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4 RETAIL ENERGY MARKETS

Energy retailers buy electricity and gas in wholesale markets and package it with transportation services for sale to customers. While state and territory governments are responsible for regulating retail energy markets, the Australian Energy Regulator (AER) will take on significant functions when national reforms take effect on 1 July 2012 (box 4.1). This chapter covers the retailing of energy to small customers in those jurisdictions expected to implement the national reforms—Queensland, New South Wales, Victoria, South Australia, Tasmania and the Australian Capital Territory (ACT).¹

4.1 Retail market structure

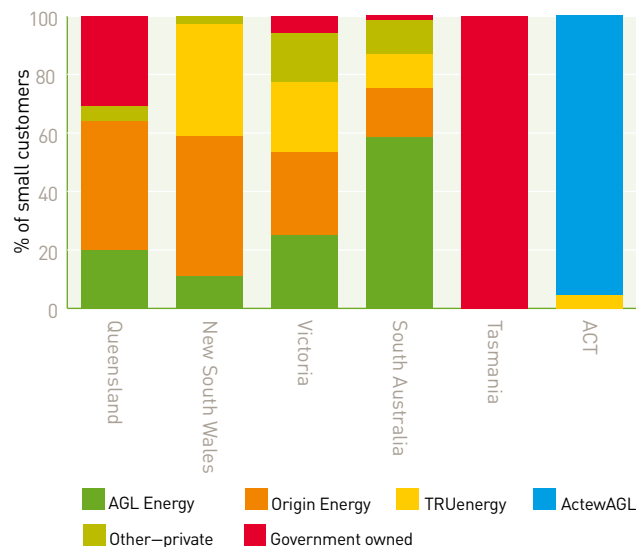
Table 4.1 lists licensed energy retailers that were active in the market for residential and small business customers in October 2011. An active retailer is an authorised retailer that is supplying energy services to customers (whether or not the retailer is seeking new customers). The retailers in most jurisdictions include one or more ‘host’ retailers that are required to offer energy services to customers under ‘standing offer’ contracts with regulated terms and conditions.

Figure 4.1 illustrates electricity retail market share by jurisdiction. Three privately owned retailers—AGL Energy, Origin Energy and TRUenergy—supply the bulk of small customers in the eastern mainland states:

- > In Victoria and South Australia, the three retailers supply the bulk of small customers.
- > In Queensland, AGL Energy and Origin Energy are the largest retailers following the privatisation of state owned entities in 2006–07.
- > In New South Wales, TRUenergy and Origin Energy are the largest electricity retailers following the privatisation of state owned entities in 2011. TRUenergy acquired EnergyAustralia, while Origin Energy acquired Country Energy and Integral Energy. AGL Energy is the state’s largest gas retailer, and is looking to increase its market share in electricity.

More recently, Simply Energy, Lumo Energy and Australian Power & Gas have emerged as significant private retailers in some jurisdictions. Alinta Energy and Diamond Energy began active retailing in 2010–11, and Dodo Power & Gas widened the geographic range of its activity.

Figure 4.1
Electricity retail market share (small customers), by jurisdiction, 2011



Source: AER estimates.

While ownership is increasingly in private hands, some governments continue to own energy retailers:

- > The Tasmanian Government owns local retailer Aurora Energy, as well as Momentum Energy.
- > The Queensland Government owns Ergon Energy, which has significant market share in rural and regional Queensland but is not permitted to compete for new customers.
- > The ACT Government has a 50 per cent interest in ActewAGL—a joint venture with the private sector.
- > Snowy Hydro (owned by the New South Wales, Victorian and Australian governments) owns Red Energy.

¹ In New South Wales, Victoria and South Australia, small electricity customers are those consuming less than 160 megawatt hours (MWh) per year. In Queensland and the ACT, the threshold is 100 MWh per year; in Tasmania, it is 150 MWh per year. In gas, small customers are those consuming less than 1 terajoule per year.



Box 4.1 National retail regulation

State and territory governments are expected to implement a package of reforms under the National Energy Retail Law from 1 July 2012. The reforms aim to streamline national regulation to support an efficient retail market with appropriate consumer protection.

The South Australian parliament passed the Retail Law in the 2011 autumn sitting. The legislation is expected to take effect in Queensland, New South Wales, Victoria, South Australia, Tasmania and the ACT. Western Australia and the Northern Territory do not propose to implement the reforms.

The Retail Law will transfer several functions to the AER, including:

- > monitoring compliance and enforcing breaches of the Law and its supporting Rules and Regulations
- > authorising energy retailers to sell energy, and granting exemptions from the authorisation requirements (for example, to nursing homes and caravan parks that onsell energy)
- > approving retailers' policies for dealing with customers facing hardship
- > providing an online energy price comparison service for small customers, expected to be launched on 1 July 2012

- > administering a national retailer of last resort scheme, which protects customers and the market if a retail business fails
- > reporting on the performance of the market and participants, including on energy affordability, disconnections and competition indicators.

The states and territories will remain responsible for regulating retail energy prices.

In 2011 the AER released final procedures and guidelines on how it will undertake its roles under the Retail Law, covering retail performance reporting, retail pricing information, retailer of last resort arrangements, customer hardship policies, compliance and enforcement, authorisations and exemptions, and connection charging arrangements.

It developed these documents in consultation with energy customers, consumer advocacy groups, energy retailers, state and territory agencies, ombudsman schemes and other stakeholders. The documents are available on the AER's website (www.aer.gov.au).

4.1.1 Queensland

At June 2011 Queensland had 27 licensed electricity retailers and nine licensed gas retailers, of which 11 were actively retailing electricity to small customers, and three were actively retailing gas. Origin Energy and AGL Energy are the leading retailers of electricity and gas.

The Queensland Government owns Ergon Energy's retail business, which supplies electricity at regulated prices to customers in rural and regional areas. Ergon Energy is not permitted to compete for new customers.

4.1.2 New South Wales

At June 2011 New South Wales had 27 licensed electricity retailers, of which 12 supplied to residential and small business customers. Following privatisation in 2011, Origin Energy and TRUenergy supplied over 85 per cent of small electricity customers.

Six of the 11 active electricity retailers were also active in gas. AGL Energy (the host gas retailer) and TRUenergy supplied the majority of customers.

Table 4.1 Active energy retailers—small customer market, October 2011

RETAILER	OWNERSHIP	QLD	NSW	VIC	SA	TAS	ACT
ActewAGL Retail	ACT Government and AGL Energy		•				•
AGL Energy	AGL Energy	•	•	•	•		
Alinta Energy	Alinta Energy						
Aurora Energy	Tasmanian Government					•	
Australian Power & Gas	Australian Power & Gas						
Click Energy	Click Energy						
Country Energy	Origin Energy		•				
Diamond Energy	Diamond Energy						
Dodo Power & Gas	Dodo Power & Gas						
Ergon Energy	Queensland Government						
Integral Energy	Origin Energy		•				
Lumo Energy	Infratil						
Momentum Energy	Hydro Tasmania (Tasmanian Government)						
Neighbourhood Energy	Alinta Energy						
Origin Energy	Origin Energy	•	•	•	•		
Powerdirect	AGL Energy	•					
Qenergy	Qenergy						
Red Energy	Snowy Hydro ¹						
Sanctuary Energy	Living Choice Australia/ Sanctuary Life						
Simply Energy	International Power						
Tas Gas Retail (formerly Option One)	Brookfield Infrastructure						
TRUenergy	CLP Group		•	•			•

Electricity retailer ■
 Gas retailer ■
 Host retailer •

1. Snowy Hydro is owned by the New South Wales Government (58 per cent), the Victorian Government (29 per cent) and the Australian Government (13 per cent).

Notes:

The 'host' retailers listed for Victoria and Queensland are those responsible for offering 'standing offer' contracts to customers that establish a new connection.

TRUenergy surrendered EnergyAustralia's licence in July 2011.

Sources: Jurisdictional regulator websites, retailer websites and other public sources.

4.1.3 Victoria

At June 2011 Victoria had 22 licensed electricity retailers, of which 14 were active in the residential and small business market. The active retailers include three host retailers—AGL Energy, Origin Energy and TRUenergy—and 11 new entrants.

Figure 4.2 illustrates energy retail market shares. The three host retailers supplied about 70 per cent of small electricity customers at June 2010, and each had acquired market share beyond its local area. New entrant penetration increased from around 7 per cent of small customers at June 2005 to almost 30 per cent at June 2010.

Victoria had 15 licensed gas retailers, of which eight actively supplied small customers. The three host retailers, which are also the host retailers in electricity, collectively supplied around 80 per cent of small customers at June 2010.

4.1.4 South Australia

At June 2011 South Australia had 21 licensed electricity retailers, of which 12 were active in the small customer market. The four largest retailers account for around 90 per cent of the market. The host retailer, AGL Energy, supplied around 54 per cent of small customers in 2010, down from 79 per cent in 2005 (figure 4.3). Origin Energy (18 per cent) has built significant market share over the past six years.

South Australia had 11 licensed gas retailers at June 2011, of which four actively supplied to small customers. At June 2010 Origin Energy supplied around 54 per cent of small customers, but the other active retailers have each built market share over the past six years.

4.1.5 Tasmania

Aurora Energy, the government owned host retailer, supplies small electricity customers in Tasmania. Legislative restrictions prevent new entrants from supplying small customers. At June 2011 Tasmania had two gas retailers active in the small customer

market: the state owned Aurora Energy and Tas Gas Retail (owned by Brookfield Infrastructure).

4.1.6 Australian Capital Territory

At June 2011 the ACT had 18 licensed electricity retailers and eight licensed gas retailers. Two retailers—ActewAGL and TRUenergy—actively sold to small customers. ActewAGL remains the dominant retailer, supplying over 90 per cent of small customers.²

4.2 Vertical integration

While governments structurally separated the energy supply industry in the 1990s, there has since been a trend towards vertical reintegration between retailers and generators (generators). The New South Wales energy privatisation process (and the Queensland privatisations in 2007) continued this trend (table 3 and figure 5 in the *Market overview*).

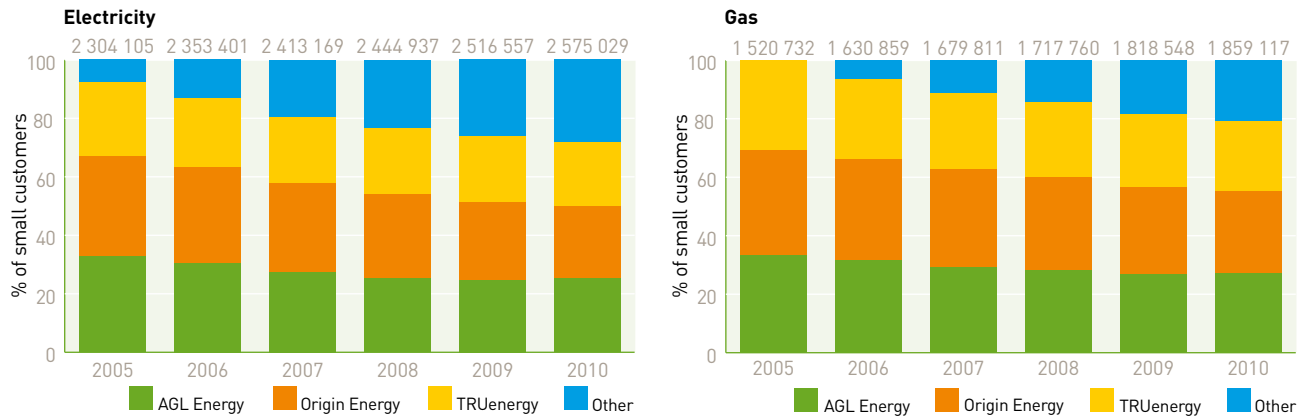
Vertical integration provides a means for retailers and generators to internally manage the risk of price volatility in the electricity spot market, reducing their need to participate in hedge (contract) markets. This can reduce liquidity in contract markets, posing a potential barrier to entry and expansion for generators and retailers that are not vertically integrated.

Origin Energy, AGL Energy and TRUenergy now jointly supply over 80 per cent of small electricity retail customers and control almost 30 per cent of generation capacity in the mainland regions of the National Electricity Market (NEM).

Around 58 per cent of new generation capacity commissioned or committed since 2007 is controlled by these three entities. Generation investment since 2007 by entities that do not also retail energy has been negligible. In addition, many new entrant retailers in this time are vertically integrated with entities that were previously stand-alone generators—for example, International Power (trading as Simply Energy in retail markets) and Infratil (Lumo Energy).

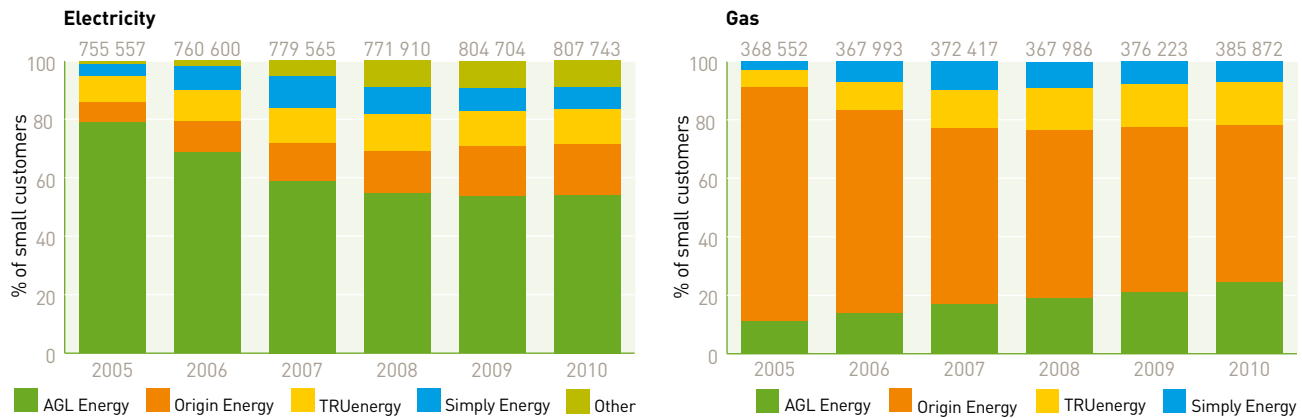
2 AEMC, *Review of the effectiveness of competition in the electricity retail market in the ACT*, 2010, p. 23.

Figure 4.2
Retail market share (small customers)—Victoria



Note: Figures above the columns are total small customer numbers.
Source: ESC, *Energy retailers comparative performance report—customer service*, various years.

Figure 4.3
Retail market share (small customers)—South Australia



Note: Figures above the columns are total small customer numbers.
Source: ESCOSA, *Annual performance report: performance of South Australian energy retail market*, various years.

Alinta Energy has generation capacity in South Australia, Queensland and Victoria, owns the Victorian retailer Neighbourhood Energy and entered the South Australian retail market in 2011.³

AGL Energy, Origin Energy and TRUenergy also have interests in gas production and/or gas storage that complement their interests in gas fired electricity generation and energy retailing. Origin Energy is a gas producer in Queensland, South Australia and

Victoria. AGL Energy is a producer of coal seam gas in Queensland and New South Wales. TRUenergy has gas storage facilities in Victoria and acquired gas reserves in the Gunnedah Basin (New South Wales) in 2011.

The public electricity sector also exhibits vertical integration. The generator Snowy Hydro owns Red Energy, which operates in the New South Wales, Victorian and South Australian retail markets.

3 A proposed sale of Neighbourhood Energy to CBD Energy in 2011 did not proceed.

The Tasmanian Government owns generation through Hydro Tasmania and maintains a retail presence through Aurora Energy and Momentum Energy.

In addition, the Queensland and Tasmanian governments own joint distribution–retail businesses. The ACT Government has ownership interests in both the host energy retailer and distributor. Ring fencing arrangements aim to ensure operational separation of the retail and network arms of these entities.

4.3 Retail competition

All NEM jurisdictions except Tasmania have introduced full retail contestability (FRC) in electricity, allowing all customers to enter a contract with their retailer of choice. At 1 July 2011 Tasmania extended contestability to customers using at least 50 megawatt hours (MWh) per year. All jurisdictions have introduced FRC in gas retail markets.

In the transition to effective competition, retail price regulation continues to apply in many jurisdictions. All jurisdictions except Victoria apply some form of retail price regulation for electricity services. In gas, only New South Wales and South Australia regulate prices for small customers.

Australian governments agreed to review the continued use of retail price regulation and to remove it if effective competition can be demonstrated.⁴ The Australian Energy Market Commission (AEMC) is assessing the effectiveness of retail competition in each jurisdiction, to advise on ways to remove price regulation. State and territory governments make the final decisions on this matter.

The AEMC in 2008 separately reviewed the effectiveness of competition in the Victorian and South Australian energy retail markets. It found competition was effective in both markets, but competition in South

Australia was more intense in electricity than in gas.⁵ In response to the review, the Victorian Government removed retail price regulation on 1 January 2009. The South Australian Government did not accept the AEMC's recommendations to remove retail price regulation; it was concerned that more than 30 per cent of small customers remained on standing contracts (with a regulated price), and that stakeholders had differing views on the effectiveness of competition.

In March 2011 the AEMC released its final report on the ACT retail electricity market. It found competition in the small customer market was not effective, partly because customers were unaware of their ability to switch retailers. The AEMC recommended removing retail price controls from 1 July 2012, in conjunction with running a consumer education campaign to increase awareness of the benefits of competition.⁶ However, the ACT Government decided in 2011 to retain price controls for another two years. It noted the AEMC found removing price controls would increase the average cost of electricity so would not benefit customers.⁷

The Standing Council on Energy and Resources (SCER, formerly the Ministerial Council on Energy) and the Council of Australian Governments agreed to further energy retail market reviews for New South Wales (in 2012), Queensland (2013), South Australia (2015), the ACT (2016) and Tasmania (within 18 months of FRC being introduced in the electricity retail market).⁸

4.3.1 Customer switching

The rate at which customers switch their supply arrangements indicates customer participation in the market. While switching (or churn) rates can indicate competitive activity, they must be interpreted with care. Switching is sometimes high during the early stages of market development, when customers can first exercise

4 Australian Energy Market Agreement 2004 (as amended).

5 AEMC, *Review of the effectiveness of competition in the electricity and gas retail markets in Victoria—first final report*, 2007; AEMC, *Review of the effectiveness of competition in electricity and gas retail markets in South Australia—first final report*, 2008.

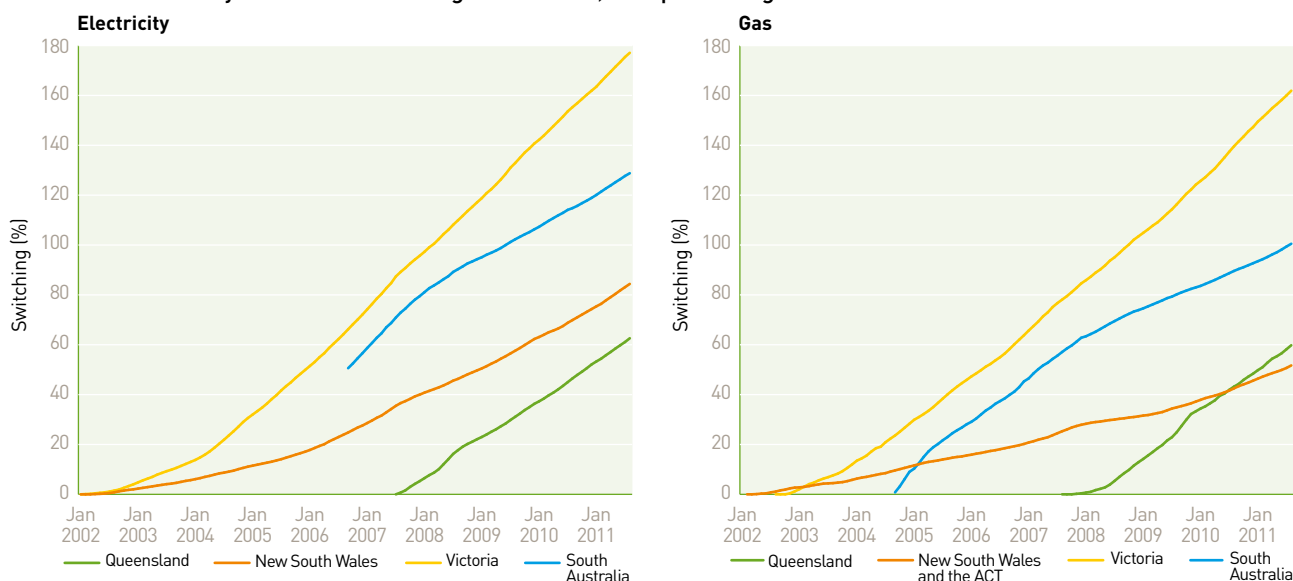
6 AEMC, *Review of the effectiveness of competition in the electricity retail market in the ACT, stage 2 final report*, 2011, p. 11.

7 ACT Government, 'ACT to keep price regulation for Canberra households', Media release, www.chiefminister.act.gov.au/media.php?v=10936&m=53 2011, September 2011.

8 MCE, *Standing Council on Energy and Resources Meeting Communiqué*, 2011.

Figure 4.4

Cumulative monthly customer switching of retailers, as a percentage of small customers



Notes:

Customer base as estimated at 30 June 2011.

No comparable public data are available for South Australia electricity switching before June 2006.

Sources: Customer switches: AEMO, MSATS transfer data to July 2011 and gas market reports, transfer history to July 2011; customer numbers: IPART (New South Wales), *NSW electricity information paper—electricity retail businesses' performance against customer service indicators*, various years; ESCOSA (South Australia), *09/10 Annual performance report: South Australian energy supply industry*, 2010; ESC (Victoria), *Energy retailers comparative performance report—customer service 2009–10*, 2010; QCA (Queensland), *Market and non-market customers, June quarter 2011*, 2011.

choice, but may then stabilise as a market acquires depth. Similarly, switching may be low in a competitive market if retailers deliver good quality service that gives customers no reason to change.

The Australian Energy Market Operator (AEMO) publishes churn data measuring the number of customer switches from one retailer to another. The data for electricity are available for New South Wales and Victoria from the introduction of FRC in 2002, for South Australia from October 2006 and for Queensland from July 2007. Since 1 July 2009 AEMO has also published gas churn data.

Figure 7 in the *Market overview* of this report illustrates retail switching activity in 2010–11. Figure 4.4 sets out cumulative switching data. The data include customer switches from one retailer to another, but not customer switches between contracts with the same retailer. If a customer switches to a number of retailers in succession, then each move counts as a separate switch. Cumulative switching rates may thus exceed 100 per cent.

Victoria continues to have a higher switching rate than other jurisdictions. At June 2011 Victoria's cumulative switching rate was around double the New South Wales rate for electricity and triple the rate for gas. While Queensland introduced FRC later than other jurisdictions, its annual switching rates are higher than those in New South Wales and South Australia.

While churn was higher in gas than electricity in Victoria and Queensland in 2010–11, cumulative switching levels remain lower in gas than electricity in all jurisdictions.

4.4 Retail prices

The energy bills paid by retail customers cover the costs of wholesale energy, transport through transmission and distribution networks, and retail services. Table 4.2 estimates the composition of a typical electricity retail bill for a residential customer in each NEM jurisdiction that regulates prices. While data for gas are limited, the table includes estimates for New South Wales and South Australia.

Table 4.2 Indicative composition of residential electricity and gas bills

JURISDICTION	WHOLESALE ENERGY COSTS	GREEN COSTS	NETWORK COSTS	RETAIL OPERATING COSTS	RETAIL MARGIN
PER CENT OF TYPICAL SMALL CUSTOMER BILL					
ELECTRICITY					
Queensland	38	4	49	4	5
New South Wales	32	6	51	6	5
South Australia	42	5	41	7	5
Tasmania	39	4	48	5	4
ACT	35	8	46	6	5
GAS					
New South Wales	33	-	47	13	7
South Australia	16	-	63	16	5

Note: New South Wales gas estimates are based on 2010 data; all other estimates are based on 2011 data.

Sources: Determinations, fact sheets and newsletters by IPART (New South Wales), the QCA (Queensland), ESCOSA (South Australia), OTTER (Tasmania) and the ICRC (ACT).

In electricity, network tariffs are the largest component of retail bills (accounting for 41–51 per cent of retail bills), followed closely by wholesale energy costs (32–42 per cent). Green costs—that is, costs associated with carbon emission reduction or energy efficiency schemes—rose significantly over the past two years but still make up only 4–8 per cent of retail bills. Retailer operating costs (including margins) contribute around 10 per cent of retail bills.

In gas, pipeline charges are the most significant component of retail prices. Transmission and distribution charges combined account for around 47 per cent of gas retail prices in New South Wales and 63 per cent in South Australia. Distribution charges account for the bulk of pipeline costs. Wholesale energy costs typically account for a lower share of retail prices in gas than electricity, while retailer operating costs (including margins) account for a higher share. Given the uneven geographic spread of gas producing basins from major markets, the composition of retail prices can vary significantly across jurisdictions and regions.

4.4.1 Price diversity

Retailers offer contracts for a range of products with different price structures. The offers may include standard products, green products, ‘dual fuel’ contracts (for gas and electricity) and packages that bundle

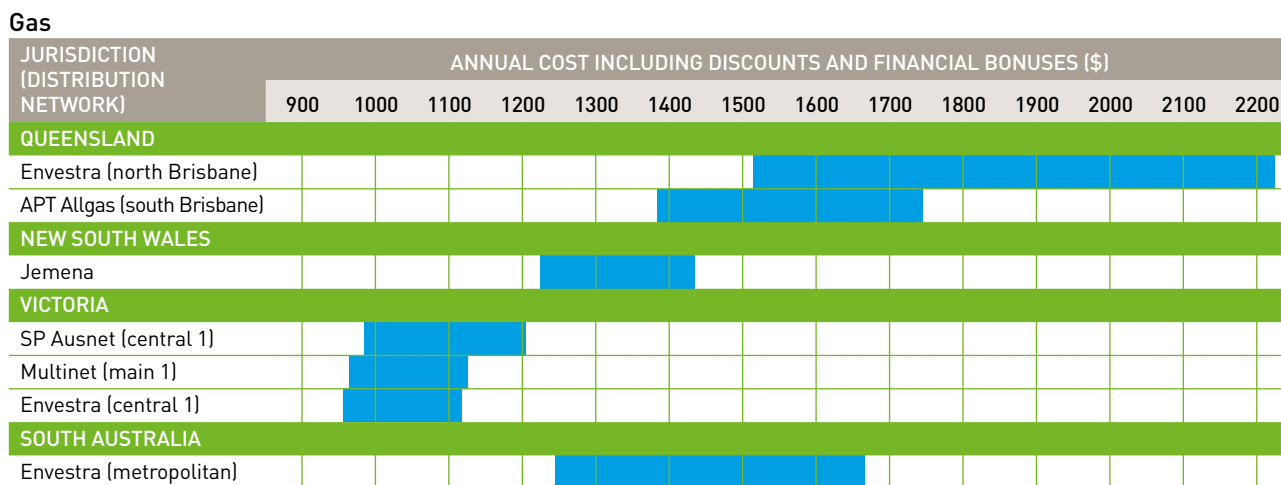
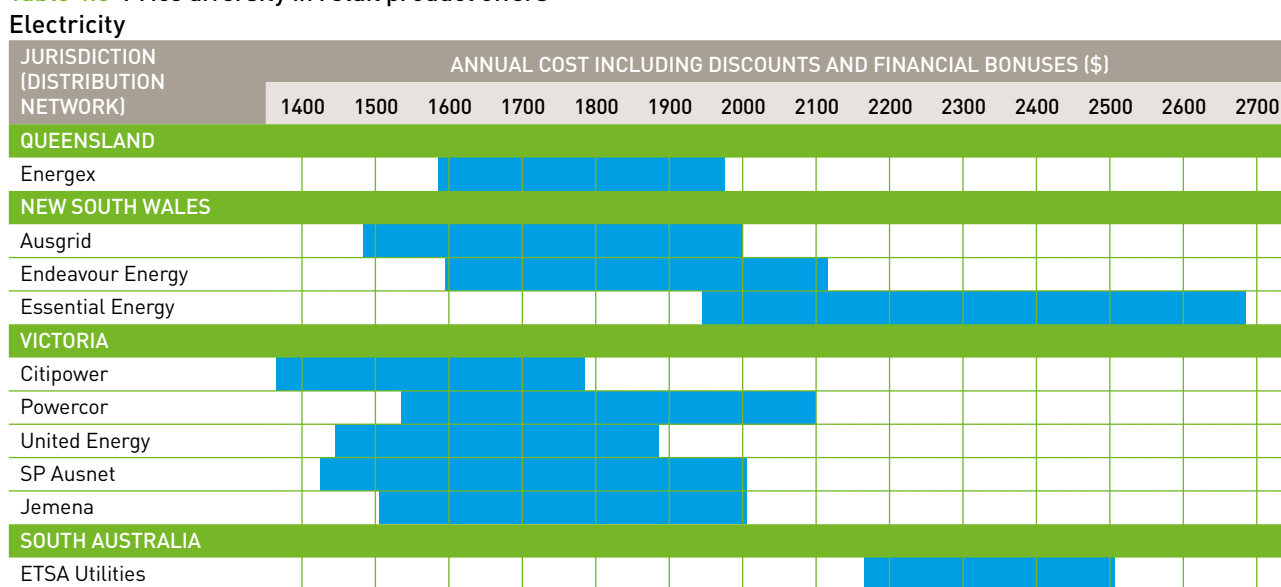
energy with services such as telecommunications.

Some contracts bundle energy services with inducements such as customer loyalty bonuses, awards programs, free subscriptions and prizes. Additional discounts may be offered for prompt payment of bills, or for direct debit bill payments. These offers may vary depending on the length of a contract. Many contracts carry a termination fee for early withdrawal.

The variety of discounts and non-price inducements makes direct price comparisons difficult. Further, the transparency of price offerings varies. The Queensland, South Australian, New South Wales and Victorian regulators and a number of private entities operate websites that allow customers to compare their energy contracts with available market offers. Under the National Energy Retail Law, the AER will have a role in assisting customers to compare different retail product offerings. It is developing an online price comparison service for small customers, which it expects to launch on 1 July 2012.

Table 4.3 draws on state regulators’ price comparison websites to estimate price offerings at September 2011 for customers in NEM jurisdictions other than Tasmania and the ACT. The data indicate some price and product diversity, with a spread in the estimated annual cost for customers of around \$300–600 in electricity and \$150–400 in gas.

Table 4.3 Price diversity in retail product offers



■ Price spread

Note: Data are based on market offers (adjusting for discounts) for a customer consuming 7500 kilowatt hours of electricity and 60 gigajoules of gas per year on a 'peak only' tariff at August 2011 in the specified distribution network areas. Data do not account for Greenpower offers.

Sources: Data from jurisdictional online price comparison services in New South Wales (IPART), South Australia (ESCOSA), Victoria (ESC) and Queensland (QCA).



4.4.2 Regulated prices—recent trends

Most jurisdictions that apply retail price regulation set prices that small customers are entitled to access under a standing contract if they do not have a market contract with an energy retailer. The number of customers on standing contracts varies significantly across jurisdictions. For example, 26 per cent of customers are on standing contracts in South Australia, 57 per cent in Queensland and 80 per cent in the ACT.

All NEM jurisdictions except Victoria regulate prices for electricity retail services; only New South Wales and South Australia regulate gas prices. Jurisdictions have generally applied one of two methods to determine regulated energy retail prices:

- > a building block approach, whereby the regulator determines efficient cost components (for example, wholesale costs, retail operating costs and costs associated with regulatory obligations), and passes through costs that have been determined elsewhere (for example, network costs). The regulator uses these costs to determine a maximum revenue requirement to be reflected in the prices charged by the retailer. Determinations typically cover a number of years, but some cost components are adjusted annually. There are separate pass through provisions for unexpected costs. New South Wales and Tasmania use this approach, which Queensland will also use from 2012–13.
- > a benchmark retail cost index, whereby the regulator determines movements in benchmark costs to calculate annual adjustments in retail prices. Queensland (until 2012–13) and the ACT use this approach.

In 2011 the Essential Services Commission of South Australia introduced a new approach to determining regulated prices—a building block assessment at the start of the regulatory period, with annual adjustments based on movements in the price of market (unregulated) offers. The annual adjustments are limited by a tolerance band determined at the start of the regulatory period.

While Victoria does not regulate retail prices, its retailers are required to publish unregulated standing offer prices that small customers can access.⁹ The prices are also published in the Victorian Government gazette.

Table 4.4 summarises announced movements in regulated and standing offer electricity and gas prices for the past three years, and estimates the annual bills for customers under these arrangements. Figure 10 in the *Market overview* of this report sets out the data in chart form.

The data indicate retail *electricity* prices rose significantly in the past three years. In some jurisdictions, customers can negotiate significant discounts against these prices by entering a market contract (table 4.3).

Consistent with the past two years, network costs were the largest contributor to price rises in 2011–12. Chapter 2 discusses the factors driving network costs. The cost of complying with green schemes also contributed, having increased significantly since 2010 as Australian governments introduced and expanded schemes to reduce carbon emissions and improve energy efficiency. The 2011–12 green cost increases are largely the result of changes to the renewable energy target scheme, which came into effect on 1 January 2011 (section 1.2.2).

- > *Queensland* regulated electricity prices rose by 6.6 per cent in 2011–12, driven by network increases (5.2 per cent), changes to the renewable energy target scheme (3 per cent) and increased retailer costs (0.7 per cent). These rises were partly offset by a 2.3 per cent decrease due to changes in other green schemes (mainly the Queensland gas scheme, which requires a proportion of electricity to be sourced from gas fired generators) and falling wholesale energy costs. The price rise would have been 8.3 per cent if the Queensland Government had not prevented the distribution businesses, Energex and Ergon Energy, from recovering increased revenue allowances determined by the Australian Competition Tribunal (section 2.2.3).¹⁰

⁹ Customers can access the standing offer of only the 'financially responsible retailer' for their premises. This is the retailer that last supplied the premises or, for new connections, a designated 'local area retailer'.

¹⁰ QCA, *Benchmark retail cost index for electricity, final decisions, 2011–2012*, 2011.

Table 4.4 Movements in regulated and standing offer prices—electricity and gas

JURISDICTION	REGULATOR	DISTRIBUTION NETWORK AREA	AVERAGE PRICE INCREASE (PER CENT)			ESTIMATED ANNUAL COST (\$)
			2009–10	2010–11	2011–12	
ELECTRICITY						
Queensland	QCA	Energex and Ergon Energy	15.5	13.3	6.6	1812
New South Wales	IPART	AusGrid	21.7	10.0	17.9	1939
		Endeavour Energy	21.1	7.0	15.5	2056
		Essential Energy	17.9	13.0	18.1	2557
Victoria	Unregulated	Citipower	9.4	14.5	3.9	1794
		Powercor	9.9	14.7	8.5	2090
		SP AusNet	6.1	11.3	23.5	1940
		Jemena	7.5	17.3	10.5	2010
		United Energy	6.8	11.3	9.6	1861
South Australia	ESCOSA	ETSA Utilities	3.1	18.3	17.4	2492
Tasmania	OTTER	Aurora Energy	6.2	15.3	11.0	2210
ACT	ICRC	ActewAGL	6.4	2.3	6.5	1541
GAS						
New South Wales	IPART	Jemena	4.4	5.2	4.0	1318
South Australia	ESCOSA	Envestra	5.3	3.1	13.8	1359

Notes:

Estimated annual cost is based on a customer using 7500 kilowatt hours of electricity per year and 60 gigajoules of gas per year on a ‘peak only’ tariff at August 2011. The South Australian gas cost is estimated for a metropolitan customer.

The Victorian price movements (and estimated annual costs) are for the calendar year ending in that period—for example, the 2011–12 Victorian data are for calendar year 2011. They are based on unregulated standing offer prices published in the Victorian Government gazette by the local area retailer in each of Victoria’s five distribution networks.

Sources: Determinations, fact sheets and media releases from 2009 to 2011 by IPART (New South Wales), the QCA (Queensland), ESCOSA (South Australia), OTTER (Tasmania) and the ICRC (ACT); Victorian Government gazette.

- > *New South Wales* regulated electricity prices rose by an average of 17.3 per cent in 2011–12, following rises of 7–13 per cent in 2010–11. Network charges accounted for 80 per cent of the price increase in 2010–11 and over 50 per cent in 2011–12.¹¹ Green scheme costs resulted in a 6 per cent increase in average retail bills in 2011–12.¹²
- > *Victorian* standing electricity price rises in 2011 varied significantly across distribution networks, ranging from 4 per cent in the CitiPower network to almost 24 per cent in the SP AusNet network. Because prices are unregulated, limited information is available on underlying cost drivers, including reasons for these diverse outcomes. But distribution network costs were not a major driver, accounting for retail price changes of between –1.9 per cent and 2.5 per cent in 2011. Charges for the introduction of smart meters accounted for retail price increases of around 2.5–7 per cent in 2010, but price impacts in this area were negligible in 2011. Compliance costs associated with government climate change policies would have had some retail impact. Limited information is available on the impact of wholesale energy costs (including hedge costs in futures markets), retailer costs and retail margins on Victorian retail prices.
- > *South Australian* prices rose by 12 per cent on 1 January 2011, and a further 17.4 per cent on 1 August 2011. Higher wholesale energy costs accounted for 60 per cent of the January increase, with the remainder evenly split between green scheme costs and increased retail operating costs (including margins). Network price increases and a consumer price index adjustment accounted for the bulk of the August 2011 price increase.¹³

11 IPART, *Changes in regulated electricity retail prices from 1 July 2011*, 2011; IPART, ‘Regulated electricity retail tariffs for 1 July 2010 to 30 June 2013—final report’, Fact sheet, 2010.

12 IPART, *Changes in regulated electricity retail prices from 1 July 2011*, 2011.

13 ESCOSA, *2011–2014 Electricity standing contract price determination—variation price determination*, 2011.

- > *Tasmanian* electricity prices rose by 11 per cent on 1 July 2011 in response to rising network charges and green scheme costs. A reduction in forecast consumption also had an impact.¹⁴ The July increase followed a price rise in December 2010 of 8.8 per cent, of which around half was attributed to wholesale energy costs. Network costs were also a significant factor in the December price rise.
- > The *ACT* recorded a moderate 6.5 per cent retail electricity price increase in 2011–12. The rise was largely attributed to green scheme costs (increasing prices by 5 per cent) and network costs (3.6 per cent), partly offset by a fall in wholesale energy costs.

Retail price increases have generally been lower in *gas* than electricity. In 2011–12 retail gas prices rose by 13.8 per cent in South Australia and 4 per cent in New South Wales. Higher distribution pipeline charges contributed to 70 per cent of the rise in New South Wales and 80 per cent in South Australia.¹⁵

4.4.3 Retail prices—long term trends

Figure 4.5 tracks movements in real energy prices for metropolitan households since 1991, using the electricity and gas components of the consumer price index. Figure 9 in the *Market overview* of this report compares price outcomes for household and business customers.

Real energy prices have trended upwards for small customers over the past decade. In part, this trend reflects the unwinding of historical cross-subsidies from business to household customers that was necessary as jurisdictions phased in retail contestability. In Brisbane (where small customers did not have access to a retailer of choice until 2007) and Hobart (where small customers are still unable to choose their retailer), electricity retail prices remained relatively stable until

the past four years. In many jurisdictions, retail prices for gas tended to rise earlier and more steadily than for electricity.

Rising wholesale energy prices drove up retail prices in 2007–08, when the drought constrained hydro generation and low cost thermal generators that rely on water for cooling. More recently, rising network costs (especially for distribution networks and pipelines) and the costs of introducing and expanding green schemes flowed through to retail prices. The discussion of regulated price movements in section 4.3.2 outlines the issues in each jurisdiction.

4.5 Quality of retail service

Reporting on retail service quality tends to focus on affordability, access and customer service indicators. This section provides summary data on recent outcomes.

A key performance indicator of affordability and access is the rate of residential customer disconnections for failure to meet bill payments (figure 4.6). In 2009–10 the rate of electricity disconnections increased in Tasmania, the ACT and Queensland. In Victoria, the disconnection rate increased for all retailers except Origin Energy and TRUenergy.¹⁶ The rate in New South Wales was consistent with that of the previous year.

South Australia recorded a decrease in disconnection rates for both electricity and gas. The regulator noted this decrease, combined with an increase in instalment plans, may indicate improved financial hardship arrangements among retailers.¹⁷

Figure 4.7 illustrates rates of retail customer complaints in electricity and gas. In 2009–10 the rate of electricity complaints rose in several jurisdictions. Billing issues were a significant source of complaint.

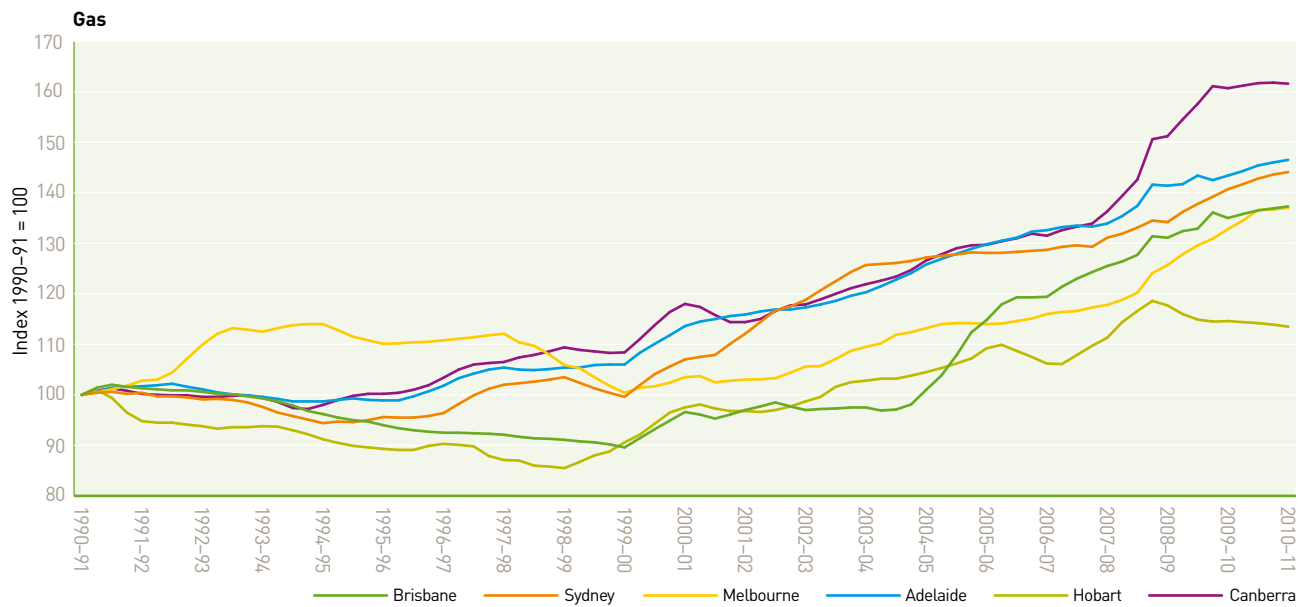
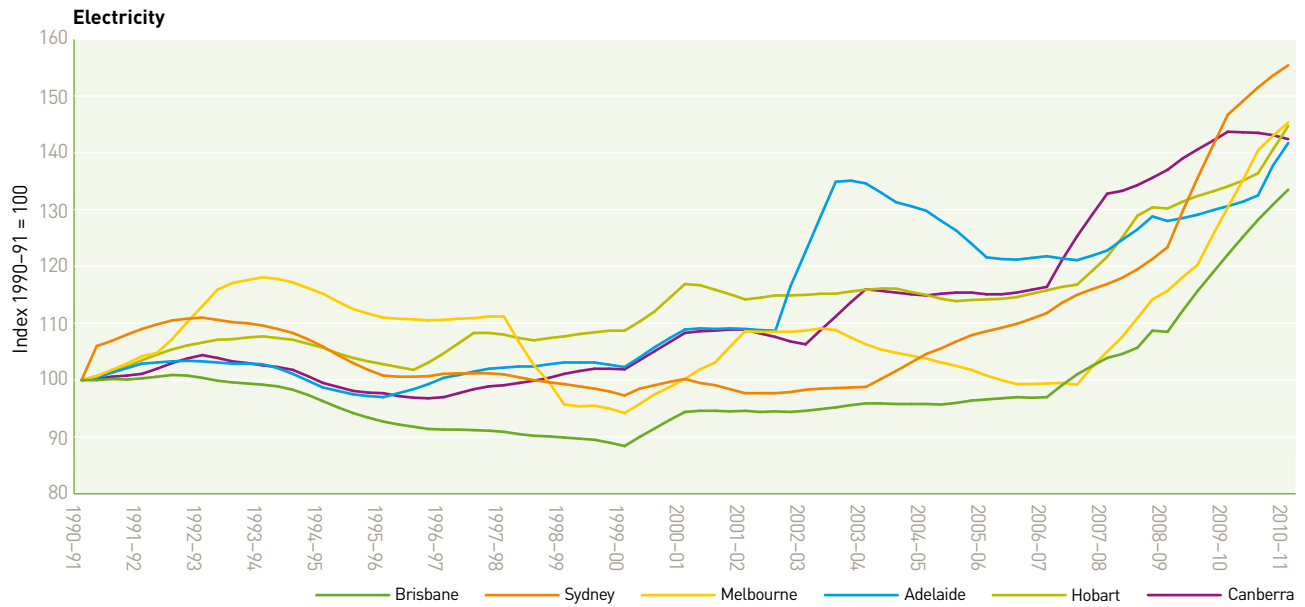
14 OTTER, 'Approval of 2011–12 electricity retail tariffs', Media release, 10 June 2011.

15 IPART, 'Review of regulated retail tariffs and charges for gas from 1 July 2010 to 30 June 2013—final report', Fact sheet, 2010.

16 ESC, *Energy retailers comparative performance report 2009–10*, 2010, p. 26.

17 ESCOSA, *2009–10 Annual performance report: South Australian energy supply industry*, 2010.

Figure 4.5
Retail price index (inflation adjusted), Australian capital cities



Note: Consumer price index electricity and gas series, deflated by the consumer price index for all groups.

Source: ABS, *Consumer price index*, cat. no. 6401.0, various years.

Figure 4.6
Residential disconnections for failure to pay amount due, as a percentage of small customers

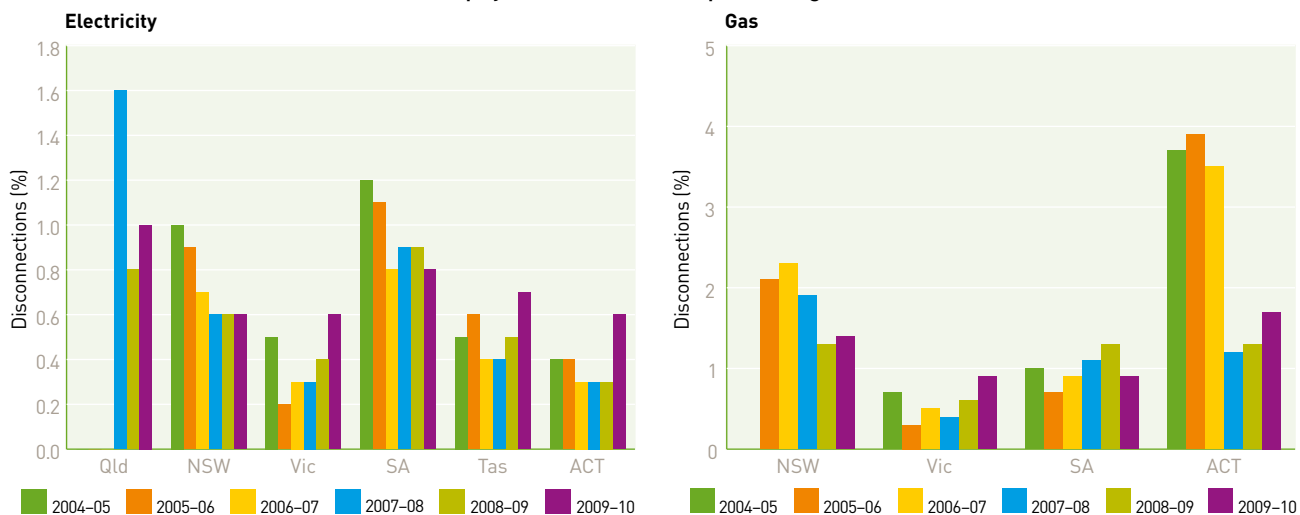
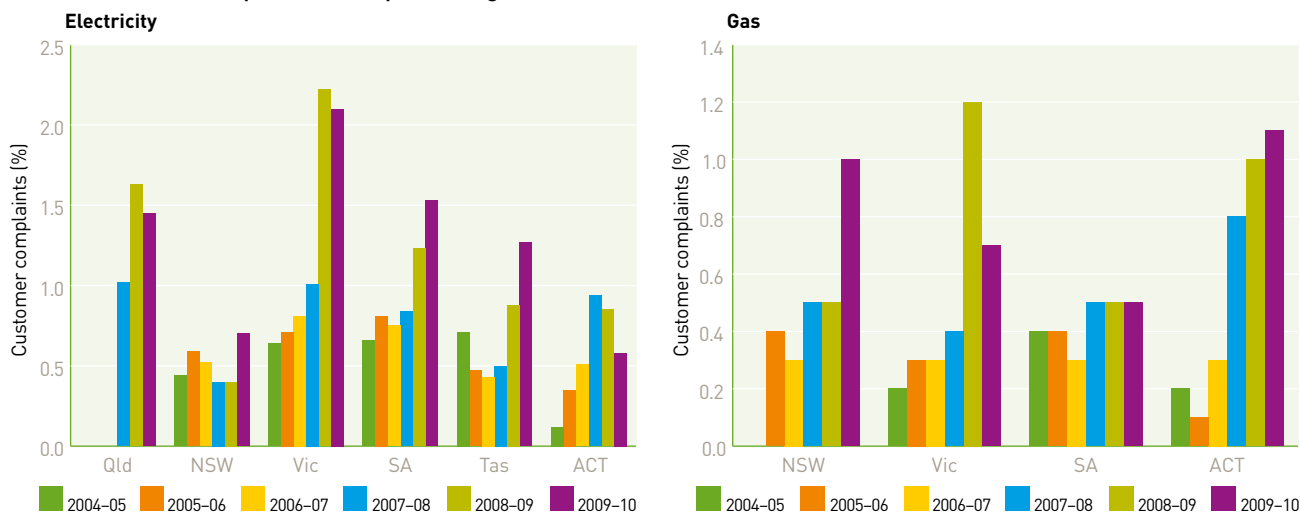


Figure 4.7
Retail customer complaints, as a percentage of total customers



Sources for figures 4.6 and 4.7: Reporting against Utility Regulators Forum templates; retail performance reports by IPART (New South Wales), the ESC (Victoria), ESCOSA (South Australia), OTTER (Tasmania), the QCA and the Department of Employment, Economic Development and Innovation (Queensland), and the ICRC (ACT).