means that the retailer ceases to supply the customer's premises with energy. Given the serious consequences this can have, the Retail Law and Retail Rules set down strict processes that retailers must follow before disconnection. A retailer must view disconnection for non-payment as a last resort.

[36] AER, *Customer Hardship Policy Guideline*, March 2019.

AER actions to address consumer vulnerability

The COVID-19 pandemic has highlighted how unanticipated events can create new areas of consumer vulnerability, or compound existing issues.

The AER is leading innovative approaches to address consumer vulnerability in the energy market. In February 2020, we launched our research ***Exploring regulatory approaches to consumer vulnerability*** at the 2020 Dr Gill Owen Forum which we hosted in Melbourne. The research was prepared for the AER by the Consumer Policy Research Centre and is informing our approach to improving outcomes for consumers who experience vulnerability.

Our research recognises that understanding the lived experience of consumers is key to delivering effective regulatory responses to vulnerabilities. The report gives an up-to-date snapshot of the lived experience of vulnerability. For example:

- 44% of Australians have literacy levels below what is considered enough to get by in everyday life
- one in 5 have a disability
- 2 in 3 experience some form of financial stress at some point in their life
- one in 5 speak a language other than English at home, and
- one in 6 women have experienced physical and/or sexual violence by a partner.

We are now applying the insights and findings of this research, as well as the consumer experience of the pandemic, including new data and international practices, to develop our first *Consumer Vulnerability Strategy*. This will help improve our understanding of the diverse experiences of vulnerability, guide the AER's activities in the medium and longer-term, and identify and measure our goals and desired market outcomes in this area. We anticipate commencing stakeholder consultation on a draft strategy in late 2020, with a view to having a strategy in place in mid-2021.

We are pleased to see our research insights continue to be useful in informing and supporting the actions and approaches of other organisations including regulators.[37] We are actively working in coordination, partnership and collaboration with interested parties, including other regulators, to explore cross-sectoral opportunities and address issues of common interest to our stakeholders.

Throughout 2020, the AER has taken a number of important steps to support customers and energy businesses during the COVID-19 pandemic and our recovery, principally through the *AER Statement of Expectations of energy businesses: Protecting customers and the energy market during COVID-19*. Our *Consumer Vulnerability Strategy* and work program will help identify and address new and emerging consumer vulnerability issues that arise as a result of the pandemic and other events in the coming years.

[37] Victorian Essential Services Commission, *Regulating with consumer vulnerability in mind*, September 2020.

4.2 Concessions

4.2.1 Concessions for consumers facing financial difficulties

State and territory governments offer concessions to provide financial assistance to households on low incomes. The eligibility criteria for energy concessions and the amount of financial assistance differs across jurisdictions and fuel types. Our analysis focuses on concessions that are applicable to most low income customers and are applied automatically to an electricity or gas account once the retailer registers the customer as qualifying for the concession. There are other credits that government agencies offer that can be applied towards energy accounts that are not included in this analysis. For example, one-off grants or rebates that a customer must apply for, are not included here.

The proportions of gas and electricity customers receiving concessions over the previous three years has dropped slightly (table 4.1). The ACT continues to be the jurisdiction with the lowest proportion of electricity customers receiving concessions, at 15.7% for 2019–20. This is likely due to relatively high average income levels in the ACT (see chapter 3). Tasmania continues to have the highest proportion of customers receiving electricity concessions at 39.1%. Tasmanian households have the lowest average income of all jurisdictions and relatively high annual electricity bills (see chapter 3). Queensland has the highest proportion of gas customers receiving a concession, at 18.5% in 2019–20.

Table 4.1: Proportion of customers receiving an energy concession

	Electricity			Gas		
	2017–18	2018–19	2019–20	2017–18	2018–19	2019–20
Queensland	30.6%	29.3%	29.8%	19.8%	18.6%	18.5%
NSW	26.1%	25.0%	24.6%	17.1%	16.7%	16.7%
ACT	16.8%	15.4%	15.7%	0.0%	0.0%	0.005%
South Australia	25.0%	25.3%	25.6%	4.7%	4.7%	4.8%
Tasmania	38.5%	38.1%	39.1%	-	-	-
Overall	**27.6%**	**26.6%**	**26.7%**	**13.8%**	**13.5%**	**13.5%**

Note: The values for the ACT and South Australia are low for gas because both of these jurisdictions provide energy concessions that cover both fuel types together. Most retailers record the concession against a customer's electricity account.

Source: AER.

The value of electricity and gas concessions has remained steady over recent years in all jurisdictions in nominal terms. The value of some concessions vary depending on household characteristics. Appendix 2 outlines the concession assumptions used in our affordability analysis.

4.2.2 Medical concessions

State and territory government concessions are also available to help customers whose medical conditions necessitate the consumption of larger than average volumes of electricity to help with their condition and improve their quality of life. Although we have not included these medical concessions (or other types of special concessions, credits, or rebates) in our analysis, it is important to note that some

customers may be able to access additional credits depending on their personal circumstances.

4.3 Debt levels

Energy bill debt captures electricity and gas debt combined. The proportion of customers in energy debt and the average level of debt provide an insight into the extent to which customers are experiencing difficulty paying their energy bills and how effectively retailers are assisting their customers to meet their energy debt repayments.

This section of the report covers the period from July 2019 to June 2020. While many customers began to experience the adverse financial effects of the COVID-19 pandemic in around late March/early April, the debt data in this section does not capture the full effects of the early days of the pandemic (i.e. it is lagged) because:

- energy arrears are only classified as debt after 90 days[38]
- retailers typically administer billing in 3-monthly cycles.

This section mostly focuses on 'non-hardship' debt, debt that excludes customers on hardship programs. The Retail Law includes specific protections for customers in hardship programs, and the data we collect on hardship debt are discussed in section 4.6.

4.3.1 Residential energy debt

The proportion of customers in debt increased in 2019–20, after a dip in 2018–19 (figure 4.1). The overall increase in 2019–20 was driven by an increase in non-hardship customers accruing debt, while the proportion of customers with debt in hardship programs remained steady. This likely reflects that the pandemic increased the number of newly indebted customers, but that these customers were not brought onto hardship programs.

Results varied across jurisdictions. The most marked shift was in Tasmania, where the number of customers in debt continued to trend upwards. The increase in Tasmania was particularly marked in 2019–20, especially for non-hardship debt customers, and resulted in Tasmania overtaking South Australia as the jurisdiction with the highest proportion of customers in debt.

The proportion of non-hardship customers in debt also increased in 2019–20 in Queensland, NSW and South Australia.

In the ACT, the total proportion of customers in both hardship and non-hardship debt continued a downward trend over recent years, driven by successive decreases in non-hardship debt customers. The proportion of hardship debt customers remained steady.

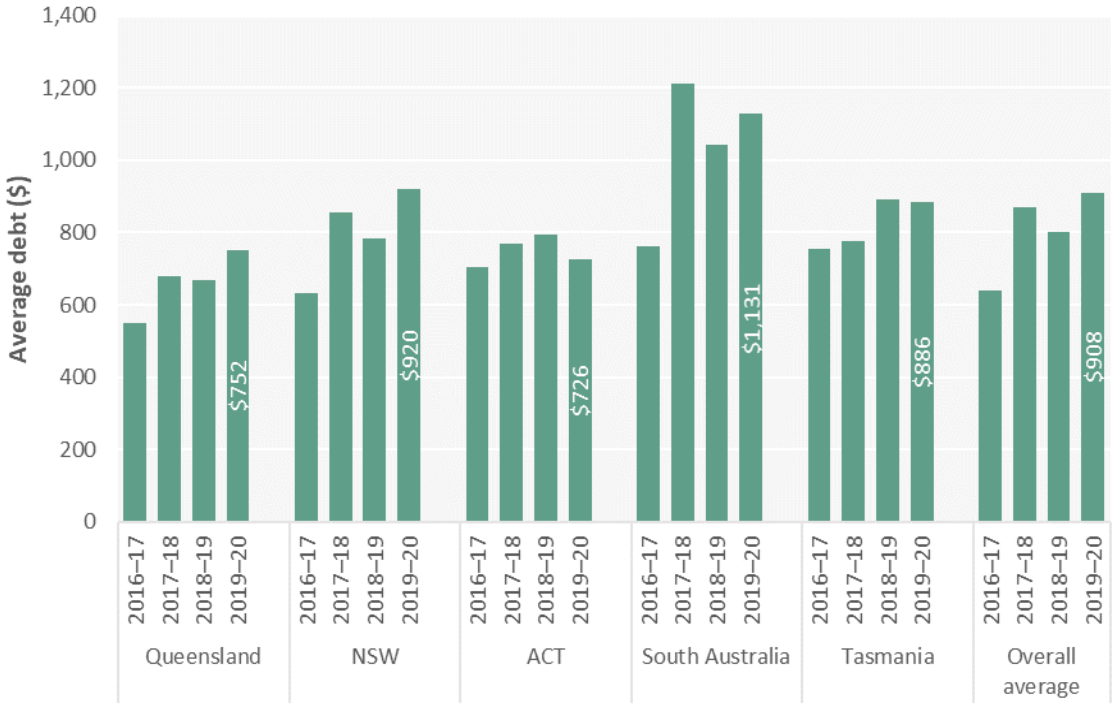
The average debt of residential customers also increased in 2019–20, after a dip in 2018–19 (figure 4.2). Given the increase in newly indebted customers who tend to have lower levels of debt, the increase in average debt likely reflects already indebted customers accumulating more debt.

[38] AER, (Retail Law) Performance Reporting Procedures and Guidelines, April 2018, p. 18.

Figure 4.1: Proportion of residential customers in energy debt

Source: AER.

Figure 4.2: Average debt of residential customers by jurisdiction



Note: Excludes debt of customers on hardship programs.

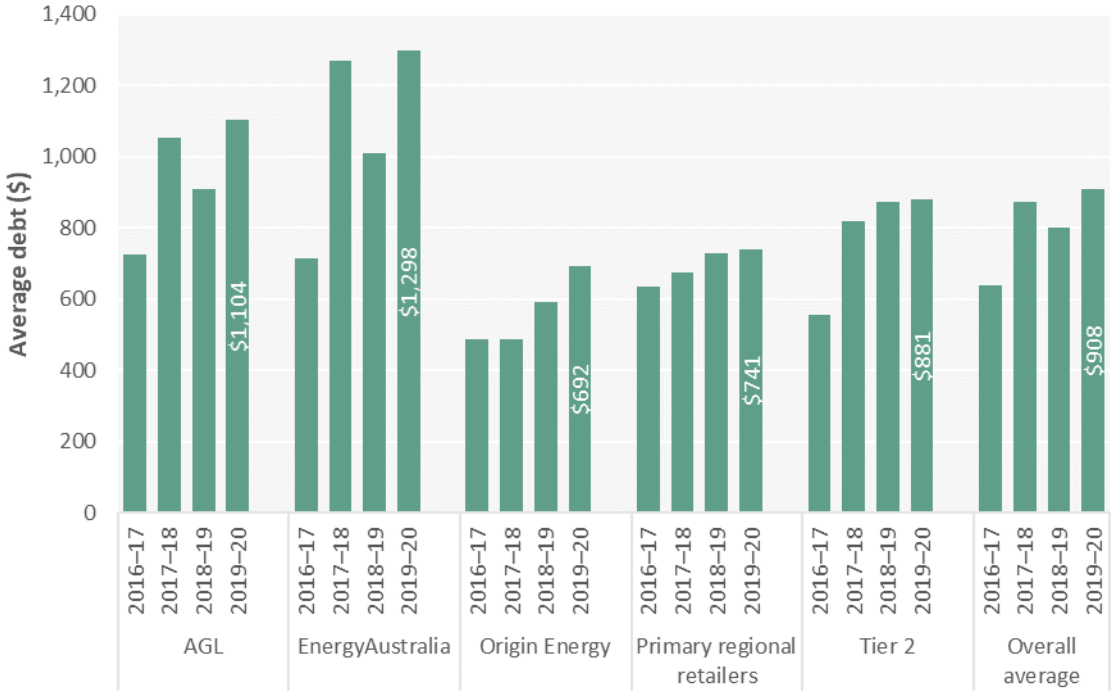
Source: AER.

Queensland, NSW and South Australia all reported significant increases in average debt in 2019–20 compared to 2018–19. South Australia had the highest average debt, over $200 higher than NSW. The ACT recorded a marked decrease in average debt in 2019–20, and Tasmania recorded a slight decrease.

In 2019–20 there was a marked difference in the average debt of residential customers across Tier 1 retailers (figure 4.3). EnergyAustralia customers had the highest average debt followed by AGL customers, and Origin Energy customers much lower. The average debt of Origin Energy's customers was also lower than the average for customers of Tier 2 and primary regional retailers.

Average residential customer debt increased across all retailer groupings in 2019–20 compared to the previous year, although only marginally in the primary regional retailer segment.

Figure 4.3: Average debt of residential customers by retailer category



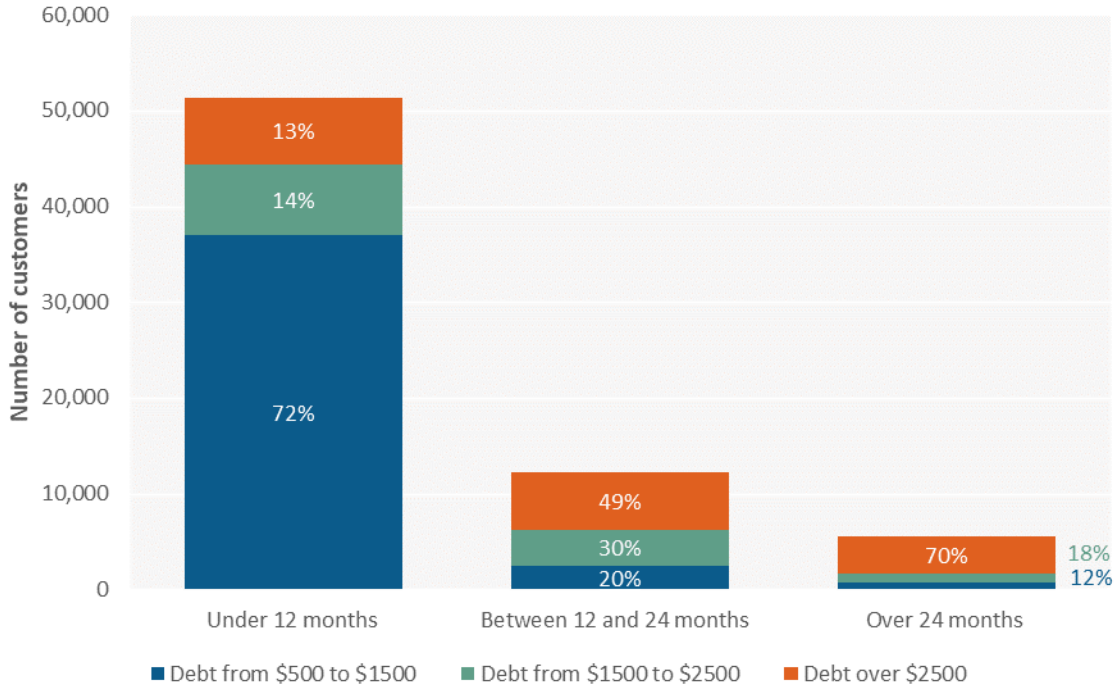
Note: Excludes debt of customers on hardship programs.

Source: AER.

Figure 4.4 shows debt data by age and value. The majority of customers in debt have held that debt for less than 12 months. The value of debt for these customers is also typically less than $1500.

Around 70 per cent of customers in debt for more than 24 months have debt over $2500. This may imply that once debt gets older, it is more likely to become entrenched and difficult to repay. Or, that large difficult to repay debts tend to persist and accumulate over time.

Figure 4.4: Proportion of non-hardship customers in debt by amount and age of debt



Note: Data at June 2020.

Source: AER

4.3.2 Small business energy debt

The overall proportion of small business customers in debt significantly increased in 2019–20 after a dip in 2018–19 (figure 4.5). The increase in 2019–20, which was most notable between Q3 and Q4 2019–20, likely reflects the impact of the pandemic.

The proportion of small business customers in debt increased in 2019–20 across all jurisdictions, except the ACT. The most significant increases occurred in NSW, South Australia and Tasmania. The increases were spread across multiple retailers but reflect large increases recorded by AGL and Origin Energy.

NSW had the highest proportion of small business customers in debt in 2019–20, followed by South Australia.

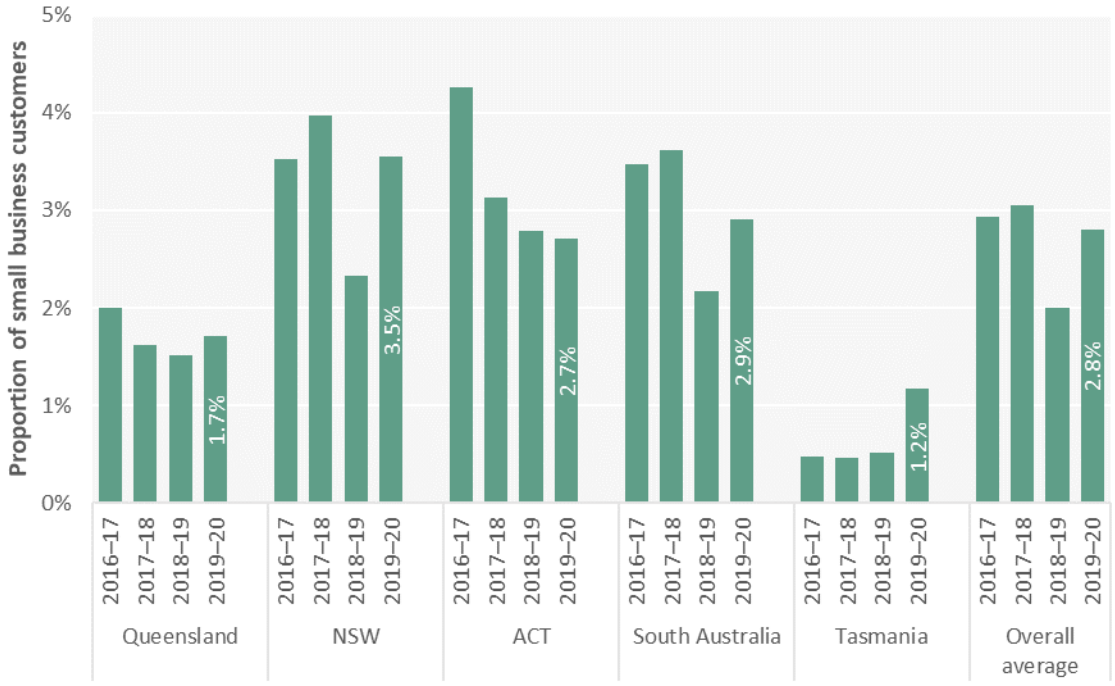
In 2019–20 the average debt of small business customers increased sharply (figure 4.6). The increases in the average small business debt were marked in Q3 and Q4 2019–20, increasing from $35 million to $45 million. Similarly to the situation with average residential debt, this likely reflects customers that were already in debt accumulating more debt (as newly indebted customers tend to have relatively lower levels of debt).

The average debt of small business customers increased in 2019–20 across all jurisdictions. The most marked increase occurred in Queensland, where average debt in 2019–20 exceeded $2500 – by far the highest across the jurisdictions. The increase in average debt in Queensland was spread across customers of multiple

retailers, but rose most for customers of Ergon Energy (from an average of $4,473 in 2018–19 to an average of $6,055 in 2019–20).

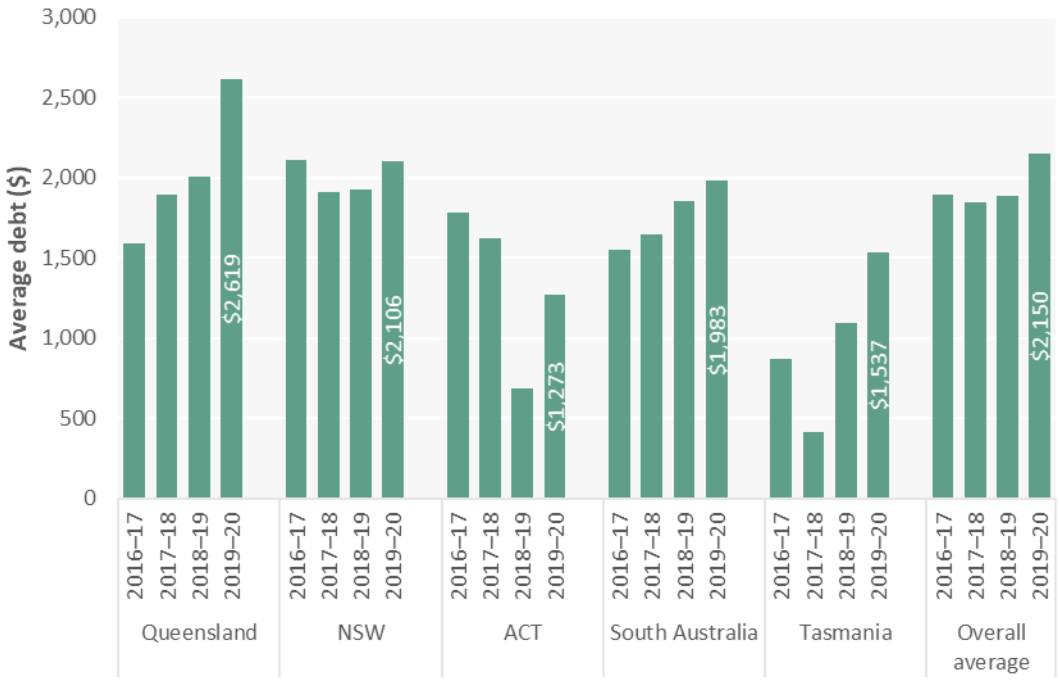
NSW small business customers has the next highest average debt, followed by South Australian customers. Although also increasing in 2019–20, the average debt levels in the ACT and Tasmania were much lower than in the other jurisdictions.

Figure 4.5: Proportion of small business customers in debt by jurisdiction



Note: Data at 30 June of each year.
Source: AER.

Figure 4.6: Average debt of small business customers by jurisdiction



Source: AER.

4.4 Payment plans

In this section, we discuss customers on payment plans. This excludes customers on hardship programs, and we discuss financial support for customers on hardship programs in section 4.5.

Retailers must offer a payment plan to a residential customer if the customer informs them they are experiencing payment difficulties, or if the retailer otherwise believes the customer is experiencing payment difficulties. Payment plans are intended to allow customers to repay their energy debt in affordable, regular instalments.

Many retailers have also signed up to the AER's voluntary *Sustainable payment plans framework*, which aims to help customers and retailers agree to affordable and sustainable payment plans. It sets down good practice principles of flexibility, consistency, empathy and respect to guide retailers' behaviour with residential customers in setting up payment plans.

As at 30 June 2020, there was a lower proportion of customers on payment plans than the previous year in all jurisdictions except the ACT, for both electricity and gas. This was despite increased levels of customer financial stress during the pandemic and likely the result of the introduction of informal payment deferral arrangements introduced by a number of retailers in response to the pandemic. Positively, there was also a decrease in payment plans cancelled during the pandemic.

4.4.1 Payment plans

EnergyAustralia has informed us that payment plans data provided by them prior to Q4 2019–20 was incorrect. The retailer's previous reporting system was unable to differentiate between payment plan customers who were paying for convenience and those genuinely paying off arears.

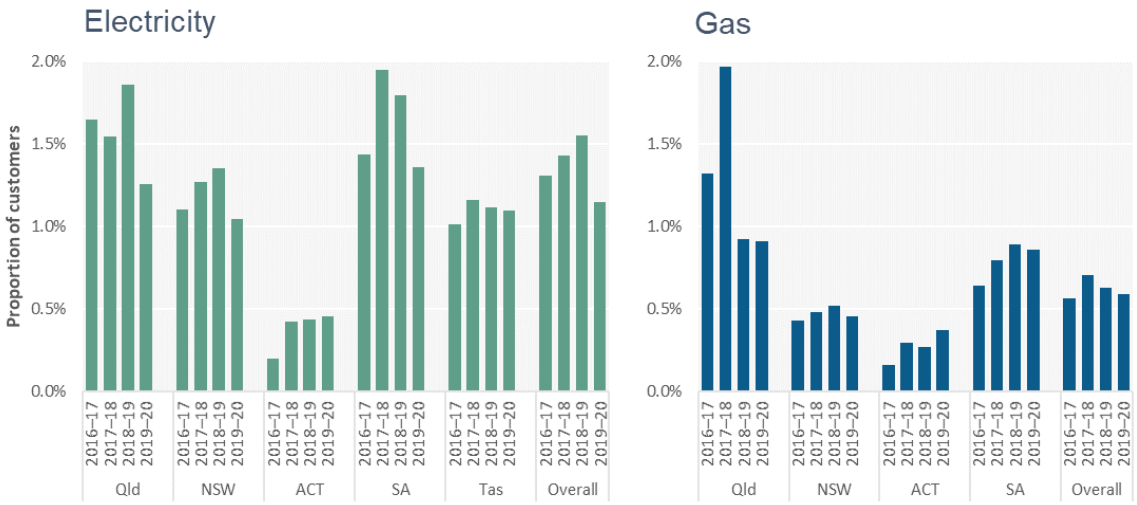
The AER's *Performance Reporting Procedures and Guidelines* defines a payment plan as '*a plan for a residential customer experiencing payment difficulties to pay a retailer by periodic instalments, any amount payable by the customer. A payment plan must only include an arrangement (oral or in writing) in which the customer is paying off an arrears component (of any overdue amount) and must consist of at least three instalments. Customers using flexible payment arrangements for convenience or budgeting purposes must be excluded for the purposes of 'payment plan' reporting.'* As such, EnergyAustralia did not previously identify customers on a payment plan according to our definition.

EnergyAustralia introduced a new reporting system in late 2019 that accurately captures payment plan data in alignment with the AER definition. As such, data reported for Q4 2019–20 is correct. However, EnergyAustralia's inability to provide us with accurate data for previous quarters prevents us from making valid time-series comparisons. For the time-series below, we therefore excluded EnergyAustralia's payment plan data.

The proportion of customers on payment plans was lower in 2019–20 than the year before (figure 4.7). Aggregating the jurisdictions, this drop was largest in electricity but it is also visible in gas. The drop occurred in all jurisdictions except the ACT, for both electricity and gas.

The drop in payment plans in 2019–20 is linked to retailers' response to the pandemic. Early in the pandemic, many retailers allowed customers to defer payment of their energy bill, rather than placing them onto formal payment plans. This contributed to a decrease in the number of customers on formal payment plans, despite an increase in the number of customers receiving some form of retailer assistance.

Figure 4.7: Proportion of residential customers on payment plans by jurisdiction



Note: Does not include data for EnergyAustralia.

Source: AER.

Some retailers have commenced moving customers off deferred debt arrangements and onto formal payment plans and hardship programs. While deferred debt arrangements allowed retailers to promptly assist customers at the outset of the pandemic, customers on these arrangements do not have access to protections provided under regulated payment assistance.

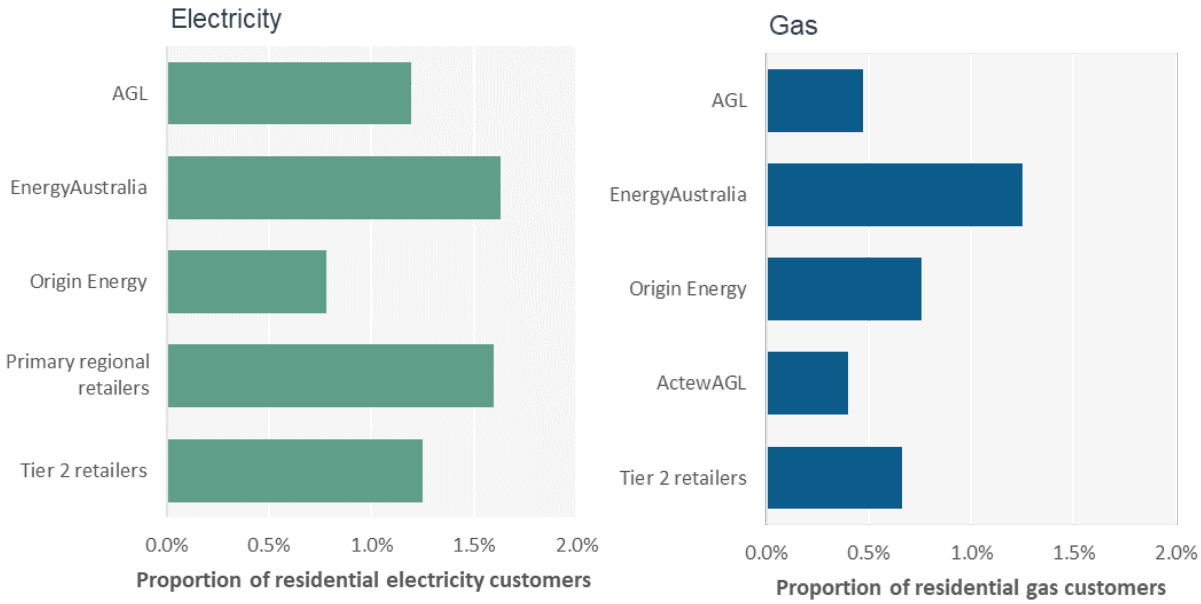
While the proportion of customers on payment plans has decreased overall, results differed by fuel-type, jurisdiction and retailer. Electricity customers were more likely to be on payment plans than gas customers, reflecting that electricity bills typically make up a higher proportion of a customer's income.

Meanwhile, South Australian customers were the most likely to be on a payment plan (1.4% of electricity and 0.9% of gas customers were on plans) and ACT customers were the least likely (0.5% of electricity and 0.4% of gas customers). This reflects that incomes are relatively high in the ACT.

In 2019–20 EnergyAustralia's customers were the most likely to be on payment plans in both the electricity and gas markets (figure 4.8).

Meanwhile, the high proportion of customers on payment plans for the primary regional retailers is driven by Ergon Energy.

Figure 4.8: Proportion of customers on payment plans by retailer category



Note: Data at June 2020.

Source: AER.

4.4.2 Payment plans cancelled

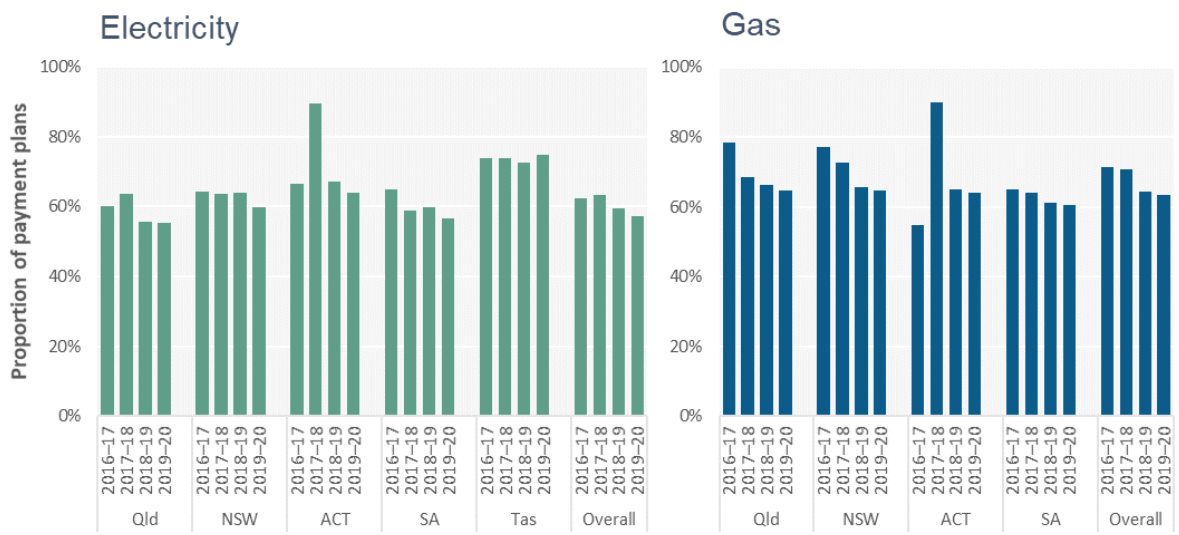
A retailer may cancel a payment plan if the customer fails to comply with the terms of their payment agreement. If a customer successfully makes all instalments and payments in line with their agreement, they are considered to have successfully completed their payment plan.

The proportion of payment plans cancelled is expressed as a percentage of those completed plus those cancelled. Some customers cycle on and off payment plans more than once in a year. This tends to increase the proportion of payment plans cancelled relative to the proportion of payment plans successfully completed and may reflect the extent to which plans match customers' capacity to pay.

If a payment plan is cancelled, the customer returns to a normal billing and debt collection cycle. Customers may subsequently be provided with an opportunity to re-establish a payment plan, or potentially engage with a hardship program. Eventually, some customers may be disconnected from supply by their retailer, or have a credit default recorded against their name if they are unable to make their required payments.

The proportion of payment plans cancelled has declined for two consecutive years in electricity and three consecutive years in gas (figure 4.9). Most of the decrease from 2018–19 to 2019–20 occurred in the April to June quarter of 2020, indicating that retailers were less inclined to cancel payment plans during the pandemic.

Figure 4.9: Proportion of payment plans cancelled by jurisdiction



Note: Does not include data for EnergyAustralia.

Source: AER.

The proportion of payment plans cancelled was relatively consistent between fuels and across jurisdictions, except that Tasmania had a higher rate of payment plans cancelled than other jurisdictions.

In Q4 2019–20, there were also minimal differences between the tiers of retailers, except that EnergyAustralia had a significantly lower proportion of payment plans cancelled than AGL, Origin Energy, the primary regional retailers or the Tier 2 retailers.

4.5 Hardship

Hardship programs provide the most appropriate form of assistance to eligible residential customers experiencing ongoing financial difficulty. Often this customer segment will have trouble meeting a standard payment plan arrangement. These customers may not have the capacity to manage their ongoing usage charges, in addition to existing energy debt. These circumstances may be short or long term. Customers participating in a hardship program cannot be disconnected for non-payment of their account.

The Retail Rules set out the minimum assistance retailers must provide in their hardship programs. This includes flexible payment options and access to hardship payment plans, as well as, for example, help in identifying government concessions. The AER's *Customer Hardship Policy Guideline*, which came into effect on 2 April 2019, makes clear that the onus is on retailers to take early steps to identify customers in hardship.[39] This gives the customer the best opportunity to manage their energy debt and avoid higher energy debt levels that could accumulate over longer periods of time.

[39] AER, *Customer Hardship Policy Guideline*, March 2019, para 31(a).

The hardship indicators show the ongoing issues some customers face in affording their energy bills. In 2019–20, the proportion of residential electricity customers on hardship programs decreased for the first time in three years. However, in the same period, average debt held by electricity hardship customers increased by about $70. There was a reduction in the proportion of electricity hardship customers exiting programs, however of those exiting over a third successfully completed the program. This is still low, but an improvement on 2018–19. The proportion of residential gas customers on hardship programs remained steady in 2019–20, as did the average amount of hardship debt.

4.5.1 Customers entering hardship

This section looks at the number of customers entering hardship programs, how they enter those programs and their debt levels upon entry to the programs.

Identifying customers in hardship

Our Hardship Guideline requires retailers to take early steps to identify customers experiencing hardship.[40] Early identification maximises opportunities for effective intervention to help customers overcome and manage their financial difficulties. Retailers may be contacted by a financial counsellor or a representative acting on behalf of a customer, or by customers themselves.

The following are some circumstances that may help retailers identify customers who might benefit from a hardship program:

- a prolonged change in personal circumstances, such as a loss or decrease in employment
- difficulty meeting payments, irregular or sporadic payments, or partial payments
- a history of broken payment arrangements
- a relationship breakdown or change of home circumstances
- a death in the family
- an unexpected one-off expense
- repeated reminder or multiple disconnection warning notices
- receipt of a higher than expected bill.

Number of customers entering hardship programs

In Q4 2019–20, 0.35% of residential electricity customers and 0.26% of residential gas customers entered hardship programs. This corresponds to over 23,000 and almost 6,000 customers respectively: 19% less than Q4 2018–19 for electricity, and 10% more for gas (driven by an increase in gas customers). Compared to the previous quarter, hardship entry for both gas and electricity was down by over a third.

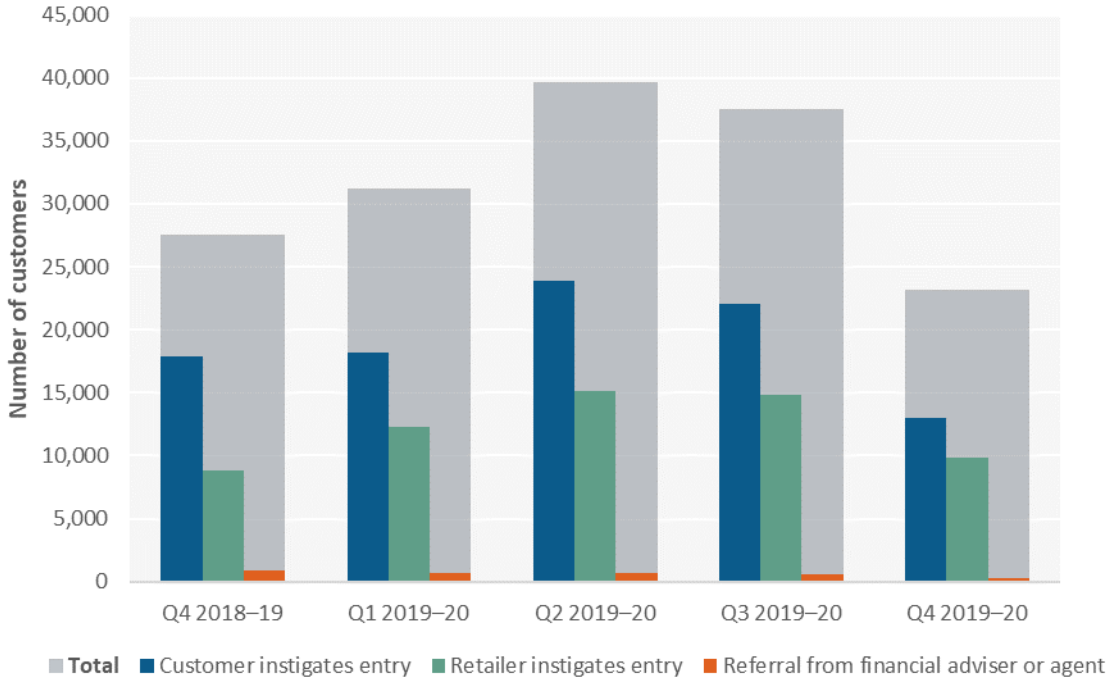
[40] AER, *Customer Hardship Policy Guideline*, March 2019, para 31(a).

The AER's consultations with retailers suggest this drop may have occurred for two main reasons. First, government subsidies softened the impact of the pandemic. Second, many customers that were impacted by the pandemic took up debt deferral arrangements offered by retailers, instead of conventional payment plans and hardship programs under the Retail Law.

Figures 4.10 and 4.11 show how customers entered hardship programs over the past five quarters, as well as the total number of entries. Consistently across the time series, many customers entering hardship programs instigated the change themselves. This indicates an underperformance in retailers' efforts to identify potential hardship customers early, as more often than not it is left to the customer to instigate entry to a hardship program.

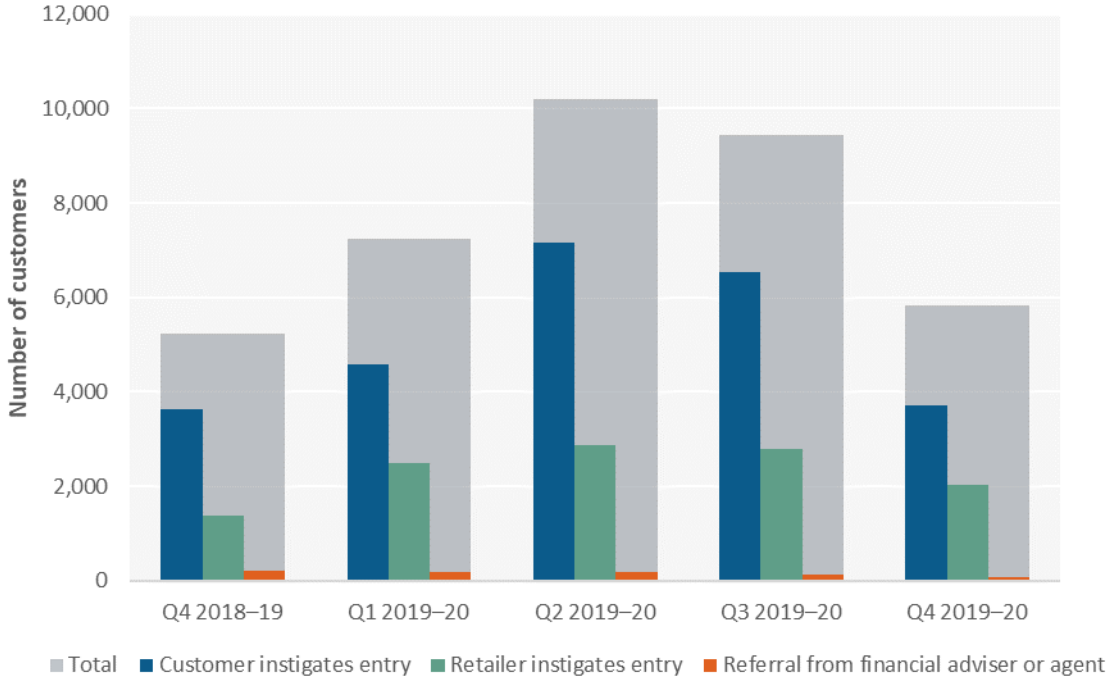
In Q4 2019–20, the gap between customers instigating a hardship program and retailers instigating it shrunk, although the customer still instigated entry to the hardship program over half the time. The proportion of entries to hardship instigated by the customer (not the retailer) was particularly pronounced in the gas segment.

Figure 4.10: Reasons for entry into hardship programs, electricity customers



Source: AER.

Figure 4.11: Reasons for entry into hardship programs, gas customers



Source: AER.

Debt levels on entry to hardship

The amount of energy debt customers carry upon entering hardship is typically below $500 for both electricity and gas customers (table 4.2).

Table 4.2: Levels of debt for customers entering hardship programs

	Electricity			Gas		
	2017–18	2018–19	2019–20	2017–18	2018–19	2019–20
Debt below $500	57%	56%	51%	67%	70%	69%
Debt between $500 and $1,500	24%	25%	26%	24%	22%	22%
Debt between $1,500 and $2,500	9%	9%	10%	6%	5%	5%
Debt over $2,500	10%	10%	13%	4%	3%	4%

Source: AER.

The proportion of electricity customers entering hardship with less than $500 in debt decreased from 56% in 2018–19 to 51% in 2019–20. This was accompanied by an increase in customers entering hardship with debt over $2,500. Of the customers in this category, 60% had over $3,500 of debt. The proportion of gas customers with less than $500 debt on entry to hardship was greater than for electricity, at 69%. This decreased slightly from 70% in 2018–19.

The AER also collects data on the average debt of customers at entry to hardship. For residential electricity customers, the average debt on entry increased from $1,218 in 2018–19 to $1,318 in 2019–20. For residential gas customers, it increased very slightly from $665 in 2018–19 to $669 in 2019–20.

The average age of customer debt on entry to hardship programs increased slightly over the past year. While in Q4 2018–19, 61% of customers entering hardship had debt less than 6 months old, this decreased to 57% of customers in Q4 2019–20. In Q4 2019–20, 2.3% of customers entering hardship had debt older than 2 years (up from 1.6%). Meanwhile, gas customers tend to be brought into hardship plans later than electricity customers, with only 44% of customers in the gas segment having debt less than 6 months old.

4.5.2 Customers on hardship programs

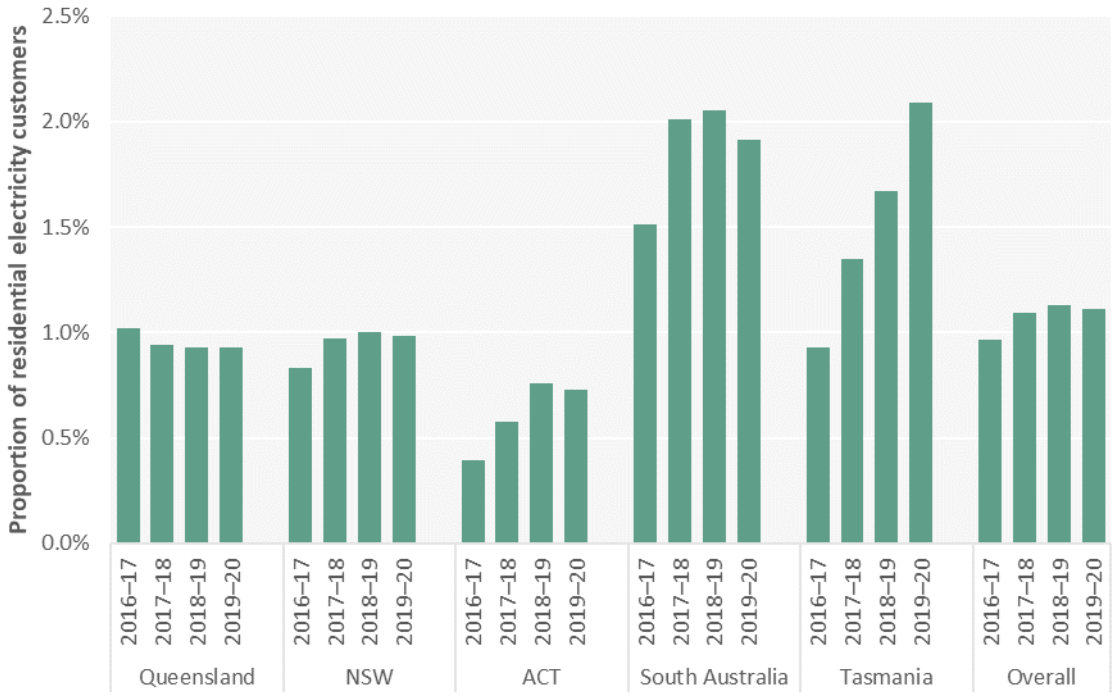
This section reviews the proportion of customers in hardship programs, the level of hardship energy debt and types of assistance offered by retailers to customers in hardship programs.

Proportion of customers in hardship

Figures 4.12 and 4.13 show the proportion of electricity and gas customers on hardship programs over the past 3 years.

After 3 years of rising numbers in most regions, the proportion of electricity customers on hardship programs decreased in 2019–20,[41] except in Tasmania where the proportion continued its rapidly rising trend.

Figure 4.12: Proportion of electricity customers on a hardship program



Source: AER.

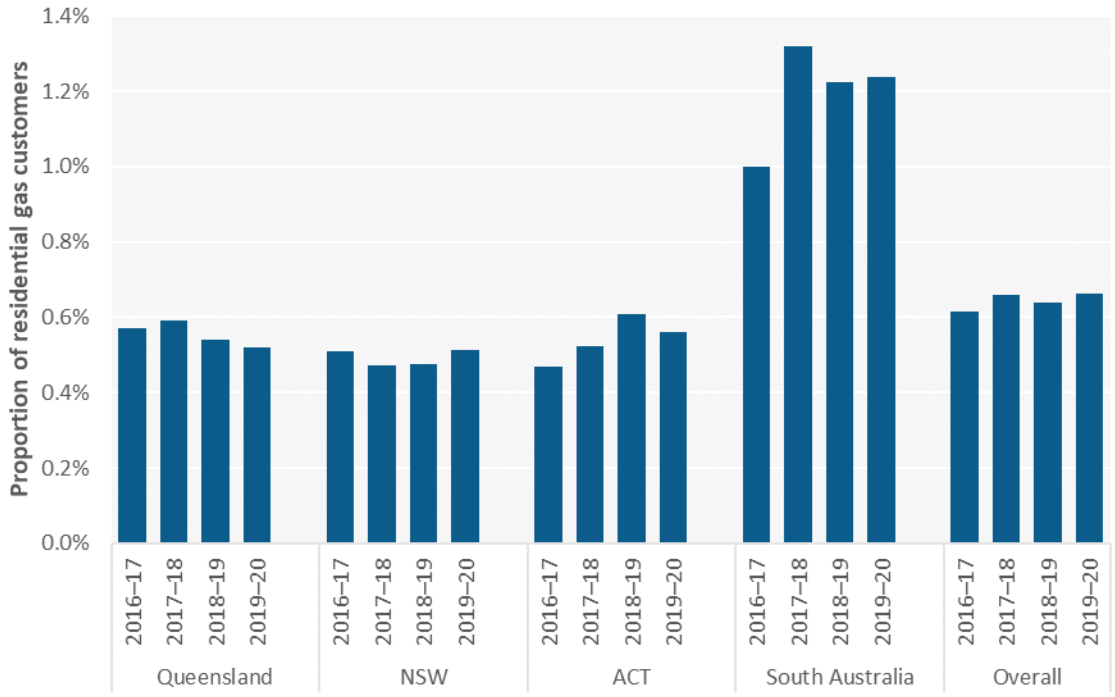
[41] Annual figures for this metric are as at 30 June each year.

A contributor to the generally declining hardship numbers in 2019–20 was the reduced number of entries to hardship programs during the pandemic which, as mentioned above, was likely due to the impact of government subsidies and retailer-driven debt deferral arrangements.

The proportion of residential electricity customers on hardship programs was higher in South Australia and Tasmania than in other jurisdictions. Tasmania had 2.1% of its residential electricity customers on hardship programs, compared to South Australia's 1.9%.

This aligns with our findings that South Australia and Tasmania have the least affordable electricity of all jurisdictions (chapter 3).

Figure 4.13: Proportion of gas customers on a hardship program



Source: AER.

The proportion of gas customers on hardship programs moderately increased in 2019–20, driven by increases in NSW and South Australia. Queensland and the ACT recorded small decreases.

South Australia had the highest proportion of gas customers on hardship programs of all the jurisdictions. This does not directly correlate with gas affordability in South Australia, which is comparable to that in NSW and more affordable than in the ACT due to lower usage rates. The high hardship rate of South Australian gas customers likely instead flows from its relatively less affordable electricity. Some retailers may put customers on hardship programs for both energy sources if they are struggling to pay electricity bills.

Meanwhile the ACT, with relatively high gas bills according to our analysis in chapter 3, has relatively low numbers of gas customers on hardship, perhaps due to high gas prices being somewhat offset by more affordable electricity prices and higher average incomes.

Level of hardship debt

Figures 4.14 and 4.15 show the average electricity and gas debt of customers at the point of entry into hardship programs and the average debt of customers on hardship programs.

Figure 4.14: Average electricity debt at time of entry to hardship programs and average hardship debt

Source: AER.

The average hardship debt of electricity customers increased to $1,371 in 2019–20, compared to $1,300 in 2018–19. The ACT was the only jurisdiction to record lower average hardship debt in 2019–20, although this was accompanied by a jump in average debt on entry to hardship programs.

Figure 4.14 shows that, in general, in jurisdictions other than Tasmania and the ACT, average electricity debt on entry to hardship programs is lower than average hardship debt. This indicates that once on a hardship program, customers in these jurisdictions tend to accumulate more energy debt, which may become entrenched.

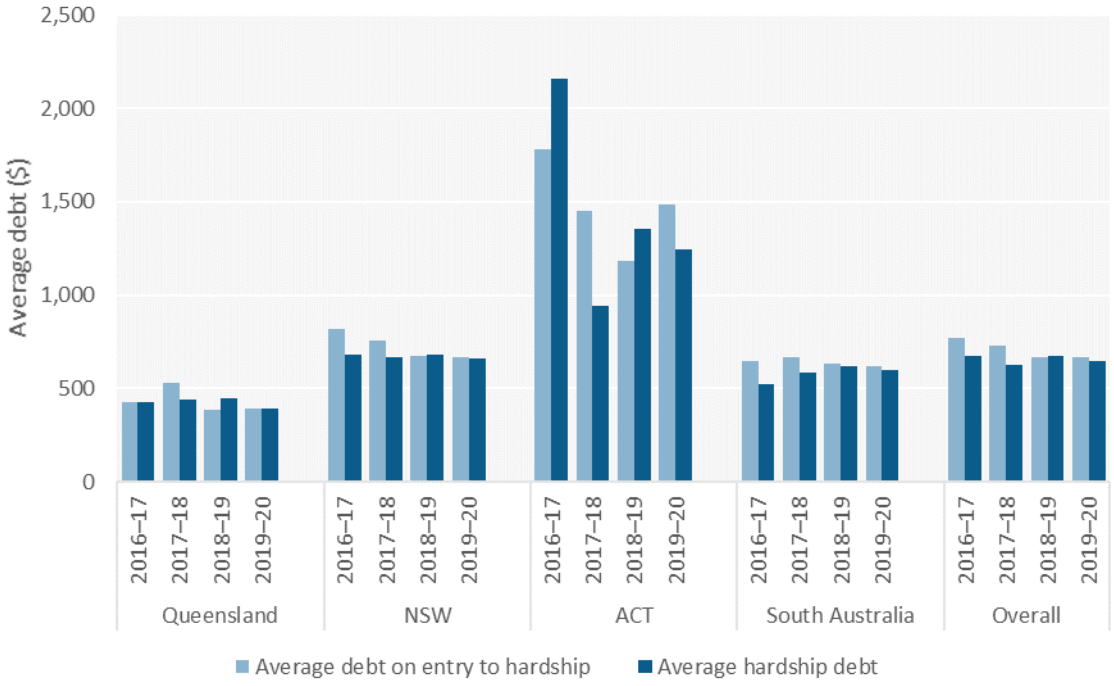
Retailers must balance the need to set up a payment plan that is sustainable for a customer with respect to their capacity to pay, with the need to help the customer return to a normal billing cycle (and successfully exit the hardship program) without an energy debt burden. Retailers can provide assistance in the form of incentive programs, debt reductions, lower energy price contracts, and other methods. Our Hardship Guideline reiterates that retailers have a responsibility to support customers to successfully complete the program. Rising average debt for hardship customers suggests there is more that can be done to help customers manage their arrears.

Average hardship debt is higher in electricity than in gas. The average debt of electricity customers was $1,371 in 2019–20, while in gas it was $645. In the ACT,

however, gas hardship debt is almost as high as electricity hardship debt ($1,246 and $1,543 respectively in 2019–20).

Unlike electricity, the average debt of gas customers on hardship programs was lower in 2019–20 than a year earlier in every jurisdiction. Average debt on entry to hardship programs increased slightly overall due to a rise in the ACT, but was relatively stable in other jurisdictions.

Figure 4.15: Average gas debt at time of entry to hardship programs and average hardship debt



Source: AER.

Despite a relatively low proportion of gas customers on hardship programs, the ACT's high average debt levels for those on a program reflects the low affordability of gas in the territory, as discussed in section 3.3.2. This reflects high gas usage in the ACT, resulting in low income households spending a larger proportion of their income on gas than in any other jurisdiction. If a customer is among the relatively small proportion of gas customers on a hardship program in the ACT, their debt is likely to be relatively high.

Length of hardship program

The majority of hardship customers are on programs that last less than one year. As at Q4 2019–20:

- About 78% of electricity customers are on hardship programs for less than one year
- About 81% of gas customers are on hardship programs for less than one year.

For both electricity and gas, the proportion is higher than a year earlier, when 77% and 76% of hardship customers respectively were on hardship programs for less than a year.

We do not collect data to confirm if these customers are excluded from hardship programs due to non-payment, or after having successfully completed their program within one year. Some customers may later return to a hardship program.

Assistance offered to hardship customers

The Retail Law sets the minimum assistance retailers must offer in their hardship policies, including:[42]

- processes to identify residential customers experiencing payment difficulties due to hardship
- processes for early response to assist hardship customers
- flexible payment options, such as Centrepay[43]
- processes to identify government concession programs and financial counselling services, and to notify hardship customers of these
- an outline of programs the retailer may use to assist hardship customers
- processes to review the appropriateness of a hardship customer's contract
- processes to assist customers with strategies to improve their energy efficiency.

Retailers may also provide assistance beyond the minimum legal requirements.

Table 4.3 shows the most common types of assistance retailers can offer their hardship customers, and the proportion of hardship customers receiving each type. For electricity customers, incentive payments and discounts are the most common assistance, followed by rebates, and transferring customers from one market contract to another.

[42] National Energy Retail Law, s. 44.

[43] Centrepay is a service offered by Centrelink that allows customers to pay their energy bills by having an amount deducted from their Centrelink payments and paid directly to the retailer. Further information about payment methods and pre-payment metres is included in the data accompanying this report.

Hardship customers receiving concessions

In 2019–20,[44] the proportion of electricity hardship customers on energy concessions decreased in every jurisdiction except South Australia (figure 4.16). But South Australia had the lowest proportion of hardship customers receiving concessions at 38%, while Tasmania had the highest at 70%.

Table 4.3: Proportion of hardship customers receiving types of assistance

	Electricity		Gas	
	Q4 2018–19	Q4 2019–20	Q4 2018–19	Q4 2019–20
Incentive payments or discounts	46.3%	50.4%	43.9%	51.6%
Transferred to a different retail market contract	21.5%	10.8%	13.9%	8.6%
Debt reductions	14.7%	9.3%	15.7%	9.2%
A rebate that they were not otherwise receiving	7.9%	10.9%	11.4%	14.9%
Transferral from a standard retail contract to a market retail contract	1.8%	1.0%	2.6%	2.7%
Concession that they were not otherwise receiving	1.7%	2.3%	1.2%	1.4%
Reimbursement/credit of lost pay on time discounts	1.2%	1.2%	0.3%	0.6%
Onsite energy audits completed by the retailer	0.3%	0.1%	0.1%	0.0%
Reimbursement/credit of late payment fees	0.1%	0.1%	0.2%	0.2%
New appliances through appliance replacement programs	0.1%	0.2%	0.2%	0.0%

Note: The list of assistance types is neither exhaustive nor mutually exclusive. This means that some hardship customers might receive more than one type of assistance, and some might receive a different type of assistance not captured in the AER's reporting.

Source: AER.

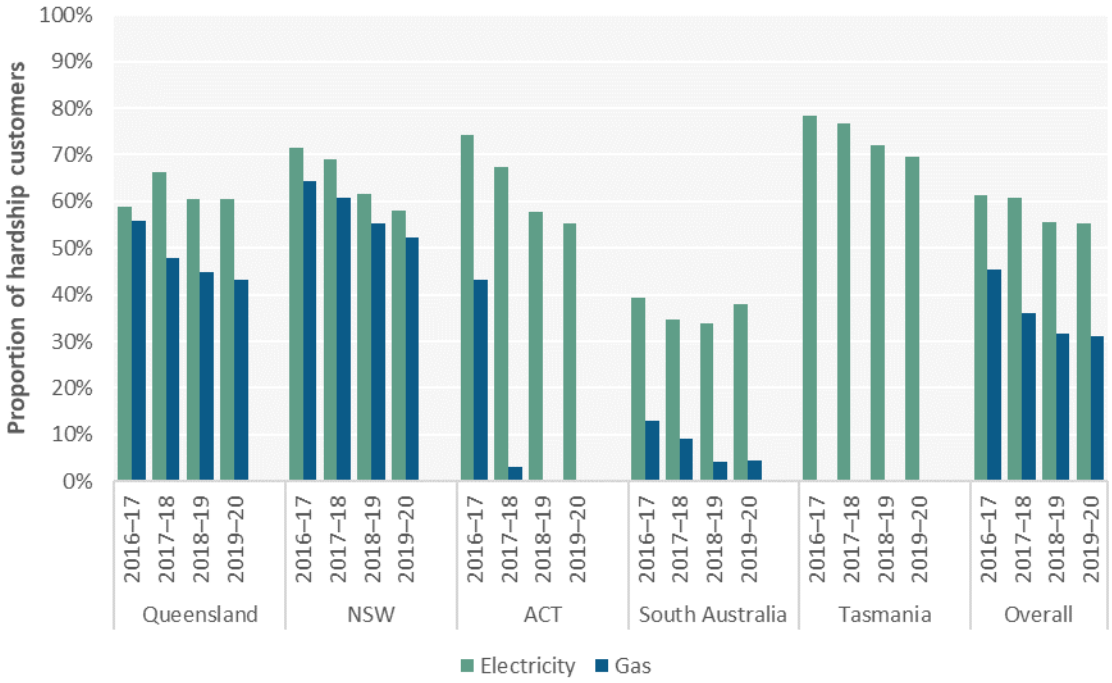
The proportion of gas customers on concessions was highest in NSW at 52% and in Queensland at 43%. Both South Australia and the ACT have a negligible proportion of gas hardship customers receiving energy concessions, which may reflect those jurisdictions administering concessions covering both fuel types.

Despite a large number of customers in hardship programs accessing concessions, many are unable to pay for their ongoing energy usage. Around 47% of electricity hardship customers and 48% of gas hardship customers did not meet their usage costs in Q4 2019–20.

The growing proportion of customers in hardship that do not have a concession demonstrates that customers that would not typically be considered ‘low income’ are seeking formal payment assistance via their retailer.

[44] This annual metric is as at 30 June for every year reported, including in figure 4.16.

Figure 4.16: Proportion of hardship customers receiving energy concessions



Note: The values for the ACT and South Australia are low for gas because both of these jurisdictions provide energy concessions that cover both fuel types together. Most retailers record the concession against a customer's electricity account.

Source: AER.

Customers exiting hardship programs

A 'successful' exit of a hardship program occurs where a customer completes a hardship program and, by agreement with the retailer, returns to normal billing cycles. This includes where the customer agrees to a new payment plan or flexible payment arrangement.

Table 4.4 sets out reasons electricity customers exited hardship programs. The most common reason was 'excluded', at 58% of customers exiting hardship programs. The proportion of customers exiting after a successful completion of the program increased to 32% in 2019–20.

This rise in successful completion is a positive sign, but the still large proportion of customers excluded from programs indicates significant gaps between customer behaviour and the requirements of hardship programs. If customers are unable to manage their debt, they will most likely be referred for collection activity that could result in a credit default being applied against their name.

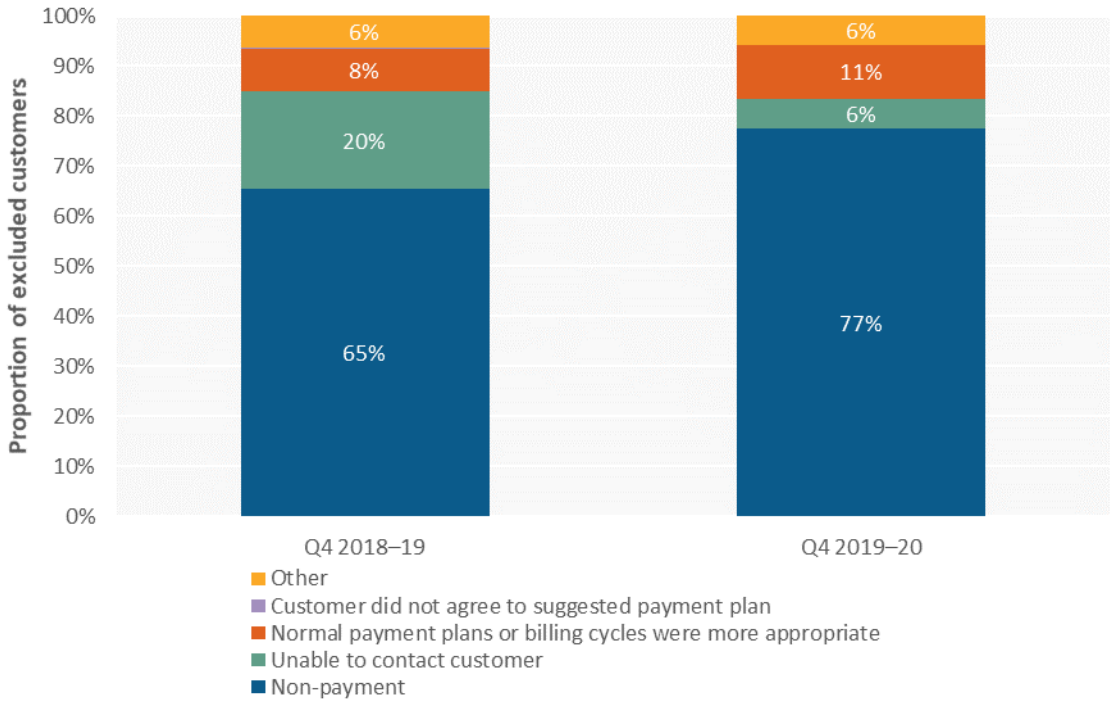
Table 4.4: Reasons electricity customers exited hardship programs

	2018–19		2019–20	
	Number of customers	Proportion of exiting customers	Number of customers	Proportion of exiting customers
Successful	36,389	29%	40,338	32%
Transferred	14,031	11%	12,609	10%
Excluded	76,485	60%	74,291	58%
Total customers exiting	126,905		127,238	

Source: AER.

Figure 4.17 illustrates reasons behind exclusions, as a proportion of excluded customers. The most common reason by a substantial margin was that customers had failed to meet payment obligations. Being unable to contact the customer was a less common reason in Q4 2019–20.

Figure 4.17: Reasons behind exclusion from electricity hardship programs



Source: AER.

Table 4.5 sets out reasons gas customers exited hardship programs. Similarly to electricity, the most common reason was because the customer was excluded for non-compliance, at 65%. Electricity recorded improvements in successful completion rates, as did gas with the proportion of exiting customers successfully completing a program to 28%.

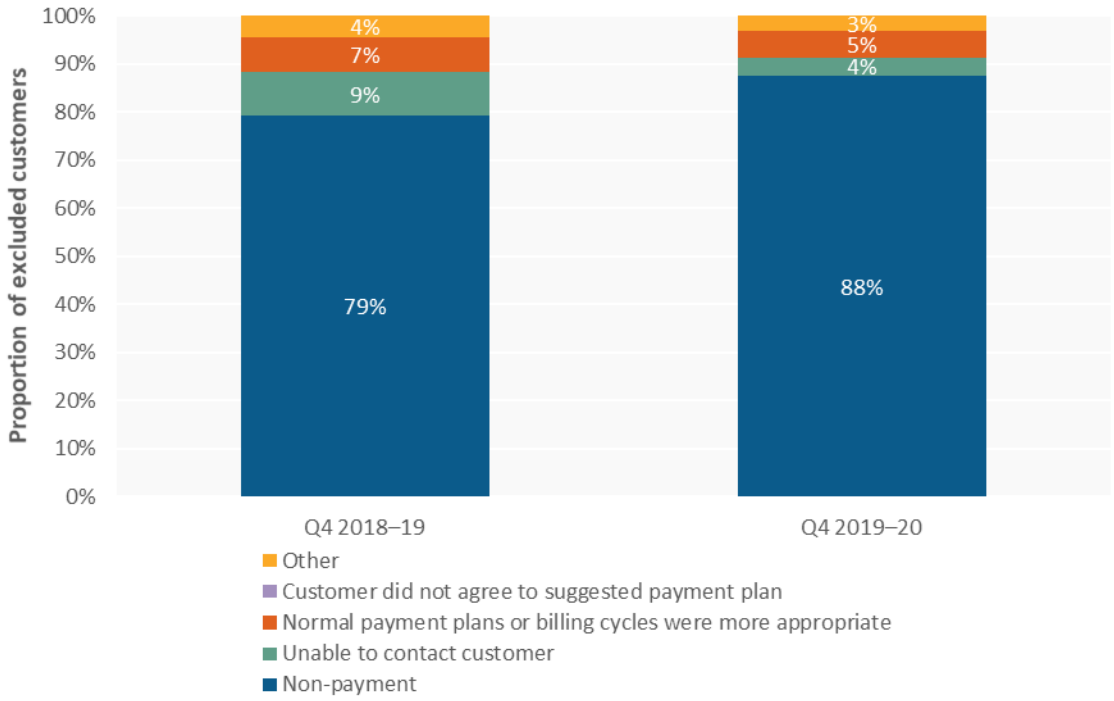
Table 4.5: Reasons gas customers exited hardship programs

	2018–19		2019–20	
	Number of customers	Proportion of exiting customers	Number of customers	Proportion of exiting customers
Successful	7,014	27%	8,976	28%
Transferred	2,349	9%	2,146	7%
Excluded	16,877	64%	20,374	65%
Total customers exiting	26,240		31,496	

Source: AER.

Figure 4.18 sets out reasons why gas customers were excluded from hardship programs, with most exclusions occurring because of non-payment (88% of excluded customers).

Figure 4.18: Reasons behind exclusion from gas hardship programs



Source: AER.

4.6 Disconnections

Disconnection for non-payment of bills should be viewed as a last resort after payment plans and hardship programs have been attempted and only after the strict processes set out in the Retail Rules have been followed.

The rate of disconnections is an important indicator of how retailers meet their obligations to help customers manage debt while ensuring they continue to receive energy supply. The rate of disconnections can also be an indicator of how affordable energy is to customers, given that non-payment, and subsequent

disconnection for non-payment, is likely the outcome of a customer being unable to meet their energy costs.

In April 2020, the AER released a Statement of Expectations in response to the COVID-19 pandemic, which included the expectation that retailers do not disconnect any small customer (residential and small business) who "may be in financial distress", nor any large customer that might on-sell energy to small customers (for example in retirement villages), until July 31 2020. These expectations were heeded, and in Q4 2019–20, disconnections were almost zero.

Before the Q4 pause in disconnections, electricity disconnection rates in other quarters of 2019–20 were lower for both residential and small business electricity customers than the same period of the previous year.

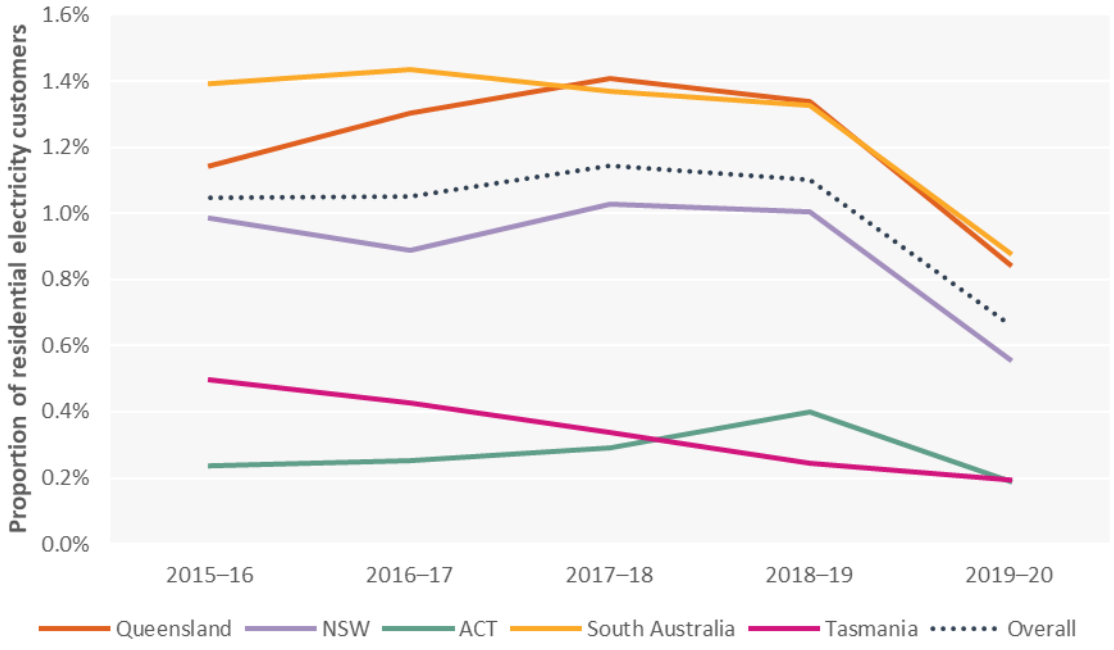
The proportion of residential and small business gas customer disconnections was significantly lower in 2019–20, consistent with the AER's Statement of Expectations.

4.6.1 Electricity disconnections – residential

Figure 4.19 shows the proportion of electricity customers disconnected by jurisdiction.

The figure shows the proportion of electricity disconnections for 2019–20 decreased markedly in all regions. This was consistent with the AER's expectation of retailers to not disconnect those is financial distress during the COVID-19 pandemic, which is captured in Q4. Even before Q4, all jurisdictions' disconnection rates except Tasmania were trending downward.

Figure 4.19: Residential electricity disconnections as a percentage of customers



Source: AER.

Overall, a total of 43,608 electricity customers (or 0.67%) were disconnected from their electricity supply in 2019–20, a significant drop from previous years.

The data accompanying this report provides the number of disconnections by retailer by region. It shows that lower disconnection rates over the past year were in particular driven by EnergyAustralia across all states except Tasmania and the ACT. EnergyAustralia ceased disconnections for non-payment during Q1, Q2 and some of Q3 while they completed a review of life support customer registrations. In addition, AGL also had low disconnection rates in Q1 and Q2.

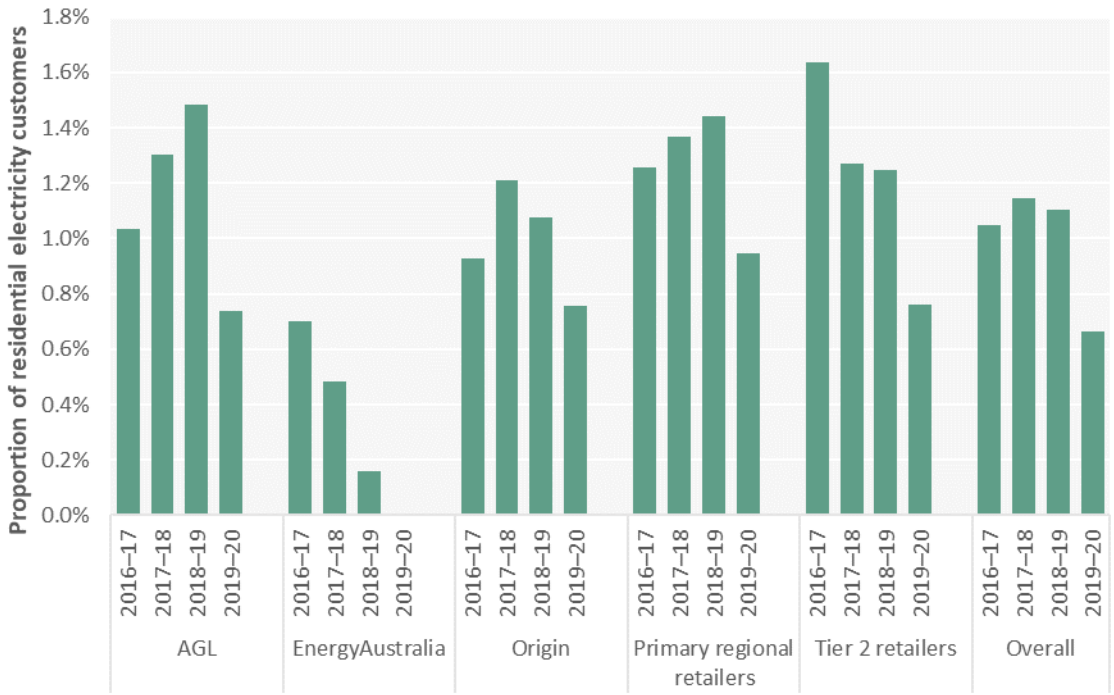
South Australia had the highest disconnection rate in 2019–20, despite it recording the state's lowest rate in five years. South Australia did see a decline in disconnections compared to last year in Q1 and Q2, but Q3 2019–20 had more disconnections than the same quarter the year before. These movements reflected outcomes for AGL, which has a 37% market share of residential electricity customers in the state.

Queensland had the second highest disconnection rate. Disconnections from the first three quarters of the year indicate that Queensland's disconnection rate was trending downwards even without the Q4 pause. This non-COVID-related reduction reflected outcomes for AGL and Ergon Energy.

The ACT and Tasmania had the lowest disconnection rates for residential electricity customers, at 0.19%.

Figure 4.20 gives an insight into how different retailers changed their disconnection practices. While retailers across the board adopted the AER's expectation to hold off on disconnections in Q4, more than just that shift occurred. AGL's disconnection rate fell by 50% in 2019–20, which aside from the zero Q4 disconnections was driven by a major drop in Q1 and Q2 (in part caused by paused disconnections to fire affected customers in Q2). EnergyAustralia reduced its disconnection rate from an already low base, and disconnected only 34 residential electricity customers across all jurisdictions in 2019–20 (0.003% of their residential electricity customers). Origin's reduction in disconnections largely reflected the pause in Q4, with disconnections in Q1 to Q3 at similar levels to the previous year. Primary regional retailers and Tier 2 retailers reduced their disconnection rates by slightly more than the expected impact of Q4.

Figure 4.20: Residential electricity disconnections as a percentage of customers over time by retailer category



Source: AER.

Debt at the time of disconnection

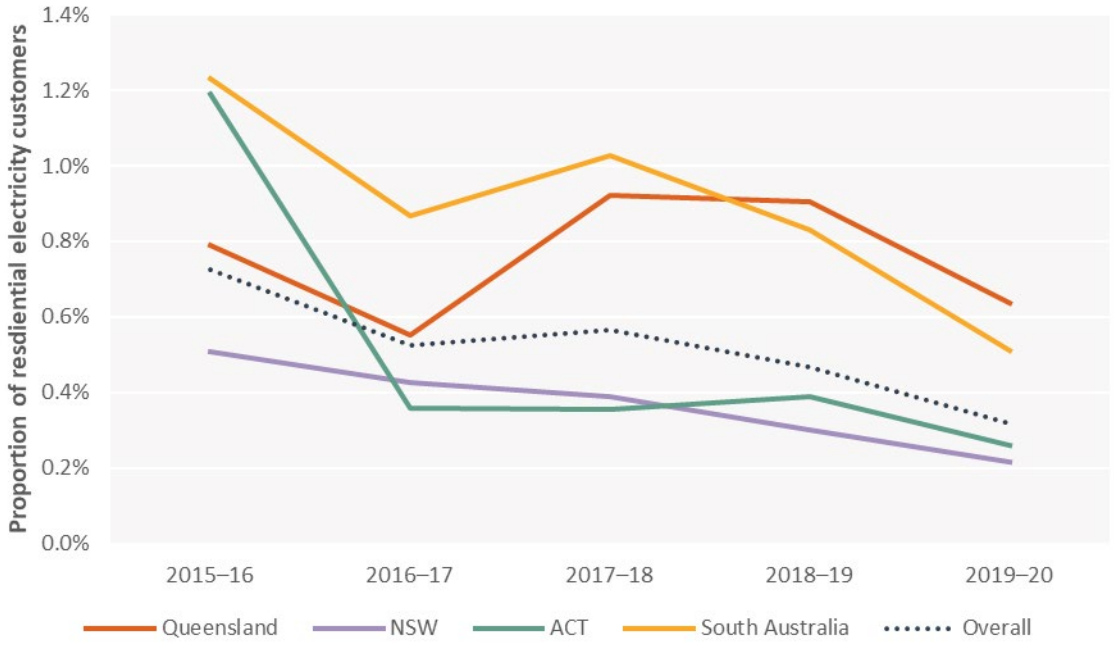
The most common amount of debt at the time of disconnection in Q3 2019–20 was between $500 and $1,500 (for 50% of all electricity disconnections and 54% of all gas disconnections), followed by debt less than $500 (26% of all electricity disconnections and 32% of all gas disconnections). The lowest category's (debt less than $500) proportion of disconnections increased marginally on Q4 2018–19, though for the most part the split between debt types was steady.

4.6.2 Gas disconnections – residential

Figure 4.21 shows the proportion of residential gas customers disconnected by jurisdiction. Overall, gas disconnection rates decreased over the past 5 years. Outcomes in 2019–20 were impacted by the AER Statement of Expectations, with disconnections in Q4 dropping to almost zero. As with electricity, the proportion of disconnections decreased by over a quarter in all jurisdictions, indicating a drop in disconnections may have occurred even without the Q4 drop.

The fall prior to Q4 was largely driven by a reduction in disconnections by AGL and EnergyAustralia, particularly in Q1 and Q2. EnergyAustralia's reduction was the product of their ceasing all disconnections during a review of life support customer registrations, while AGL's in part stemmed from pausing disconnections in fire affected areas in November 2019.

Figure 4.21: Residential gas disconnections as a percentage of customers



Source: AER.

For the second year in a row, Queensland had the highest residential gas disconnection rate. Despite this, the first 3 quarters of 2019–20 each had lower disconnection rates than their 2018–19 counterparts, indicating that Queensland was on track to reduce its rates even without the Q4 drop-off. NSW had the lowest residential gas disconnection rate.

4.6.3 Residential disconnections – customer context

We collect data to help us understand the context around gas and electricity customer disconnections. Figures 4.22 and 4.23 show several characteristics.

The proportion of electricity and gas customers disconnected who had been on a payment plan in the previous 12 months decreased significantly in 2019–20 though not to 2017–18 levels. This drop largely reflected results for AGL in both electricity and gas.

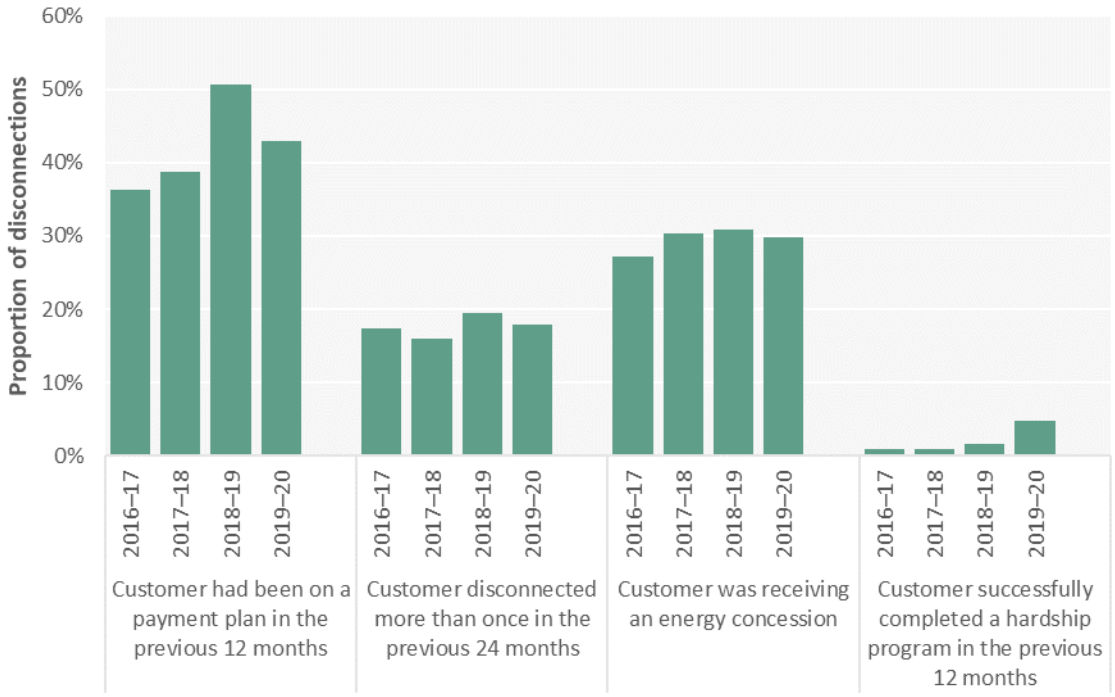
Without assistance from a retailer (for example, under a retailer's hardship policy), customers with energy debt can face extreme consequences, such as multiple disconnections. After the proportion of disconnected customers being disconnected more than once in 24 months rose in 2018–19, the proportion was lower in 2019–20. Having multiple disconnections in two years was a reality for 18% of disconnected electricity customers and 14% of disconnected gas customers in 2019–20.

About a third of customers disconnected were receiving an electricity concession and 18% were receiving a gas concession. This suggests that, for some customers facing financial difficulty, a concession is not enough to prevent disconnection.

Few disconnected customers successfully completed a hardship program in the previous 12 months, though this rate approximately tripled for both electricity and gas in 2019–20.

Customers who successfully completed hardship programs in the previous 12 months are significantly less likely to be disconnected (figures 4.22 and 4.23).

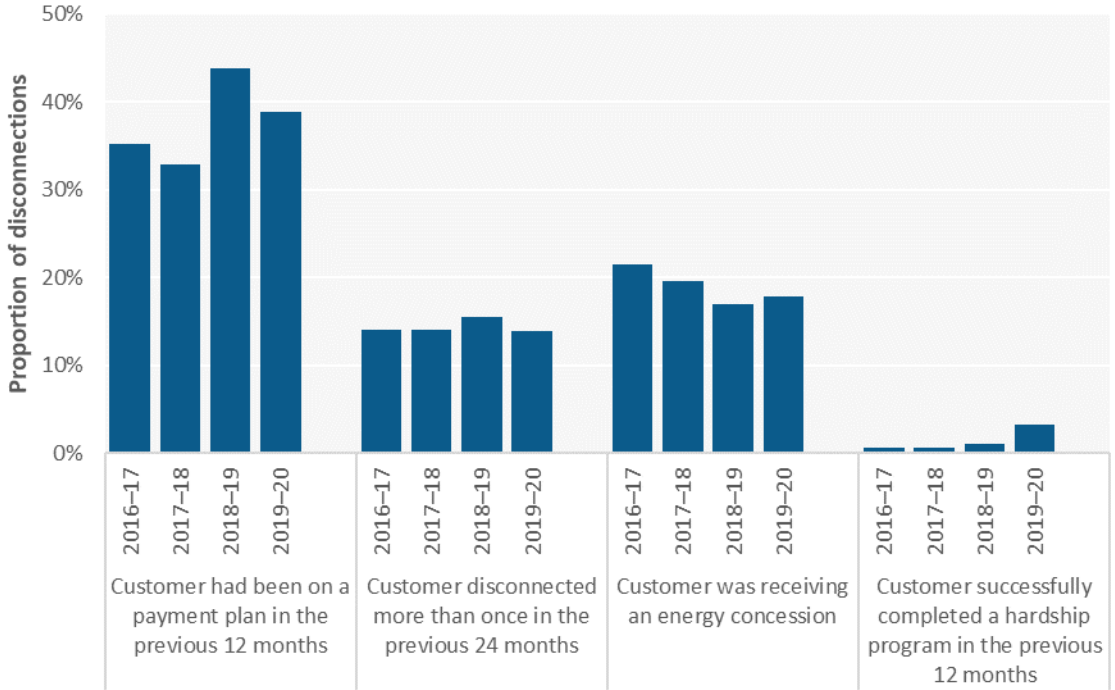
Figure 4.22: Residential electricity disconnection customer profile



Note: Categories are not mutually exclusive, nor exhaustive. Thus can sum to over or less than 100%.

Source: AER.

Figure 4.23: Residential gas disconnection customer profile



Note: Categories are not mutually exclusive, nor exhaustive. Thus can sum to over or less than 100%.

Source: AER.

4.6.4 Small business disconnections

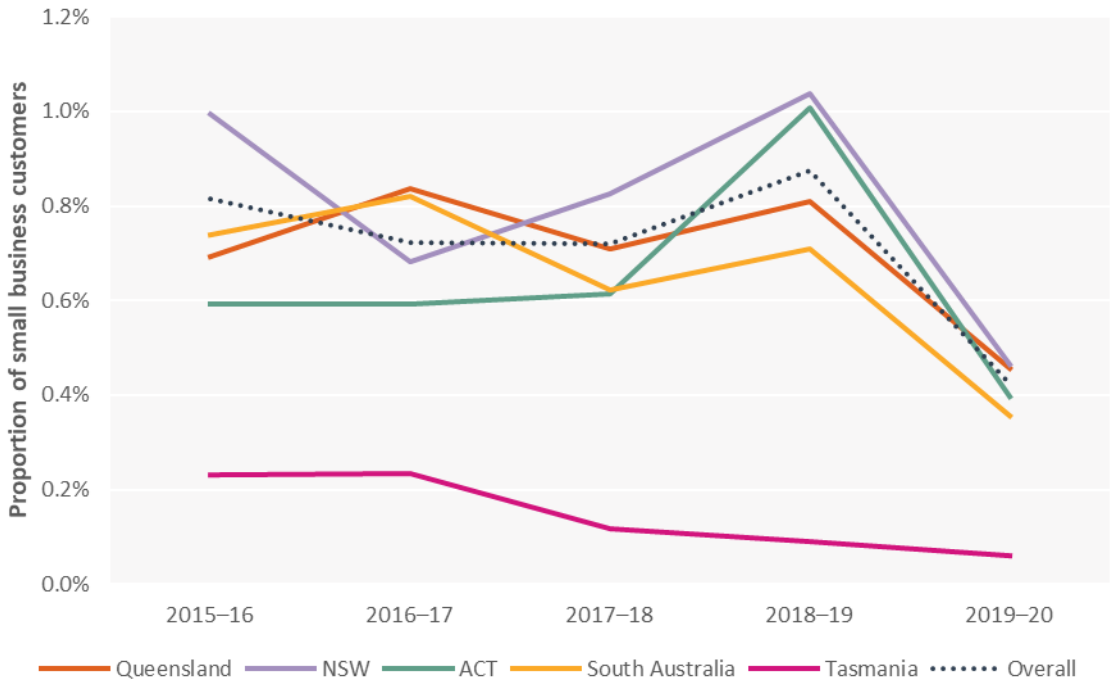
Figure 4.24 shows the percentage of small business electricity customers disconnected by jurisdiction. The disconnection freeze during Q4, driven by the AER Statement of Expectations, had a significant effect on disconnection outcomes, driving disconnections to almost zero during Q4. However, prior to Q4, the overall disconnection rate was already trending lower in 2019–20, indicating a downturn even before the impacts of COVID-19. All 3 Tier 1 retailers (AGL, EnergyAustralia and Origin Energy) contributed to this decrease.

NSW continues to have the highest disconnection rate for small business of all jurisdictions.

Tasmania continues to have the lowest rate of small business electricity disconnections by a significant margin, and prior to Q4 remained at a similar level to last year.

We encourage retailers to work with their small business customers to avoid disconnection, including through the use of the AER's *Sustainable Payment Plan Framework*[45] which includes guidance to retailers on how to engage with small businesses when tailoring payment plans.

Figure 4.24: Small business electricity disconnections as a percentage of customers



Source: AER.

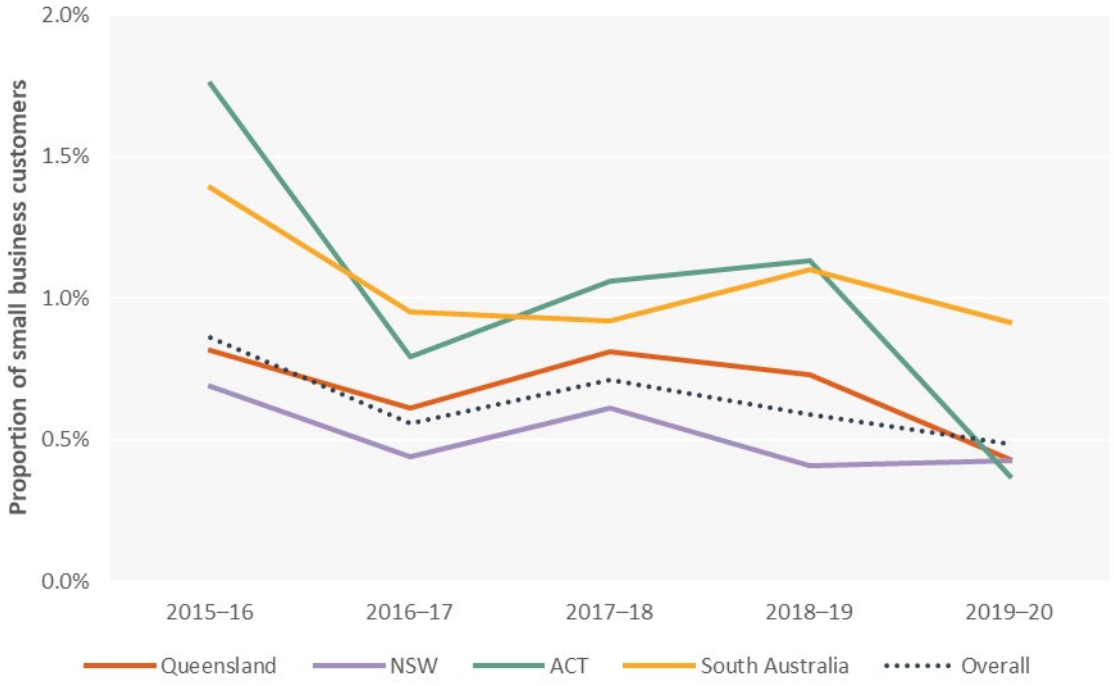
[45] Information on the Sustainable Payment Plan Framework can be found on our website.

Figure 4.25 shows the percentage of small business gas customers disconnected by jurisdiction. As with all disconnections, the overall proportion decreased in 2019–20 due to the Q4 pause on disconnections. The NSW small business gas disconnection rate increased to 2019–20, which was the only annual disconnection metric to do so across the residential and small business electricity and gas sectors. The rise occurred from a very small base (state-wide, there are well under 100 disconnections in a quarter on average for small business gas customers). The increase reflected an increase in AGL and EnergyAustralia's disconnections in Q3.

The ACT recorded the lowest disconnection rate, which was almost 70% lower than in 2018–19. Despite the substantial reduction, the ACT's small number of disconnections (currently below 10 per quarter) limits any conclusions that can be drawn.

South Australia had the highest rate of small business gas disconnections, and excluding Q4, the rate increased in 2019–20.

Figure 4.25: Small business gas disconnections as a percentage of customers



Source: AER.

5 Customer service

Key findings

- Retailer call responsiveness deteriorated at the beginning of the pandemic.
- Tier 2 retailers outperformed the major retailers on call responsiveness for the second year in succession.
- Customer complaints fell by nearly 30% compared to the previous year, with 146,456 customers raising complaints in 2019–20.
- Customers made 26% fewer complaints to ombudsmen compared with last year.

In this chapter, we assess retailer customer service by examining a range of performance indicators. These indicators are grouped according to:

- call centre responsiveness
- customer complaints

Customers contact their retailer for a variety of reasons, including billing inquiries, payment assistance, seeking better deals, or to lodge a complaint. Good retailer customer service can help give customers confidence that the market is working in their favour.

5.1 Call centre responsiveness

Retailers' responsiveness to enquiries and complaints is a key measure of customer service. We use three metrics to measure retailers' call responsiveness:

- Percentage of calls forwarded to an operator that are answered within 30 seconds
- Average time before an operator answers a call
- Percentage of calls abandoned before an operator answers.

Call centre performance has been affected by COVID-19. Quarterly call centre performance data (available in the data books) shows that performance was weakest in Q3 2019–20.[46] This is broadly consistent with our COVID-19 weekly reporting, which showed a high number of calls being made to retailers towards the end of March 2020.

This high number of calls, together with additional pressures on retailers (many closed their regular call centres and set up work from home arrangements for their staff), had negative impacts on other call centre performance metrics. But call centre performance improved in Q4 2019–20, as the number of calls to retailers declined and retailers settled into new patterns of operation.

[46] Guide to quarters: Q1 covers July, August and September; Q2 covers October, November and December; Q3 covers January, February and March; Q4 covers April, May and June.

Call centre performance proved to be a 'lead indicator' of the effects of COVID-19, being the first metric impacted as retailers and customers adjusted their behaviour in response to the pandemic. But after an initial period of adjustment, call centre performance has largely normalised, though the ongoing effects of the pandemic are evident in our debt metrics.

In table 5.1 we use a traffic light system to provide an overview of retailers' performance in relation to our call responsiveness indicators.

Indicator	Green	Amber	Red
Calls taken within 30 seconds	80% or more	51% to 79%	50% or less
Average wait time	30 seconds or less	31 seconds to 59 seconds	60 seconds or longer
Calls abandoned before being answered	5% or less	6% to 9%	10% or more

The table groups retailers by:

- major retailers – includes Tier 1 retailers (AGL, Origin Energy and EnergyAustralia) and primary regional retailers (ActewAGL, Aurora Energy and Ergon Energy)
- Tier 2 retailers – all retailers not included in the 'major retailers' category.

In 2019–20 there was an overall decline in call centre responsiveness for both 'major retailers' and Tier 2 retailers. Tier 2 retailers continued to have better call responsiveness overall than their larger counterparts.

Among the 'major retailers', Aurora Energy showed the greatest deterioration in performance, achieving a lower traffic light standard than last year on all three call centre indicators. Aurora Energy joined Ergon Energy and Origin Energy as the poorest performers among the major retailers, which each recording 'red' for 2 out of 3 call centre indicators.

Of the 'major retailers', AGL performed best on all indicators, meeting the 'green' standard for 'calls taken within 30 seconds' and 'calls abandoned before answered'. No major retailers met the 'green' standard for 'average wait time'.

ActewAGL was the only major retailer to record a traffic light improvement for any indicator, moving from the 'red' to 'amber' on 'calls abandoned before being answered'.

As in 2018–19, Tier 2 retailers overall performed better than the major retailers. However, compared to the previous year Tier 2 retailers' performance deteriorated.

Nine Tier 2 retailers met a lower traffic light standard than last year for 'calls taken within 30 seconds', while 5 met a higher standard. Similarly, 9 deteriorated on 'average call wait times' while 5 recorded an improvement.

For 'calls abandoned', 12 Tier 2 retailers met a lower traffic light standard than last year compared with 5 meeting a higher standard. Mojo Power performed the worst

on ‘calls abandoned’, with some 54% of calls being abandoned before being answered.

Four Tier 2 retailers – Enwave Mascot, Globird Energy, Power Club and Powershop – recorded a ‘red’ result on all 3 call centre indicators. Fourteen met the ‘green’ standard on all 3 indicators.

Table 5.1: Retailer call responsiveness

	Calls taken within 30 seconds (%)		Average wait time (sec)		Calls abandoned before answered (%)	
Major retailers	**2018–19**	**2019–20**	**2018–19**	**2019–20**	**2018–19**	**2019–20**
ActewAGL	53%	63%	176	87	15%	6%
AGL	87%	80%	17	34	2%	2%
Aurora Energy	71%	47%	24	70	4%	8%
EnergyAustralia	74%	66%	65	101	4%	5%
Ergon Energy	30%	39%	190	158	8%	6%
Origin Energy	63%	53%	76	145	11%	10%
Tier 2 retailers						
1st Energy	67%	82%	63	30	7%	7%
Alinta Energy	100%	78%	24	37	0%	3%
amaysim Energy	73%	81%	33	32	3%	2%
Arc Energy	-	75%	-	83	-	6%
BlueNRG	97%	69%	8	33	3%	16%
Bright Spark Power	-	92%	-	9	-	4%
CleanPeak Energy	-	86%	-	25	-	0%
CovaU	93%	94%	10	10	1%	1%
Diamond Energy	100%	-	0	-	0%	-
Discover Energy	-	95%	-	25	-	4%
Dodo	85%	94%	403	73	2%	6%
Elysian Energy	-	84%	-	27	-	3%
Energy Locals	80%	82%	34	27	2%	4%
Enova Energy	75%	77%	34	43	7%	8%
Enwave Mascot	91%	49%	18	153	0%	24%
ERM Power	72%	97%	15	9	1%	2%
Evergy	52%	74%	52	34	12%	7%
Flow Systems	0%	49%	49	31	1%	11%
Future X Power	70%	92%	16	22	30%	6%
GloBird Energy	-	49%	-	115	-	18%
Humenergy	-	76%	-	22	-	24%
Locality Planning Energy	95%	90%	25	19	2%	5%
Lumo Energy	72%	75%	45	74	4%	5%
Metered Energy	79%	86%	15	17	2%	1%

Tier 2 retailers	Calls taken within 30 seconds (%)		Average wait time (sec)		Calls abandoned before answered (%)	
	2018–19	2019–20	2018–19	2019–20	2018–19	2019–20
Mojo Power	67%	-	49	-	4%	54%
Momentum Energy	74%	54%	23	209	2%	13%
Nectr Energy	-	94%	-	20	-	26%
Next Business Energy	95%	79%	13	16	0%	0%
OVO Energy	-	90%	-	6	-	12%
People Energy	96%	-	15	-	3%	27%
Pooled Energy	82%	77%	13	74	17%	6%
Power Club	94%	2%	199	63	8%	44%
Powerdirect	80%	85%	33	30	3%	3%
PowerHub	100%	100%	10	5	0%	0%
Powershop	64%	43%	52	116	6%	10%
Qenergy	96%	93%	3	3	4%	7%
Real Utilities	85%	81%	27	28	3%	3%
ReAmped Energy	87%	94%	0	2,177	13%	1%
Red Energy	66%	38%	33	123	2%	9%
Savant Energy	90%	98%	10	8	2%	3%
Simply Energy	85%	82%	43	35	2%	3%
Sumo Power	42%	39%	230	174	7%	9%
Tango Energy	97%	84%	13	25	3%	3%
Tas Gas	-	90%	-	30	-	5%
The Embedded Networks Company	91%	95%	27	17	27%	6%
Winenergy	22%	42%	35	30	5%	17%

Note: Nil reported data is denoted by a dash for the following:

- Arc Energy, Bright Spark Power, Discover Energy, Elysian Energy, Globird Energy, Humenergy, Nectr Energy, OVO Energy, CleanPeak Energy and Tas Gas had very few or no customers in 2018–19, and did not report calls to an operator.
- Diamond Energy has not provided call centre data for 2019–20.
- OC Energy's call centre data is included in the reporting for its parent company, Origin Energy.
- People Energy and Mojo Power reported they implemented a temporary phone system which was unable to provide them with call wait times and which contributed to a higher call abandonment rate.

Source: AER.

5.2 Complaints

Energy retailers must report the number of complaints they receive across the following categories:

- Billing – includes complaints about prices, billing errors, payment arrangements, and debt recovery practices
- Energy marketing – includes complaints about sales practices, advertising, contract terms and misleading conduct
- Customer transfer – includes complaints about timeliness of transfer, disruption of supply due to transfer and billing problems directly associated with a transfer
- Smart meters – includes all metering related issues, broken down according to:
  - meter installation – all installation related complaints except those relating to installation delay
  - meter installation delay complaints
  - de-energisation – complaints in relation to being de-energised as a direct result of smart meter installation
  - data – complaints related to access to smart meter data
  - privacy – complaints related to privacy issues relating to installation of a smart meter
  - cost – complaints related to the cost of installing a smart meter
- Other – includes any complaints not covered by the categories above.

In 2019–20, retailers reported receiving nearly 30% fewer complaints than in the previous year. The number of complaints fell in every jurisdiction, and across every category (figure 5.1).

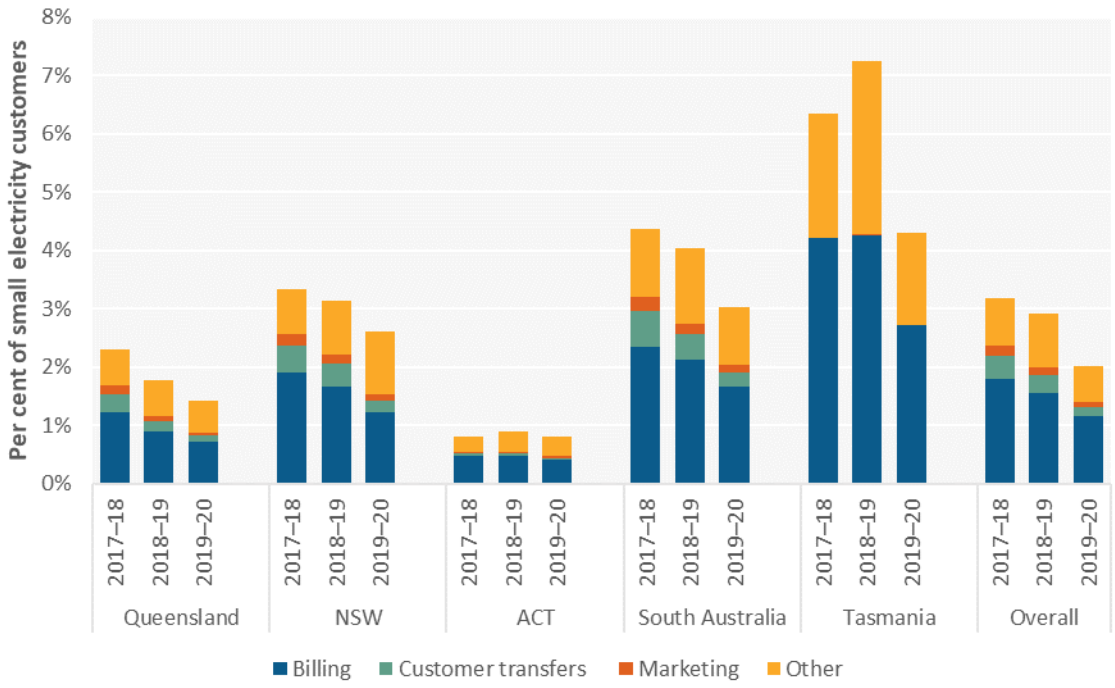
Tasmania continued to have the most complaints as a proportion of customers, but this fell from around 7% of customers in 2018–19 to 4% in 2019–20. The ACT continued to have the lowest proportion of customers registering complaints, with less than 1% of customers doing so.

Billing issues continued to be the top cause of complaints, accounting for more than half of all complaints.

Complaints relating to smart meters fell more markedly than other complaint categories (figure 5.2). About 1.4 million smart meters have been installed across Queensland, NSW, the ACT, South Australia and Tasmania, with around 100,000 new installations in each quarter of 2019–20.[47] In Q4 2018–19, there were nearly 1,800 smart meter related complaints; in Q4 2019–20 the number was less than 600. The decrease was mainly driven by a fall in the number of complaints about installation delays; however there was a decrease in all sub-categories of smart meter complaints.

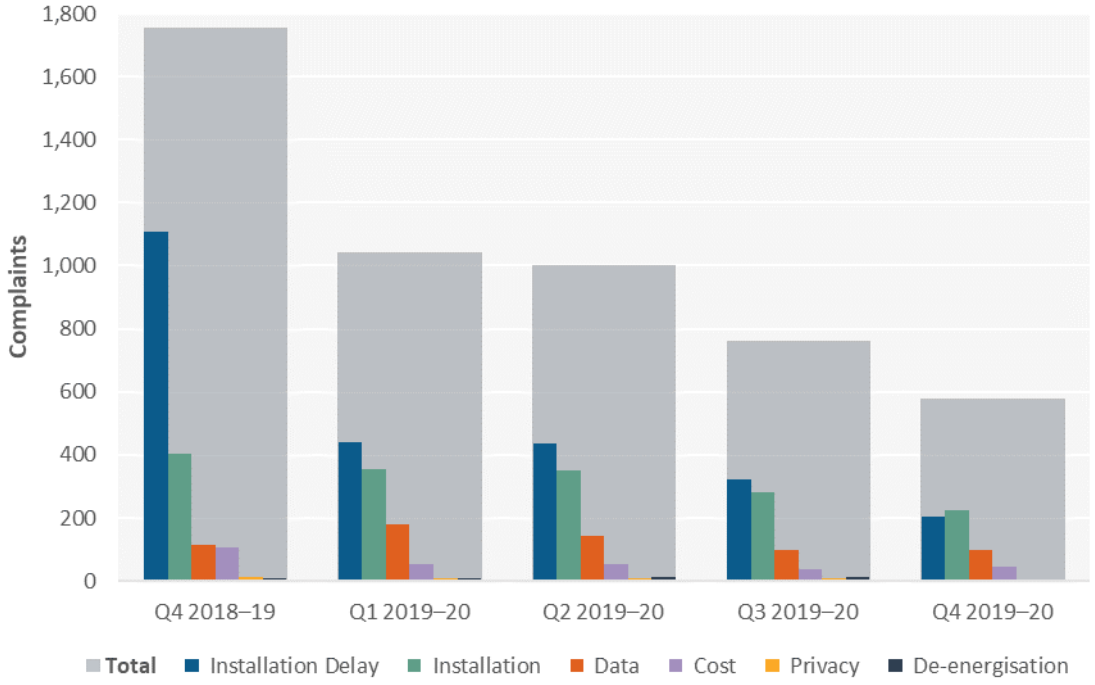
[47] The total number of smart meters is reported by AEMO, while the number of new installations is AER data.

Figure 5.1: Small customer complaint categories by jurisdiction



Source: AER.

Figure 5.2: Smart meter complaints



Source: AER.

5.2.1 Ombudsman complaints

Retailers with effective customer service policies and procedures should be able to promptly resolve complaints as they receive them. If the retailer does not satisfactorily deal with a customer's complaint, the customer can contact the energy ombudsman in their jurisdiction for further assistance.

From 2018–19 to 2019–20, the number of complaints to ombudsmen fell by 26%, which was in line with the decrease in complaints to retailers. Complaints to ombudsmen decreased in every jurisdiction except the ACT, where (despite a low level of complaints to retailers) customers refer a large and increasing proportion of complaints to the ombudsman.

Table 5.2 shows complaints to retailers and ombudsmen. A high proportion of escalations to an ombudsman indicates a retailer may not be resolving complaints effectively; conversely, a low proportion of complaints escalated to an ombudsman suggests a retailer may have effective dispute resolution processes.

For this report, we asked ombudsmen to provide qualitative commentary on any observed effects of COVID-19 on energy customers in their respective jurisdictions.

Ombudsmen indicated that during the pandemic, there were far fewer complaints relating to disconnections, credit listings and financial hardship than in previous quarters. One ombudsman expressed the view that this was due to retailers implementing both their own customer support programs and the AER Statement of Expectations in an effective manner to positively and proactively address complaints.

One ombudsman noted a significant decrease in customer service related complaints in Q1 2020–21 (subsequent to the reporting period covered by this report) compared with Q1 2019–20. However, another ombudsman reported an increase in complaints from March to May 2020, driven by complaints about delays in retailer response time. This information is consistent with our call centre performance data, which suggests performance deteriorated at the beginning of the pandemic (Q3 2019–20), before improving again.

Table 5.2: Complaints to retailers and ombudsmen

Major retailers	Complaints to the retailer 2018–19	Complaints to the retailer 2019–20	As a proportion of customers 2019–20	Complaints to the ombudsman 2018–19	Complaints to the ombudsman 2019–20	As a proportion of retailer complaints 2019–20
ActewAGL	1,107	1,235	1%	721	780	63%
AGL	69,208	41,703	3%	8,187	5,376	13%
Aurora Energy	20,409	12,197	4%	107	66	1%
EnergyAustralia	22,000	17,806	2%	7,277	4,380	25%
Ergon Energy	3848	3844	1%	0	0	0%
Origin Energy	46,371	26,598	1%	8,492	7,865	30%
Tier 2 retailers						
1st Energy	705	395	2%	415	210	53%
Alinta Energy	8,112	13,782	4%	2,579	1,974	14%
amaysim Energy	2,435	1,203	1%	1,264	624	52%
Arc Energy	0	66	1%	0	40	61%
BlueNRG	78	476	10%	28	41	9%
CleanPeak Energy	0	11	-	0	0	0%
CovaU	129	110	1%	110	74	67%
Diamond Energy	31	23	0%	44	37	>100%
Discover Energy	0	11	1%	0	1	9%
Dodo	1,034	782	2%	373	344	44%
Elysian Energy	0	2	1%	0	5	>100%
Energy Locals	234	232	1%	59	99	43%
Enova Energy	82	89	1%	24	9	10%
Enwave Mascot	0	5	4%	0	3	60%
ERM Power	5	2	-	9	4	>100%
Evergy	7	17	2%	13	18	>100%
Flow Systems	28	41	1%	6	4	10%
Future X Power	0	50	15%	0	1	2%
GloBird Energy	0	8	1%	0	7	88%
Humenergy	0	20	-	0	13	65%
Locality Planning Energy	228	118	0%	27	28	24%
Lumo Energy	1,534	1,590	4%	622	426	27%
Metered Energy	371	196	1%	0	0	0%
Mojo Power	126	78	2%	71	30	38%
Momentum Energy	504	1,368	4%	210	207	15%
Nectr Energy	0	12	-	0	1	8%
Next Business Energy	37	34	0%	27	35	>100%

Tier 2 retailers	Complaints to the retailer 2018–19	Complaints to the retailer 2019–20	As a proportion of customers 2019–20	Complaints to the ombudsman 2018–19	Complaints to the ombudsman 2019–20	As a proportion of retailer complaints 2019–20
OC Energy	38	0	0%	37	18	-
OVO Energy	0	20	-	0	0	0%
People Energy	10	45	10%	12	22	49%
Pooled Energy	184	221	13%	9	6	3%
Power Club	6	48	6%	1	13	27%
Powerdirect	2,352	1,725	3%	732	317	18%
PowerHub	3	5	2%	0	0	0%
Powershop	169	363	1%	141	85	23%
Qenergy	642	232	2%	137	80	34%
Real Utilities	3	2	0%	4	2	100%
ReAmped Energy	16	138	1%	0	35	25%
Red Energy	15,404	9,149	3%	1,459	841	9%
Sanctuary Energy	34	42	-	22	10	24%
Savant Energy	21	1	0%	16	7	>100%
Simply Energy	9,627	9,876	7%	1,323	1,412	14%
Sumo Power	260	436	6%	118	73	17%
Tango Energy	2	5	2%	1	0	0%
Winenergy	14	44	1%	62	104	>100%
Total	**207,408**	**146,456**	**2.0%**	**34,739**	**25,727**	**18%**

Notes:

Some ombudsman complaints numbers for 2019–20 are different to those we reported last year, due to ombudsmen providing updated figures.

Ombudsmen staff may raise multiple complaints in their complaint-handling database to effectively manage each issue or element of a customer's complaint. As such, these numbers may not align with total complaint numbers reported by retailers.

Complaint-counting methodology may vary by ombudsman, which can lead to variances between retailers based on the jurisdictions in which their customer base is located.

Source: AER.

6 Compliance and enforcement

Key findings

- In 2019–20 we obtained a range of compliance and enforcement outcomes including:
  - instituting legal proceedings in relation to 3 matters
  - payment of 18 infringement notices totalling $360,000 in penalties for alleged conduct
  - auditing 13 retailers and distributors
  - accepted court enforceable undertakings from three energy businesses, two of which included subsequent audits of the businesses.
- In 2020–21 our retail market compliance work program will focus on ensuring customers in financial difficulties can access affordable payment plans and hardship programs (and are not wrongfully disconnected), and ensuring customers using life support equipment are protected, along with our other Compliance and Enforcement priorities.

6.1 Our approach to compliance and enforcement

The AER Compliance & Enforcement Policy (dated July 2019), along with our compliance and enforcement priorities for 2019–20, sets out our approach to promoting compliance with the Retail Law, National Electricity Law and National Gas Law (and the respective Rules and Regulations). It also provides guidance on how we respond to potential breaches of the laws and rules, and the factors we may have regard to when deciding whether to take enforcement action.

Our compliance and enforcement work targets conduct that:

- significantly harms customers, in particular vulnerable or disadvantaged customers
- harms the competitiveness or the operation of energy markets
- harms the security or reliability of the gas and electricity systems
- inhibits consumers' participation in energy markets.

6.2 Key priority work of 2019–20

In 2019–20 we focused our retail compliance and enforcement work on four key priority areas:

- ensuring that customers in financial difficulty receive the required assistance from retailers, including access to hardship programs and payment plans
- ensuring that customers using life support equipment are protected, and that retailers and distributors understand and comply with their life support obligations
- ensuring that retailers provide accurate and timely retail market performance data to the AER and the Australian Energy Market Operator (AEMO)
- supporting retailers' and distributors' transition to metering contestability to ensure consumer and market benefits are delivered.

In 2019–20 our retail focused enforcement action resulted in:

- the AER instituting civil proceedings against two energy retailers in relation to three separate investigations
- retailers and distributors paying $360,000 in penalties in response to 18 infringement notices for allegedly failing to meet their obligations under the Retail Law and Rules
- the AER accepting court enforceable undertakings from three energy businesses, two of which included subsequent audits of the businesses.[48]

We undertook compliance activities including:

- auditing three energy retailers on compliance with their obligations under the Retail Law and Rules to obtain and record customer's explicit informed consent to certain transactions
- auditing six energy businesses on the adequacy and effectiveness of their compliance policies, systems and procedures in relation to life support obligations
- commencement of auditing of four businesses on the processes, systems and procedures they have in place to record and submit performance data to the AER
- publishing compliance updates on customer hardship policies, timeframes to install and repair meters for small customers, and obligations to offer to supply energy to both residential and small business customers.

6.3 COVID-19

The COVID-19 pandemic has significantly impacted the Australian community and has emphasised the importance of consumer protections provided by the Retail Law and Rules.

In late March 2020 the AER released a Statement of Expectations for energy businesses to further protect consumers and the market during COVID-19. Further information on the AER's response to COVID-19 is set out in chapter 1.

6.4 Enforcement outcomes

In the retail energy market our focus is on preventing and addressing consumer harm, and ensuring the effective operation of the energy market so energy customers feel confident to engage. We aim to hold businesses to account if they fail to comply with their obligations under the Retail Law and Rules. Our approach allows us to leverage enforcement outcomes across the sector to achieve the strategic benefits of general deterrence.

We have a range of enforcement options available for us to respond and resolve breaches of the Retail Law and Rules. We have the power to initiate civil proceedings, and can currently seek penalties of up to $100,000 per contravention. We can also issue infringement notices if we believe a breach has been committed. The penalty payable under an infringement notice is currently $4,000 for a natural

[48] We also undertook enforcement action under the National Electricity Rules during this period that resulted in the AER instituting five civil proceedings and businesses paying seven infringement notices ($140,000).

person and $20,000 for a body corporate. We may also accept a court enforceable undertaking as part of a resolution to an investigation. This may be appropriate where a tailored solution is required and where a need exists to mitigate against future breaches.

We have discretion in deciding whether to take enforcement action and the nature of that action. We seek to ensure our enforcement response effectively addresses harm and has the effect of deterring both the specific business and industry generally from future similar conduct. We may also seek to test the operation of the law where there is uncertainty. Factors that may inform our decision on an appropriate enforcement tool include:

- the harm caused or the benefit derived from the conduct
- the nature and extent of the conduct
- whether the conduct was deliberate or avoidable
- the business' compliance history
- the response of the business
- whether any other agencies are taking enforcement action.

Tables 6.1 to 6.3 summarise the enforcement action we took under the Retail Law and Rules in 2019–20.

Table 6.1 – Civil proceedings

Description	Business
Alleged failure to register customers requiring life support equipment (and related obligations) and failure to comply with an enforceable undertaking	EnergyAustralia
Failure to implement small customer hardship policy, and to offer payment plans to customers in financial difficulty	EnergyAustralia
Failure to submit retail market performance data on time to the AER	Four subsidiaries of AGL Energy Limited

Table 6.2 – Infringement notices

Description	Infringement Notices	Business
Alleged failure to provide notice of planned interruption to life support customers	3	TasNetworks ($60,000)
Alleged failure to maintain register of life support customers	5	Momentum ($100,000)
Alleged disconnection of small customers in circumstances not permitted under energy laws	4	Origin Energy ($80,000)
Alleged failure to obtain explicit informed consent to energy contracts from small customers	4	EnergyAustralia ($80,000)
Alleged sale of energy without an authorisation or exemption under energy laws	2	Discovery Holiday Parks ($40,000)

Table 6.3 – Court Enforceable undertakings

Description	Business
Alleged failure to register customers requiring life support equipment (and related obligations)	EnergyAustralia
Alleged failure to provide notice of planned interruption to life support customers	TasNetworks
Alleged disconnection of small customers in circumstances not permitted under the Retail Rules	Origin Energy

6.5 Stronger penalty framework

We continue to advocate for higher penalties when businesses fail to follow the rules, and stronger market monitoring and information gathering powers to undertake our legislative functions.

The *Statutes Amendment (National Energy Laws) (Penalties and Enforcement) Bill* was agreed by COAG Energy Ministers in March 2020. It passed through the South Australian Parliament to become law on 15 October 2020. This Act provides for civil penalty provisions to be increased, and classified into three tiers. The AER engaged with Australian, state and territory government energy officials, the Australian Energy Market Operator (AEMO), the Australian Energy Market Commission (AEMC) and through wider public consultation to recommend a position on each civil penalty provision. The penalties will be given force by Regulations made by the South Australian Minister.

The associated corporate maximum penalties will be:

- Tier 1: greater of $10 million, 3 times the benefit obtained from the breach, or 10% of annual turnover
- Tier 2: $1.435 million (plus $71,800 per day for continuing breaches)
- Tier 3: $170,000 (plus $17,000 per day for continuing breaches).

The Act also provides the AER with the power to compel a person to attend an oral examination, in addition to existing compulsory information and document powers. The AER will publish a guideline on the use of compulsory information gathering notices once the oral examination power comes into effect.

These penalties and powers bring the energy laws into alignment with similar consumer and market protections such as those contained in the Australian Consumer Law.

6.6 Retail market – compliance & enforcement priorities

6.6.1 Ensuring protection of hardship customers

Energy is an essential service and retailers are required under the Retail Law and Rules to provide protections to customers in financial difficulties. This includes offering payment plans that account for a customer's capacity to pay, as well as timely entry to a hardship program.

Retailers' hardship policies approved by the AER must enable retailers to identify residential customers experiencing payment difficulties due to hardship and to assist those customers to better manage their energy bills on an ongoing basis. Customers should only be disconnected as a last resort:

In 2019–20, we took the following enforcement and compliance action in relation to this priority:

- we instituted civil proceedings against **EnergyAustralia** for the wrongful disconnection of energy customers experiencing financial stress and failures to offer or apply appropriate payment plans and maintain and implement its hardship policy. On 5 November 2020, EnergyAustralia was ordered to pay $1.5 million in penalties after the Federal Court declared the retailer breached the Retail Law and Rules in relation to the alleged conduct
- **Origin Energy** paid four infringement notices for alleged wrongful disconnection of energy customers. Origin Energy also provided an enforceable undertaking to address inadequacies in its management of customer disconnections under the Retail Rules
- we issued two **compliance checks** to remind energy businesses of our expectations regarding compliance with the Retail Law and Rules in their implementation of customer hardship protections, and in ensuring customers are not denied access to energy supply due to poor payment history.

6.6.2 Ensuring protection of life support customers

An unexpected loss of power supply for customers who rely on life support equipment can be dangerous or even fatal. Retailers and distributors are required to comply with obligations to protect customers that use life support equipment. These include obligations to register customers as requiring life support equipment and ensuring they are not disconnected, as well as providing notice of planned interruptions (this protection is provided to all types of customers). Retailers and distributors are also required to provide life support customers with relevant information including advice on how to plan for a power outage as well as a number to call if there is an unexpected interruption to supply.

In 2019–20, the AER took the following enforcement and compliance action in relation to this priority:

- the AER instituted civil proceedings against **EnergyAustralia** for alleged failures to register customers requiring essential life support equipment and related obligations, and an alleged failure to comply with an enforceable undertaking relating to the life support obligations. As part of these proceedings the AER obtained an interlocutory injunction from the Federal Court requiring EnergyAustralia to use best endeavours to comply with a binding undertaking given to the AER in August 2019 until further orders are made
- **Momentum** paid 5 infringement notices for alleged failure to maintain its life support register (as a result of incorrectly removing customers from the register)
- **TasNetworks** paid 3 infringement notices for alleged failure to provide prior notice of planned interruptions to energy supply to customers requiring life support equipment. TasNetworks also provided an enforceable undertaking to the AER to address inadequacies in its compliance systems
- as part of the AER's retail compliance audit program, retailers **Mojo Power**, **Ergon Energy** and **Momentum Energy**, and distributors **Endeavour Energy**, **Evoenergy** and **Essential Energy** undertook audits of their processes, systems and procedures to manage their obligations to protect life support customers. The audits identified a number of areas in which the audited retailers and distributors could strengthen and improve their management of the life support obligations. These included: ensuring medical confirmation forms are complete and compliant, updating registration and de-registration processes, improving life support register reconciliation between distributors and retailers, reducing reliance on manual processes, strengthening internal compliance controls and exception and breach reporting processes, and improving staff training. All audited retailers and distributors provided plans and timelines for the implementation of auditor recommendations and system and process improvements. The AER have monitored implementation of these plans and all have now either been completed or are close to completion.

6.6.3 Provision of accurate and timely information to the AER for economic or marketing monitoring functions

Retailers are required to submit information and performance data to the AER under our Performance Reporting Procedures and Guidelines. This data plays an important role in informing stakeholders and promoting confidence in the retail energy market. It is relied upon by a wide range of stakeholders, including policymakers, other industry bodies, market participants, energy ombudsman schemes, financial counsellor groups, not for profits, news organisations and other various external entities.

In recent years, we experienced an escalation in retailers submitting inaccurate data. When retailers provide inaccurate data, it has a material impact on all stakeholders who use the data in evidence-based policymaking.

In 2019–20, we took the following enforcement and compliance action in relation to this priority:

- we instituted civil proceedings against four subsidiaries of **AGL** (**AGL Sales**, **AGL South Australia**, **AGL Retail Energy** and **Powerdirect**) for failures to submit retail market performance data on time to the AER. On 12 November 2020, AGL was ordered to pay $1.3 million in penalties after the Federal Court declared that AGL had breached the Retail Law in relation to the alleged conduct
- as part of our retail compliance audit program, we required four energy retailers to commence independent compliance audits of the processes, systems and procedures they have in place to record and submit performance data to the AER under the Retail Law. These audits will be completed by the end of 2020.

6.6.4 Supporting the transition to metering contestability to ensure consumer and market benefits are delivered

Since December 2017, retailers have been responsible for providing metering services. The Retail Rules require retailers to inform customers of meter installation timeframes and provide flexibility to agree with customers on a date for installing a meter. In addition, distributors, retailers and metering coordinators must cooperate and provide all reasonable assistance to each other in meeting their obligations for the sale and supply of energy to their shared customers.

In 2019–20, **Dodo Power and Gas, Origin Energy and EnergyAustralia** paid one, two and four infringement notices respectively for allegedly failing to promptly appoint a metering coordinator upon notification that a customer's meter was faulty. Retailers are responsible for providing meter services to customers, including appointing a metering coordinator to arrange repairs. This is important to ensure that customers are billed on the basis of actual consumption wherever possible.

In July 2020, we issued a compliance update which included specific meter installation and repair timeframes for customers with shared fusing,[49] and associated

[49] Shared fusing is when customers in separate premises share electricity connections, for example in some apartment blocks. This means the supply of all customers who share the connection may need to be interrupted for metering work.

obligations for distributors to carry out requested planned interruptions to enable new meter installation or meter repairs within particular timeframes.

We continue to closely monitor compliance with the metering Rules, including through retailer market performance data and ombudsman reports, and by engaging with distributors, retailers and metering coordinators to deal with issues observed.

6.6.5 Other enforcement outcomes

In wider enforcement work **beyond our retail market priorities:**

- **EnergyAustralia** paid $80,000 in penalties in response to infringement notices for alleged failure to obtain customers' explicit informed consent to enter into new energy contracts
- **Discovery Parks** paid $40,000 in penalties in response to infringement notices for allegedly selling energy to customers without a valid authorisation or exemption under the Retail Law.

6.7 Focus for 2020–21

In 2020–21 we will continue to promote conditions which support consumer trust and confidence in energy markets. We remain committed to driving high levels of compliance across the energy industry and will use a full suite of compliance and enforcement powers to protect the interests of household and small business consumers.

In 2020–21 our retail market work program will focus on supporting customers and the market through COVID-19 by:

- ensuring customers in financial difficulties can access affordable payment plans and hardship programs, and are not wrongfully disconnected
- ensuring customers using life support equipment are protected
- ensuring the provision of accurate and timely information to the AER and AEMO which is critical to the performance of our functions
- supporting the transition to metering contestability to ensure customer and market benefits are delivered.

Appendix 1: Prepayment meters

A small number of residential customers in Tasmania have electricity prepayment meters (PAYG) installed. Table A1.1 shows the number of customers using PAYG (as at the end of June each year), as well as the number and length of self-disconnections[50] that occurred over the past few years.

In 2019–20 the number of customers with prepayment meters decreased significantly from previous years. Prepayment meters in Tasmania have been gradually phased out since late 2018. During 2019, Aurora Energy conducted a large project to switch customers to newer Type 4 meters. A small number of residual prepayment meters remain which will be decommissioned in the future.

Table A1.1: Disconnection of customers using prepayment PAYG meters in Tasmania

Period	PAYG customers	PAYG systems capable of detecting and reporting self-disconnections	Self-disconnection events	Average duration of self-disconnection events
2012–13	33,158	4,662	1,068	237
2013–14	30,640	7,194	2,069	290
2014–15	29,612	8,902	2,632	327
2015–16	26,670	10,854	3,098	246
2016–17	23,641	10,911	3,232	262
2017–18	21,076	10,841	2,915	252
2018–19	10,599	4,589	2,493	221
2019–20	26	0	430	146

Source: AER.

[50] Self-disconnection means an interruption to the supply of energy because a prepayment meter system has no credit (including emergency credit) available.

Appendix 2: Pricing and affordability methodology

To analyse the range and median of offers, we estimate annual bill costs for market and standing offers within each jurisdiction. These are comprised of:

- average annual household electricity and gas usage in each major distribution zone
- retail electricity and gas offers in each major distribution zone.

We measure energy affordability for each distribution zone, based on:

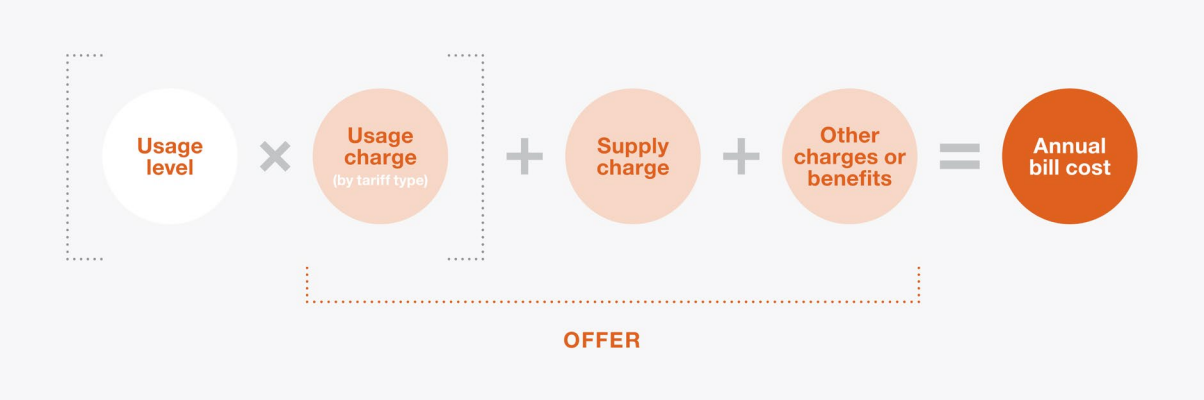
- annual market and standing offer bill costs
- concessions offered to those who may experience financial hardship
- household disposable income.

These inputs are outlined in more detail below.

Annual Bill Cost

The calculation of an annual bill cost is comprised of several components including usage levels, usage charges, supply charges, and other fees such as membership or metering fees. Figure A2.1 disaggregates these, and highlights the components that feed into a retailer's offer.

Figure A2.1: Components of retail annual bill costs



Usage levels

Our sources for usage vary across electricity and gas, due to the differing availability of public information. The levels of electricity and gas usage applied in our analysis can be found in tables A2.1 and A2.2.

Electricity

We based our analysis on the average household electricity usage for each distribution zone in each year. This is sourced from information provided by distribution network businesses in response to Regulatory Information Notices (RIN) issued by the AER. This data includes the total usage for all residential users (including usage through controlled loads), and total residential customer numbers.

This data is collected on a financial year basis for all regions except Victoria, which is collected on a calendar year basis.

Gas

We source average gas usage estimates for each region from a bill benchmarking survey conducted by ACIL Allen on behalf of the AER. These surveys are completed every three years. The regional average usage is applied to all distribution zones in that region.

Table A2.1: Annual electricity usage levels

		Annual electricity usage per customer (kWh)			
Jurisdiction	Distribution area	2016–17	2017–18	2018–19	2019–20
Queensland	Energex	5,816	5,641	5,712	5,808
	Ergon Energy	6,220	5,823	5,838	6,167
NSW	Ausgrid	5,731	5,496	5,513	5,472
	Endeavour Energy	6,683	6,370	6,346	6,096
	Essential Energy	6,304	6,089	6,093	6,014
ACT	Evoenergy	7,009	6,545	6,588	6,372
South Australia	SA Power Networks	5,104	4,752	4,671	4,606
Victoria	AusNet	4,970	5,018	4,507	4,612
	CitiPower	4,410	4,500	4,353	4,351
	Jemena	4,202	4,278	4,172	4,162
	Powercor	5,031	5,063	4,936	4,967
	United Energy	4,565	4,633	4,526	4,541
Tasmania	TasNetworks	7,982	7,976	7,975	8,202

Source: Economic benchmarking regulatory information notice (RIN) responses provided by network businesses to the AER.

Table A2.2: Gas usage levels

Annual gas usage per customer (MJ)				
Queensland	NSW	ACT	South Australia	Victoria
7,873	22,855	42,078	17,501	57,064

Source: ACIL Allen Report to the AER, *Energy Consumption Benchmarks*, October 2017.

Offers

We collect offer details for both electricity and gas from our energy price comparison website, *EnergyMadeEasy* (www.energymadeeasy.gov.au). For Victoria (the only region in our analysis in which the National Energy Retail Law had not commenced at 30 June 2020), we collect tariff details from the Department of Environment, Land,

Water and Planning, based on information submitted by retailers to the Victorian Energy Compare website (https://compare.switchon.vic.gov.au).

Our analysis is based on all unique generally available offers in each distribution zone at a point in time in June 2017, June 2018, June 2019, June 2020 and September 2020. We only consider single rate offers, which represent the most common offer type that energy customers are on. We filter these to remove offers with additional elements above an accessible, energy-only basic offer. For example, we remove offers with a solar/green component and offers that have specific eligibility criteria.

Annual Bill Calculation

We use the energy usage levels in tables A2.1 and A2.2 to calculate an annual bill cost for each single rate offer. The range of offers illustrates the price spread between the highest and lowest offer in each distribution zone. We use the median (rather than a simple average) to ensure the analysis is not skewed by a small number of very cheap or very expensive offers.

The annual bill estimates include key conditional discounts offered by energy retailers (such as discounts for paying on time, or paying by direct debit) but exclude discounts for bundling or dual fuel offers. One-off credits and non-cash incentives are also excluded. Ongoing fees that are attached to an offer (such as membership or metering fees) are included in the annual bill calculation.

We take seasonal pricing into account when calculating the annual bills, but we assume a consistent level of usage throughout the year.

Electricity

In this report we conduct 2 types of analysis in electricity.

For analysis of trends in electricity prices, we keep usage constant for the time series by applying the usage figures for the latest year for each distribution zone. We then divide the annual bill by average usage to identify costs on a per unit basis. This analysis isolates the effect of changes in retailer offers on annual bills.

For analysis of the cost impact on households, we vary the usage data across each year of the time series. This gives a better sense of what consumers are actually paying for their annual bills in each distribution zone.

We recognise that basing our analysis on total electricity usage (including electricity used by controlled loads) will tend to overestimate the annual cost of electricity when applied to single rate offers. This is because it does not reflect that in practice some usage is charged at a lower controlled load rate.

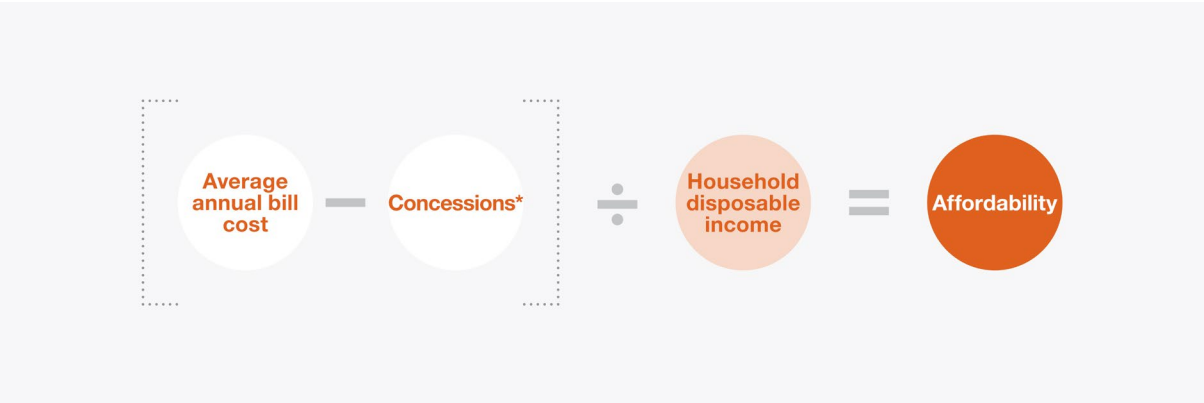
Gas

As we do not have a data source for the change in gas usage across years, all of our analysis uses a consistent usage estimate across the time series.

Affordability

To get an estimate of affordability we calculate annual bill costs as a proportion of household disposable income for average and low income households for each region. Figure A2.2 illustrates this calculation.

Figure A2.2: Components of affordability analysis



* Concessions are only applied to annual bill costs for low income households

Concessions for low income households

For our analysis for low income households, we adjust the annual bill calculation to account for the benefit of any relevant energy concessions in each region. State and territory governments administer concessions to provide financial assistance to individuals, including people who are elderly, have a disability, are low income earners, or are experiencing disadvantage. We have included the value of all concessions that are available to households on the basis of low income. Concessions available in 2019–20 are outlined in table A2.3.

Household disposable income

Household disposable income best represents the remaining income (after income tax, the Medicare levy and the Medicare levy surcharge are deducted) available to households for expenditure on goods and services, including electricity and gas bills.

This data is collected every 2 years by the Australian Bureau of Statistics (ABS), and is most recently available for the reference periods 2015–16 and 2017–18.[51] We estimated income levels for 2016–17 as the midpoint between these data sets. We extrapolated 2018–19 and 2019–20 income by inflating 2017–18 income (table 4). Low income household data is inflated based on the consumer price index. Average household data is inflated based on the wage price index. This difference in approach reflects the main source of income for each group (government assistance and wages respectively).

[51] ABS, Household Income and Wealth, Australia, 2017–18.

Table A2.3: Energy concessions in 2019–20

Region	Electricity	Gas
Queensland	$341	$75
NSW	$314	$121
ACT	$233	$233
South Australia	$148	$148
Victoria	17.5% off after the first $172	17.5% off after the first $62*
Tasmania	$560	na

* Gas discount only applies for usage in the period 1 May to 31 October.

Note: Where concession value differs by household characteristics, we have applied the lower value. For broader 'cost of living' concessions that apply in South Australia and the ACT, we have applied one third of the total concession value to electricity, and one third to gas (assuming the remaining one third is applied to other utilities or household expenses).

Source: State and territory government websites.

Low income households

We use equivalised household disposable income data to identify low income households. This measure reflects a household's purchasing power, as it takes into account the household's ability to share resources and enables better comparisons between different size households.[52]

We represent low income households in each state and territory using an adjusted lowest equivalised income quintile. This comprises the average income of the lowest 2 deciles, excluding the first and second percentiles.

For the identified households, we use the unequivalised household disposable income as the basis for our affordability analysis.

The average household

We represent the income of all households by the 'all person' value (the average across all quintiles) of unequivalised household disposable income.

[52] An explanation of equivalisation is available under 'key concepts' in ABS, 6523.0 – Household income and wealth, Australia, 2015–16.

Table A2.4: Household disposable income

		2016–17	2017–18	2018–19	2019–20
Queensland	Low income households	$33,280	$33,124	$33,681	$33,329
	Average household	$85,852	$86,996	$88,969	$90,669
NSW	Low income households	$34,138	$33,852	$34,416	$34,060
	Average household	$97,968	$100,516	$102,960	$105,010
ACT	Low income households	$45,240	$42,900	$43,630	$43,361
	Average household	$107,120	$112,008	$114,312	$116,970
South Australia	Low income households	$31,174	$31,824	$32,278	$32,534
	Average household	$79,534	$82,472	$84,270	$86,262
Victoria	Low income households	$33,982	$35,048	$35,510	$35,633
	Average household	$90,012	$92,664	$95,116	$97,423
Tasmania	Low income households	$30,264	$30,992	$31,715	$32,132
	Average household	$72,488	$77,168	$79,153	$81,017

Appendix 3: South Australian service standards

Clause 7 of the National Energy Retail (Local Provisions) Regulations imposes minimum service standards on retailers selling energy to small customers in South Australia. The service standards require retailers to use best endeavours to respond to 95% of written enquiries within 5 business days and to answer 85% of telephone calls within 30 seconds between 8 am and 6 pm from Monday to Friday.

Retailers must report to the AER on their compliance with these standards and give reasons for any non-compliance as well as information on strategies to improve compliance in the future.

Several retailers failed to respond to 95% of written enquiries within 5 business days, up from 2 retailers in 2018–19. Similar to 2018–19, a number of retailers failed to answer 85% of telephone enquiries within 30 seconds in 2019–20.

Reasons provided for failure to meet the targets included lack of staff training, higher numbers of calls received than projected and system issues. The COVID-19 pandemic also impacted the delivery of services in the first half of 2020.

A number of retailers also reported an inability to separate calls by jurisdiction. As such, the data reported by these retailers relates to their performance across all jurisdictions in which they operate.

Table A3.1: South Australian service standards

Retailer	Percentage of written enquiries responded to within 5 business days			Percentage of telephone enquiries answered within 30 seconds		
	2017–18	2018–19	2019–20	2017–18	2018–19	2019–20
AGL	99%	98%	99%	79%	88%	80%
Alinta Energy	95%	100%	90%	65%	89%	95%
amaysim Energy	56%	100%	100%	55%	73%	81%
BlueNRG	100%	100%	100%	100%	97%	69%
Delta Electricity	-	-	100%	-	-	100%
Diamond Energy	95%	95%	100%	95%	95%	100%
Discover Energy	-	-	100%	-	-	100%
Dodo	98%	96%	91%	87%	85%	74%
Elysian Energy	-	-	100%	-	-	95%
Energy Locals	-	98%	94%	-	78%	67%
EnergyAustralia	99%	60%	100%	67%	74%	67%
Enwave Mascot	-	100%	100%	-	91%	48%
ERM Power	100%	100%	100%	72%	79%	97%
Future X Power	-	-	95%	-	-	89%
GloBird Energy	-	-	100%	-	-	56%
Humenergy	-	-	100%	-	-	100%
Infigen Energy	-	-	100%	-	-	100%

Retailer	Percentage of written enquiries responded to within 5 business days			Percentage of telephone enquiries answered within 30 seconds		
	2017–18	2018–19	2019–20	2017–18	2018–19	2019–20
Lumo Energy	99%	65%	96%	83%	74%	74%
Momentum Energy	96%	90%	95%	92%	75%	57%
Mojo Power	-	-	100%	-	-	100%
MTA Energy	-	-	100%	-	-	100%
Next Business	-	100%	84%	-	92%	79%
OC Energy	-	-	99%	-	-	99%
Origin Energy	99%	100%	99%	95%	89%	93%
People Energy	100%	100%	100%	95%	93%	100%
Power Club	-	100%	95%	-	91%	0%
Powershop	-	100%	99%	-	64%	43%
Powerdirect	99%	98%	99%	92%	88%	85%
Qenergy	100%	100%	100%	95%	92%	100%
ReAmped Energy	-	-	98%	-	-	80%
Red Energy	98%	98%	100%	77%	83%	80%
CleanPeak Energy	-	-	99%	-	-	100%
Sanctuary Energy	100%	100%	0%	100%	90%	0%
Savant Energy	100%	100%	100%	88%	90%	97%
SIMEC ZEN	-	-	100%	-	-	100%
Simply Energy	97%	99%	81%	89%	90%	85%
Sustainable Saving	-	-	100%	-	-	100%
Tango Energy	100%	100%	100%	100%	97%	79%
Winenergy	-	95%	63%	-	87%	42%

Source: AER.

Appendix 4: Distributor performance

Section 285 of the Retail Law specifies that a retail market performance report must include (among other things) a report on the performance of distributor service standards and associated guaranteed service level (GSL) schemes. The Retail Law defines distributor service standards as service standards imposed on distributors by or under energy laws, including, for example, service standards relating to the following:

- the frequency and duration of supply interruptions
- the timely notice of planned interruptions
- the quality of supply (excluding frequency) for electricity (including voltage variations)
- wrongful de-energisation (disconnection)
- timeframes for de-energisation and re-energisation (reconnection)
- being on time for appointments
- response time for fault calls
- the provision of fault information.

A number of service standards are set by the individual jurisdictions and therefore differ between states and territories. The following tables summarise distributors' performance against their respective jurisdictional service standards and GSL schemes.

Summary of distributor performance

Queensland

- Energex and Ergon Energy each reported fewer wrongful disconnections and fewer instances of failing to punctually attend appointments than the previous year.
- Ergon Energy, and to an even greater extent Energex, reported fewer instances of failing to provide customers with notice of planned interruptions.
- System average interruption duration index (SAIDI) and system average interruption frequency index (SAIFI) indicators deteriorated for both Energex and Ergon Energy. Despite this, both distributors paid substantially less compensation to customers under the GSLs for both interruption duration and frequency.
- In total, Energex compensated customers $376,000 under the GSL scheme, down from $3.4 million in 2018–19. Ergon Energy compensated customers $597,000, down from $1.2 million in 2018–19.

NSW

- Ausgrid and Essential Energy reported a larger number of customer complaints in 2019–20, while Endeavour Energy reported fewer complaints.
- Endeavour Energy had the best call centre performance of the NSW distributors. Endeavour Energy and Essential Energy both reported improvements in both call centre performance indicators. Ausgrid reported an improvement on calls answered within 30 seconds, which was up from 83% last year, but a deterioration in the call abandonment rate.
- The 3 NSW distributors paid substantially more compensation to customers for late streetlight replacements than last year. This still held true for Endeavour Energy, despite a reduction in its number of late streetlight replacements.

ACT

- Evoenergy reported 7% fewer customer complaints than last year.
- While Evoenergy reported 8% fewer planned interruptions than last year, it reported twice as many unplanned interruptions.
- Evoenergy reported improvements for all SAIFI indicators, but its performance compared to last year was mixed for the SAIDI and customer average interruption duration index (CAIDI) indicators.

South Australia

- South Australia Power Networks (SAPN) paid more compensation to customers for late street light repairs up from $2,950 in 2018–19, despite reporting fewer late replacements than last year.
- SAPN reported just one occasion when its representative was more than 15 minutes late for a customer appointment, which is also what they reported in 2018–19.
- SAPN paid less compensation to customers for supply interruptions than last year, with less compensation paid both for exceeding frequency and duration GSL thresholds.

Tasmania

- TasNetworks reported 25% fewer customer complaints than last year.
- TasNetworks reported 43% more customers who were not notified of a planned interruption.
- TasNetworks reported a 9% increase in compensation paid to customers for exceeding interruption duration thresholds, but a 64% decrease in compensation paid for exceeding interruption frequency thresholds.

Table A4.1: Queensland electricity distributor performance 2019–20

	Energex	Ergon Energy
GSL		
Wrongful disconnections	23	36
Compensation paid	$3,266	$5,112
Connections not provided by the agreed date	693	7
Compensation paid	$197,166	$1,311
Reconnections not provided within the required time	26	28
Compensation paid	$2,451	$2,620
Failure to attend to customer's premises within the time		-
Compensation paid	$114	$0
Failure to attend appointments on time	88	96
Compensation paid	$5,016	$5,472
Notice of planned interruption to supply not given – small		
Compensation paid	$10,276	$22,456
Notice of planned interruption to supply not given – small		
Compensation paid	$3,976	$5,893
Interruption duration GSL (network reliability)	1,349	4,839
Compensation paid	$153,786	$551,550
Interruption frequency GSL	-	20
Compensation paid	$0	$2,280
Total GSL payments given	2,603	5,911
Total compensation paid	$376,051	$596,694
Total system average interruption frequency index (SAIFI) (number)		
Central business district	0.15	-
Urban	1.26	1.98
Short rural	2.46	3.95
Long rural	-	7.4
Total system average interruption duration index (SAIDI) (minutes)		
Central business district	15	-
Urban	106	149
Short rural	218	424
Long rural	-	964

Source: AER.

Table A4.2: NSW electricity distributor performance 2019–20

	Ausgrid	Endeavour Energy	Essential Energy
Customers			
Total number of customers	1,762,079	1,038,102	866,351
Residential customers	1,578,910	951,507	768,115
Small non-residential customers	170,958	81,180	93,143
Complaints			
Total complaints received	6,334	1,344	2,707
Residential (%)*	96%	100%	88%
Small non-residential (%)*	4%	0%	12%
Telephone services			
Total calls received	156,207	274,663	188,451
Calls answered within 30 seconds (%)	85%	90%	70%
Calls abandoned (%)	9%	3%	6%
Promptness of connection			
Connections provided for new and existing	152	-	116,189
Connections not provided by agreed time	-	-	-
Compensation paid for late connections	-	$0	$0
Faulty street lights			
Number of reported street light faults	22,296	16,022	15,699
Occasions where repairs not completed by agreed date	6,723	2,059	84
Compensation paid for late repairs	$23,400	$26,950	$2,020
Planned interruptions			
Number of planned interruptions	7,794	7,088	11,687
Occasions where there was insufficient notice of the interruption	70	197	115
Occasions where the planned interruption was for longer than the time indicated on the notice	-	279	1,067

* Data provided by Ausgrid for these indicators are estimates based on the data it had available.

Source: AER.

Table A4.3: ACT electricity distributor performance 2019–20

	Evoenergy
Complaints	
Total complaints received	573
Complaints responded to within 20 business days	573
Planned interruptions	
Number of planned interruptions	1093
Instances where notice of at least 4 business days was not provided to customers	9
Instances where supply was not restored within 12 hours of the initial interruption	8
Unplanned interruptions	
Number of unplanned interruptions	834
Instances where supply was not restored within 12 hours of the initial interruption	37
Compensation (or rebates paid under the Consumer protection code)	
Number of customers that received compensation	24
Compensation paid	$1,200
System average interruption duration index (SAIDI) (minutes)	
Overall	81.7
Distribution network – planned	33.3
Distribution network – unplanned	47.0
Normalised distribution network – unplanned	35.3
System average interruption frequency index (SAIFI) (number)	
Overall	0.71
Distribution network – planned	0.17
Distribution network – unplanned	0.54
Normalised distribution network – unplanned	0.49
Customer average interruption duration index (CAIDI)	
Overall	114.3
Distribution network – planned	199.3
Distribution network – unplanned	87.0
Normalised distribution network – unplanned	72.1

Source: AER.

Table A4.4: South Australian electricity distributor performance 2019–20

	SAPN
Customers	
Total number of customers	914,603
Residential customers	808,897
Small non-residential customers*	100,351
Customer service	
Total calls received	184,507
Calls answered within 30 seconds	80%
Calls abandoned	3%
Promptness of connection	
New supply addresses connected	9,541
Connections not provided by agreed time	183
Compensation paid for late connections	$57,300
Faulty street lights – Adelaide business area, Adelaide metropolitan area and major regional areas	
Number of reported street light faults	24,130
Occasions where repairs not completed by agreed date (within 5 days)	1,690
Compensation paid for late repairs	$252,625
Faulty street lights – Country areas	
Number of reported street light faults	3,322
Occasions where repairs not completed by agreed date (within 10 days)	44
Compensation paid for late repairs	$4,000
Timeliness of appointments	
Total number of appointments	21,290
Total number of appointments where a representative of SAPN is more than 15 minutes late	1
Compensation paid for lateness to appointments	$25

* This value is an approximation derived by summing 'non residential customers not on demand tariffs' and 'low voltage demand tariff customer numbers'.

Source: AER.

Table A4.5: South Australian frequency of supply interruptions 2019–20

	SAPN
System average interruption frequency index (SAIFI) (number)	
CBD feeder	0.19
Urban feeder	0.78
Short rural feeder	1.17
Long rural feeder	1.32
SAIFI total	0.91
Number of customers with 10 to 12 interruptions	363
Compensation paid	$36,300
Number of customers with 13 to 15 interruptions	28
Compensation paid	$4,200
Number of customers with more than 15 interruptions	0
Compensation paid	$0
Total amounts paid to customers for frequency of supply interruptions exceeding the threshold amount	$40,500

Source: AER.

Table A4.6: South Australian duration of supply interruptions 2019–20

	SAPN
System average interruption duration index (SAIDI) (minutes)	
CBD feeder	33.28
Urban feeder	84.74
Short rural feeder	144.74
Long rural feeder	260.43
SAIDI total	119.92
Number of customers who experienced a supply interruption: 12–15 hours	2,519
Compensation paid	$251,900
Number of customers who experienced a supply interruption: 15–18 hours	3,257
Compensation paid	$488,550
Number of customers who experienced a supply interruption: 18–24 hours	4,200
Compensation paid	$840,000
Number of customers who experienced a supply interruption: 24–48 hours	1,453
Compensation paid	$588,465
Number of customers who experienced a supply interruption: > 48 hours	19
Compensation paid	$11,495
Total amounts paid to customers for duration of supply interruption exceeding the threshold amount	$2,180,410

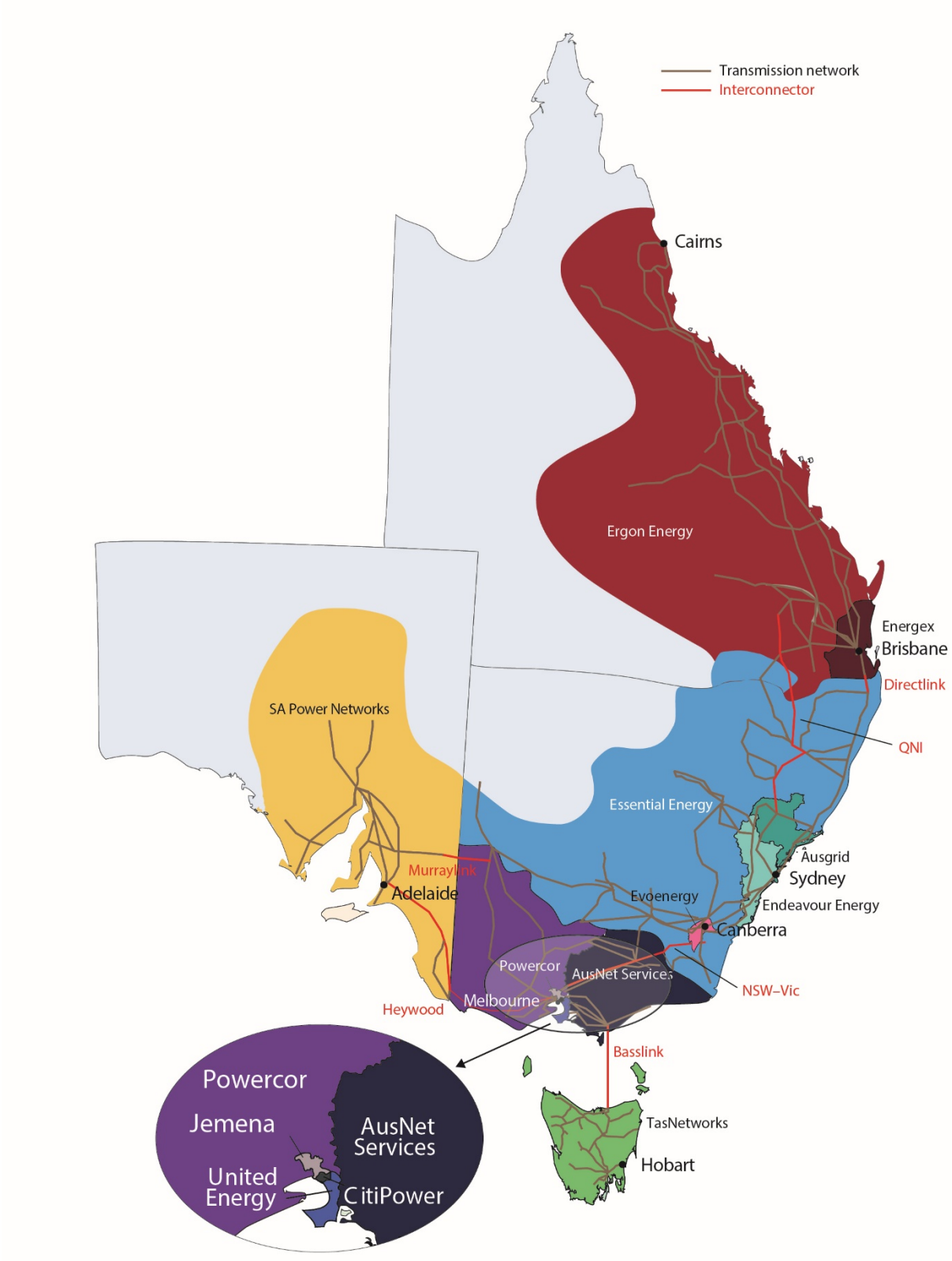
Source: AER.

Table A4.7: Tasmania electricity distributor performance 2019–20

	TasNetworks
Complaints	
Total complaints received	240
Planned interruptions	
Number of planned interruptions	2,389
Number of customers not notified of planned interruptions	66
Compensation paid to customer not notified of planned interruptions	$3,400
Faulty street lights	
Number of reported street light faults	2,274
Occasions where repairs not completed within 7 days	1,285
Compensation paid to customers for repairs not completed within 7 days	$0
New connections and reconnections	
New connections	2,689
New connections completed by scheduled date	1,973
Compensation paid to customers for late connections	$18,330
Reconnections	19,661
Reconnections completed by scheduled date	19,475
Compensation paid to customers for late reconnections	$0
System average interruption duration index (SAIDI) (minutes)	
Average duration of interruptions	234.7
Normalised average duration of interruptions	210.3
Number of timely restoration payments made	10,894
Value of restoration payments made	$997,280
System average interruption frequency index (SAIFI) (number)	
Average frequency of interruptions	1.77
Normalised average frequency of interruptions	1.67
Number of reliable supply payments made	998
Value of reliable supply payments made	$79,840

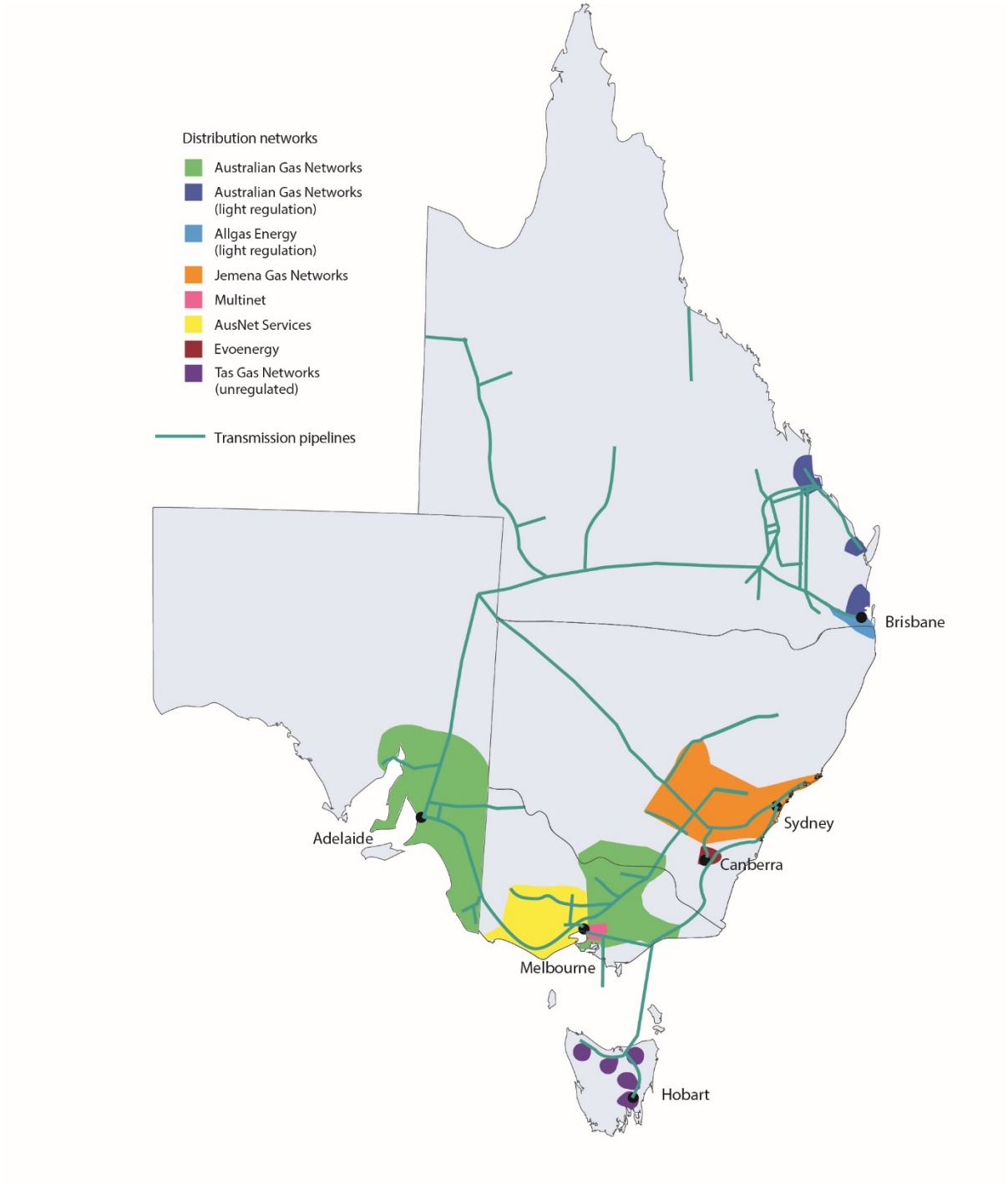
Source: AER.

Appendix 5: Map of electricity distribution zones



Source: AER.

Appendix 6: Map of gas distribution zones



Source: AER.