Jim Rice (Fairfax)

4 RETAIL ENERGY MARKETS

Energy retailers buy electricity and gas in wholesale markets and package it with transportation services for sale to customers. State and territory governments are responsible for regulating retail energy markets. Governments agreed in 2004, however, to transfer several non-price regulatory functions to a national framework that the Australian Energy Market Commission (AEMC) and the Australian Energy Regulator (AER) will administer (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

The energy retail sector is increasingly run by privately owned businesses. Three privately owned retailers—AGL Energy, Origin Energy and TRUenergy—collectively supply the bulk of small customers in Victoria and South Australia, and are building market share in New South Wales. AGL Energy and Origin Energy entered the Queensland small customer market in 2006–07 following the privatisation of state owned retailers. More recently, Simply Energy and Lumo Energy have emerged as significant private retailers in some jurisdictions.

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

- The New South Wales Government owns EnergyAustralia, Integral Energy and Country Energy, but in 2010 was progressing plans to privatise these entities (box 1.1, chapter 1).
- Snowy Hydro (jointly owned by the New South Wales, Victorian and Australian governments) owns Red Energy.
- The Tasmanian Government owns Aurora Energy and 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 operates ActewAGL—a joint venture with the private sector—to provide both electricity and gas retail services.

Table 4.1 lists licensed retailers that were active in the electricity and gas markets for residential and small business customers in July 2010. An active retailer is an authorised retailer that is supplying energy services to customers (whether or not the retailer is seeking new customers). Two retailers—Dodo Power & Gas and Qenergy—began operating in 2009–10. Also, a number of retailers (including Australian Power & Gas, Click Energy, Lumo Energy and Sanctuary Energy) widened the geographic range of their activity. Jackgreen was suspended from wholesale market trading in the National Electricity Market (NEM) in December 2009, and subsequently entered voluntary administration.

While governments introduced reforms to structurally separate the energy supply industry in the 1990s, the sectors have significant ownership links. In particular, significant vertical integration exists between energy retail markets and upstream energy production:

- AGL Energy, Origin Energy, TRUenergy and International Power are significant players in both electricity generation and energy retail.
- The public electricity sector also exhibits vertical integration. Snowy Hydro owns Red Energy, which has market share in Victoria and South Australia. In 2009 Hydro Tasmania (Tasmanian Government) acquired full ownership of Momentum Energy.
- AGL Energy, Origin Energy and TRUenergy have interests in gas production and/or gas storage. 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.

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

Governments agreed in the Australian Energy Market Agreement 2004 to introduce a national scheme for energy retail regulation. The reform's architecture, the National Energy Customer Framework, includes the National Energy Retail Law, Rules and Regulations. The framework aims to deliver streamlined national regulation that supports an efficient retail market with appropriate consumer protection.

The legislative package to implement the national framework was introduced to the South Australian parliament in the 2010 spring sitting. State and territory governments are expected to implement the framework between 2011 and 2013. The transfer of functions is not expected to occur in Western Australia or the Northern Territory at this time.

The national framework will transfer several functions to the AER, including:

- monitoring compliance and enforcing breaches of the laws, rules and regulations
- approving the authorisation and exemption of energy retailers
- approving retailers' customer hardship policies
- reporting on performance matters such as customer service, and on energy affordability and retail market activity
- administering a 'retailer of last resort' scheme
- publishing retailers' standing offer prices and an online price comparison service for small customers, where required by a jurisdiction.

The states and territories will retain responsibility for control of regulated prices.

To prepare for the transition, the AER has been consulting with energy customers, consumer advocacy groups, energy retailers, jurisdictional regulators and ombudsmen, and state and territory government departments. In 2010 it ran 11 stakeholder forums on the national arrangements and its proposed approach to retail regulation. It also published issues papers covering retail pricing information, retailer authorisations and exemptions, the development of hardship program indicators, performance reporting and a proposed compliance framework. For some of these processes, it has published draft guidelines. The issues papers and draft guidelines are available on the AER's web site (www.aer.gov.au).

In addition, the New South Wales,[2] Queensland and Tasmanian governments own joint distribution–retail businesses. The ACT Government has ownership interests in both the host energy retailer and distributor. If links exist between retail and network sectors, regulators apply ring fencing arrangements to ensure operational separation of the businesses.

4.1.1 Queensland

At June 2010 Queensland had 28 licensed electricity retailers and five licensed gas retailers, of which 11 were active in the electricity market and three were active in the gas market. Origin Energy and AGL Energy are the leading retailers, with Integral Energy emerging as the third major player in electricity.

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 2010 New South Wales had 27 licensed electricity retailers, of which 11 supplied to residential and/or small business customers. The latter group included three host retailers—the government owned EnergyAustralia, Integral Energy and Country Energy, which jointly supply over 80 per cent of small customers—and eight new entrants (comprising a mix of established interstate players and niche market entrants).

2 In New South Wales, privatisation plans for the contestable sectors of the energy market (generation and retail) will result in structural separation of the distribution and retail sectors.

Table 4.1 Active energy retailers—small customer market, June 2010

RETAILER	OWNERSHIP	QLD	NSW	VIC	SA	TAS	ACT
ActewAGL Retail	ACT Government and AGL Energy						
AGL Energy	AGL Energy						
Aurora Energy	Tasmanian Government						
Australian Power & Gas	Australian Power & Gas						
Click Energy	Click Energy						
Country Energy	New South Wales Government[1]						
Dodo Power & Gas	Dodo Power & Gas						
Energy Australia	New South Wales Government[1]						
Ergon Energy	Queensland Government						
Integral Energy	New South Wales Government[1]						
Lumo Energy	Infratil						
Momentum Energy	Hydro Tasmania (Tasmanian Government)						
Neighbourhood Energy	Neighbourhood Energy[2]						
Origin Energy	Origin Energy						
Powerdirect[3]	AGL Energy						
Qenergy	Qenergy						
Red Energy	Snowy Hydro[3]						
Sanctuary Energy	Sanctuary Energy[4]						
Simply Energy	International Power						
Tas Gas Retail (formerly Option One)	Prime Infrastructure[5]						
TRUenergy	CLP Group						

Electricity retailer

Gas retailer

Local area retailer •

1. The New South Wales Government was in 2010 progressing plans to privatise this entity.
2. Alinta Energy (formerly Babcock & Brown Power) became a major shareholder of Neighbourhood Energy in March 2010.
3. 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).
4. Sanctuary Energy is owned by Living Choice Australia (50 per cent) and Sanctuary Life (50 per cent).
5. Prime Infrastructure was formerly named Babcock & Brown Infrastructure.

Note: A 'local area retailer' is required to offer a contract to supply energy services to customers that establish a new connection to the electricity or gas network within a designated geographic region.

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

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

4.1.3 Victoria

At June 2010 Victoria had 30 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, of which two are established interstate players.

Figure 4.1 illustrates energy retail market shares. The three host retailers supply about 74 per cent of small electricity customers, and each has acquired market share beyond its local area. New entrant penetration increased from around 7 per cent of small customers in June 2005 to almost 27 per cent in June 2009.

In gas at June 2010, Victoria had 15 licensed retailers, of which eight actively supplied small customers. The three host retailers, which are also the host retailers in electricity, collectively supplied over 81 per cent of small customers at June 2009.

4.1.4 South Australia

At June 2010 South Australia had 21 licensed electricity retailers, of which 10 were active in the small customer market. The host retailer, AGL Energy, supplied around 53 per cent of small customers in 2009, down from 79 per cent in 2005 (figure 4.2). Penetration by niche retailers has been only marginal, with the four largest retailers accounting for around 90 per cent of the market. Origin Energy (18 per cent) has been the most successful of the new entrants in building market share over the past five years.

South Australia had 11 licensed gas retailers at June 2010, of which four actively supplied to small customers. At June 2009 Origin Energy supplied around 56 per cent of small customers, but the three competing retailers have each built market share over the past five 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 2010 Tasmania had two gas retailers active in the small customer market: the state owned Aurora Energy and Tas Gas Retail (owned by Prime Infrastructure).

4.1.6 Australian Capital Territory

At June 2010 the ACT had 18 licensed electricity retailers and eight licensed gas retailers. Three retailers—ActewAGL, EnergyAustralia and TRUenergy—actively sell to small customers. ActewAGL remains the dominant retailer, and in 2009 supplied around 93 per cent of small customers.[3]

4.2 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 2009, Tasmania extended contestability to customers using at least 150 megawatt hours (MWh) per year. Small business customers that consume more than 50 MWh per year are expected to become contestable on 1 July 2011. All jurisdictions have introduced FRC in gas retail markets.

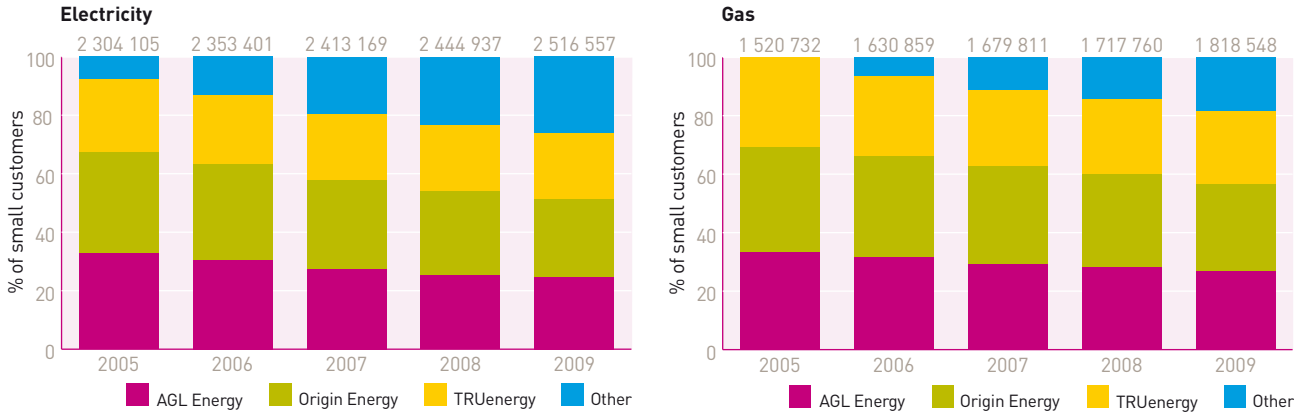
In the transition to effective competition, price cap regulation continues to apply in several jurisdictions. At July 2010 all jurisdictions except Victoria applied some form of price cap regulation for electricity services. In gas retail markets, New South Wales and South Australia regulate prices for small customers.

Australian governments have agreed to review the continued use of retail price caps and to remove them if effective competition can be demonstrated.[4] The AEMC is assessing the effectiveness of retail competition in each jurisdiction, to advise on ways to

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

4 Australian Energy Market Agreement 2004 (as amended).

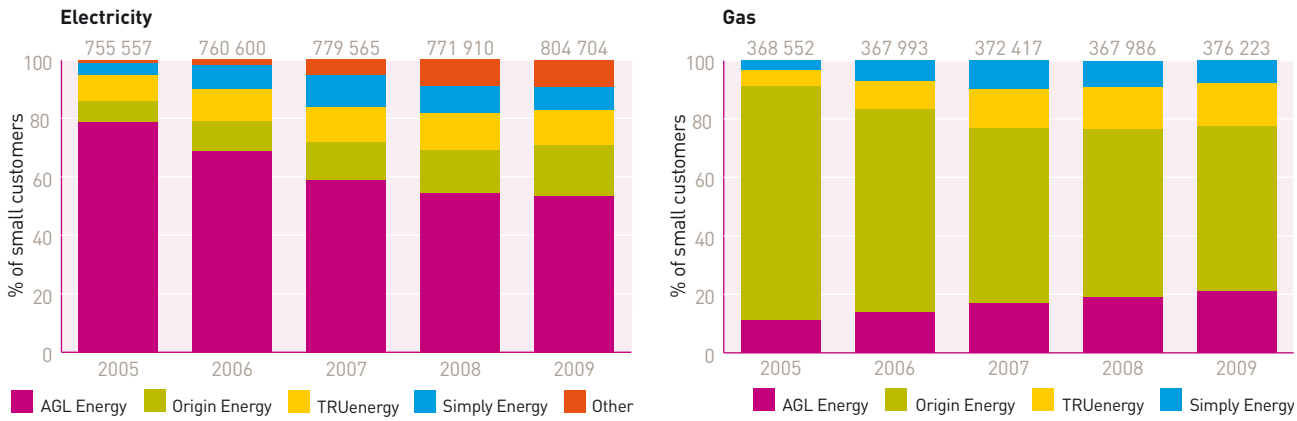
Figure 4.1
Retail market share (small customers)—Victoria



Note: Figures at top of columns are total small customer numbers.

Source: ESC (Victoria), *Energy retailers: comparative performance report — customer service*, various years.

Figure 4.2
Retail market share (small customers)—South Australia



Note: Figures at top of columns are total small customer numbers.

Source: ESCOSA (South Australia), *Annual performance report: performance of South Australian energy retail market*, various years.

remove retail price caps. The relevant state or territory government makes the final decision 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 caps 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, and that stakeholders had differing views on the effectiveness of competition.

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.

In June 2010 the AEMC released a draft report on the ACT retail electricity market, which found competition in the small customer market was not effective. It considered regulated retail prices were set at levels that did not allow adequate margins to attract new entrants, thus creating barriers to entry. Accordingly, retailer rivalry was limited, as were product choices available to small customers. The AEMC also noted customer switching among retailers was lower in the ACT than in other jurisdictions.[6]

The Ministerial Council on Energy and the Council of Australian Governments have agreed to further energy retail market reviews for New South Wales, Queensland and Tasmania (if FRC is introduced).[7]

4.2.1 Customer switching

The rate at which customers switch their supply arrangements indicates customer participation in the market. While switching (or churn) rates can also 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 choice. Switching rates may then stabilise as a market acquires more depth. Similarly, switching may be low in a very 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 6 in the *Market overview* of this report illustrates retail switching activity in 2009–10. Figure 4.3 sets out cumulative switching data. All data includes switches from a host retailer to a new entrant, switches from new entrants back to a host retailer, and switches from one new entrant to another. 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 and South Australia continue to have higher cumulative switching rates than those of other jurisdictions. By June 2010 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 several years later than other jurisdictions did, customer activity has gathered momentum; in 2010 Queensland's cumulative switching in gas overtook that recorded in New South Wales. More generally, switching rates have been lower in gas than electricity in all jurisdictions.

4.3 Retail prices

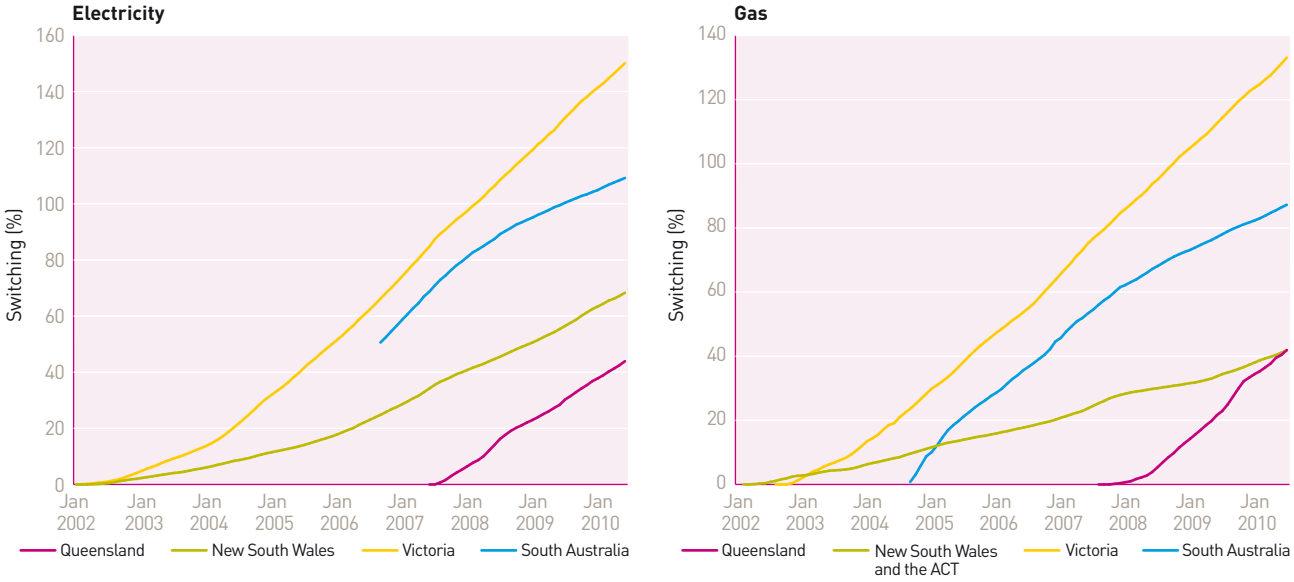
The energy bills paid by retail customers cover the costs of wholesale energy, transport through transmission and distribution networks, and retail services. Table 4.2 estimates the composition of a typical electricity retail bill for a residential customer in each NEM jurisdiction that regulates prices.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

In electricity, wholesale energy costs account for around 37–45 per cent of retail bills, while network tariffs account for 43–51 per cent. Retailer operating costs have a range of around 4–8 per cent, and retail margins have a range of 3–5 per cent.

The cost estimates for New South Wales reflect a significant pass through of distribution network costs that took effect in 2009; the contribution of network costs to retail prices is projected to rise from around 47 per cent in 2007 to 57 per cent in 2012–13.

6 AEMC, *Review of the effectiveness of competition in the electricity retail market in the ACT*, 2010, p. 4.
7 COAG, *Implementation plan for competition reforms*, 2010.

Figure 4.3
Cumulative monthly customer switching of retailers as a percentage of small customers



Notes:

The customer base is estimated at 30 June 2010.

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

The New South Wales and ACT, Queensland and Victorian gas data are based on transfers at delivery points.

Sources: Customer switches: AEMO, MSATS transfer data to June 2010 and gas market reports, transfer history to June 2010; customer numbers: IPART (New South Wales), *NSW electricity information paper—electricity retail businesses' performance against customer service indicators,* various years; ESCOSA (South Australia), *08/09 Annual performance report: South Australian energy supply industry,* 2009; ESC (Victoria), *Energy retailers: comparative performance report—customer service 2008-09,* 2009; QCA (Queensland), *Market and non-market customers, December quarter 2009,* 2010.

Table 4.2 Indicative composition of residential electricity and gas bills

JURISDICTION	WHOLESALE ENERGY COSTS	NETWORK COSTS	RETAIL OPERATING COSTS	RETAIL MARGIN
	PER CENT OF TYPICAL SMALL CUSTOMER BILL			
ELECTRICITY				
New South Wales	37	51	6	5
Queensland	42	49	4	5
South Australia	44	43	8	5
Tasmania	43	49	5	3
ACT	45	43	7	5
GAS				
New South Wales	33	47	13	7
South Australia	18	60	17	5

Note: South Australian gas estimates are based on 2008 data. All other estimates are based on 2010 data.

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

Pipeline charges are the most significant component of gas retail prices. Transmission and distribution charges combined account for around 47 per cent of gas retail prices in New South Wales and 60 per cent in South Australia. Distribution charges account for the bulk of pipeline costs. Estimates published in 2008 for South Australia and Queensland found distribution costs contributed around 52 per cent to retail prices in those jurisdictions.[8] 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.

4.3.1 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 direct debit bill payments. These offers may vary depending on the length of a contract. Many contracts carry a severance fee, however, 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 current electricity and gas retail 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. The Law also requires the AER to develop an online price comparison service for jurisdictions that choose to participate.

4.3.2 Regulated prices—recent trends

Most jurisdictions that apply price cap regulation set prices that small customers are entitled to access if they choose not to enter a market contract with an energy retailer. The AER *State of the energy market 2009* report described approaches across the jurisdictions in setting these prices (section 7.4.1). Typically, the jurisdictional economic regulator conducts an independent review. All NEM jurisdictions except Victoria regulate prices for electricity retail services; only New South Wales and South Australia regulate gas prices.

While Victoria does not apply price caps, its retailers are required to publish unregulated standing offer prices on their websites that small customers can access. The prices are also published in the Victorian government gazette.

Table 4.3 summarises announced movements in regulated and standing offer electricity prices for 2009–10 and 2010–11, and estimates the annual electricity bill for customers under these arrangements. Figure 8 in the *Market overview* of this report sets out the 2009–10 data in chart form.

In some jurisdictions, customers may be able to negotiate significant discounts against these prices by entering a market contract. A St Vincent de Paul Society analysis of the Victorian market found a price spread of 26–37 per cent across retail offers within electricity distribution zones.[9]

The data indicate that retail *electricity* prices rose significantly in 2009–10 in most states and territories. At 1 November 2010, further increases had been announced or proposed in some jurisdictions.

- New South Wales regulated prices rose by up to 21.7 per cent in 2009–10, with further significant increases occurring in 2010–11. IPART found higher network charges accounted for 50 per cent of

8 McLennan Magasanik & Associates, *Final report to the Queensland Competition Authority—costs of gas supply for a second tier retailer supplying small customers in Queensland,* 2008; ESCOSA (South Australia), *2008 Gas standing contract price path inquiry: draft inquiry report and draft price determination,* 2008.

9 St Vincent de Paul Society, *Victorian energy prices July 2008 – July 2010: a report from the Victorian tariff-tracking project,* 2010.

Table 4.3 Movements in regulated and standing offer prices—electricity

JURISDICTION	REGULATOR	RETAILER	AVERAGE PRICE INCREASE (PER CENT) 2009–10	2010–11	ESTIMATED ANNUAL COST ($)
New South Wales	IPART	EnergyAustralia	21.7	10.0	1127
		Integral Energy	21.1	7.0	1250
		Country Energy	17.9	13.0	1549
Queensland	QCA	All licensed retailers	15.5	13.3	1166
Victoria	Unregulated	Origin Energy (Citipower)	14.5	..	1203
		Origin Energy (Powercor)	14.5	..	1341
		TRUenergy (SP AusNet)	11.2	..	1213
		AGL Energy (Jemena)	19.3	..	1317
		AGL Energy (United Energy)	11.8	..	1214
South Australia	ESCOSA	AGL Energy	3.1	5.6 (1 July 2010) 6.9 (1 January 2011)	1276
Tasmania	OTTER	Aurora Energy	6.2	6.0 (1 July 2010) 8.8 (1 December 2010)	1311
ACT	ICRC	ActewAGL	6.4	2.3	977

Notes:

The South Australian electricity price increase scheduled for January 2011 is a draft determination by the jurisdictional regulator. All other price increases are final outcomes.

Estimated annual cost is based on a customer using 5000 kilowatt hours of electricity per year with no controlled load as at 1 August 2010.

The Victorian price movements (and estimated annual costs) are for the local area retailer in each of Victoria's five distribution areas. The estimates are based on unregulated standing offer prices published in the Victorian government gazette.

Sources: Determinations, draft determinations, fact sheets and media releases from 2007 to 2010 by IPART (New South Wales), the QCA (Queensland), ESCOSA (South Australia), OTTER (Tasmania) and the ICRC (ACT); Victorian Government Gazette.

the 2009–10 price increases and 80 per cent of the 2010–11 increases. Rising wholesale energy costs contributed to around 30 per cent of the 2009–10 retail price rises, but will have a negligible impact in 2010–11.[10]

- The Queensland Competition Authority (QCA) increased regulated electricity prices for 2009–10 by 11.8 per cent, which rose to 15.5 per cent following an appeal by energy retailers. It attributed the rise in roughly equal proportions to rising wholesale energy costs and network costs. The QCA attributed around 61 per cent of the projected 13.3 per cent rise in 2010–11 retail prices to rising network charges, mainly associated with new investment in distribution networks. The remaining sources of cost pressure were rising wholesale energy costs (contributing 29 per cent) and an increase in retail costs related to customer acquisition and retention.[11]
- Victorian standing offer prices for electricity rose by around 12–19 per cent in 2009–10. Given these are unregulated prices, only limited information is available on underlying cost factors. Unlike most jurisdictions, Victoria had relatively flat (or slightly declining) distribution charges, and was the only mainland jurisdiction to record a decrease in wholesale electricity prices in 2009–10. Charges for the introduction of smart meters would have accounted for retail price increases of around 2.5–7 per cent in 2010. The pass through impact was lowest for United Energy distribution customers and highest for Jemena customers. A pass through of transmission charges would account for retail price increases of up to 2.6 per cent. Higher costs (including compliance costs) associated with government climate change policies were other likely contributing factors.

10 IPART, *Market-based electricity purchase cost allowance—2009 electricity review, final report and determination,* 2009; IPART, 'Regulated electricity retail tariffs for 1 July 2010 to 30 June 2013—final report', Fact sheet, 2010.

11 QCA, *Benchmark retail cost index for electricity, final decisions, 2009–10* and *2010–11*, 2009 and 2010.

Origin Energy call centre (Origin Energy)

- South Australian price rises were relatively moderate in 2009–10, but in July 2010 rose by 5.6 per cent in response to rising network charges and pass throughs related to climate change policies. The South Australian regulator's inquiry into regulated prices from 2011 to 2014 foreshadowed in a draft determination that prices may increase by a further 6.9 per cent on 1 January 2011.[12]
- Tasmanian electricity prices rose by around 6 per cent during 2009–10, with a further 6 per cent increase on 1 July 2010 in response to rising network charges. The Tasmanian regulator determined that prices would again increase by 8.8 per cent on 1 December 2010. It attributed around half of the price increase to rising energy purchase costs.[13]
- The ACT recorded a 6.4 per cent in prices in 2009–10 and expects a moderate 2.3 per cent increase in 2010–11.

Recent retail price increases have generally been lower in *gas* than electricity. South Australia expected a moderate 3.1 per cent increase in retail gas prices in 2010–11. In New South Wales, IPART attributed price increases of around 3–8 per cent over the same period mainly to higher distribution pipeline charges.[14] Victorian gas retail prices in 2009–10 rose by around 6–12 per cent. Information on the cost pressures underlying these unregulated price movements is limited. More generally, a St Vincent de Paul Society analysis of the Victorian market found geographic price spreads were higher in gas than electricity.[15]

4.3.3 Retail prices—long term trends

Figure 4.4 tracks movements in real energy retail prices for metropolitan households since 1991. It illustrates movements in the electricity and gas components of the consumer price index over this period, and reflects a mix of regulated and market price outcomes. Figure 9 in the *Market overview* of this report compares price outcomes for household and business customers.

Real energy prices have trended upwards since jurisdictions began phasing in retail contestability for small customers in 2001. In part, this trend reflects the unwinding of historical cross-subsidies from business to household customers that was necessary for competitive markets to develop. Price rebalancing caused significant electricity retail price rises in Melbourne and Adelaide early in the decade, for example. In Brisbane (where small customer prices remained fully regulated until 2007) and Hobart (where small customer prices are still fully regulated), electricity retail prices remained relatively stable until the past three or four years. In many jurisdictions, retail prices for gas tended to rise earlier and more steadily than for electricity.

Retail energy prices have risen sharply in most jurisdictions since 2007. A key factor in 2007 and 2008 was that drought conditions drove up wholesale energy prices. More recently, rising network costs (especially for distribution networks and pipelines) have flowed through to retail prices. The discussion of regulated price movements in section 4.3.2 outlines the issues in each jurisdiction.

4.4 Quality of retail service

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

4.4.1 Affordability and access

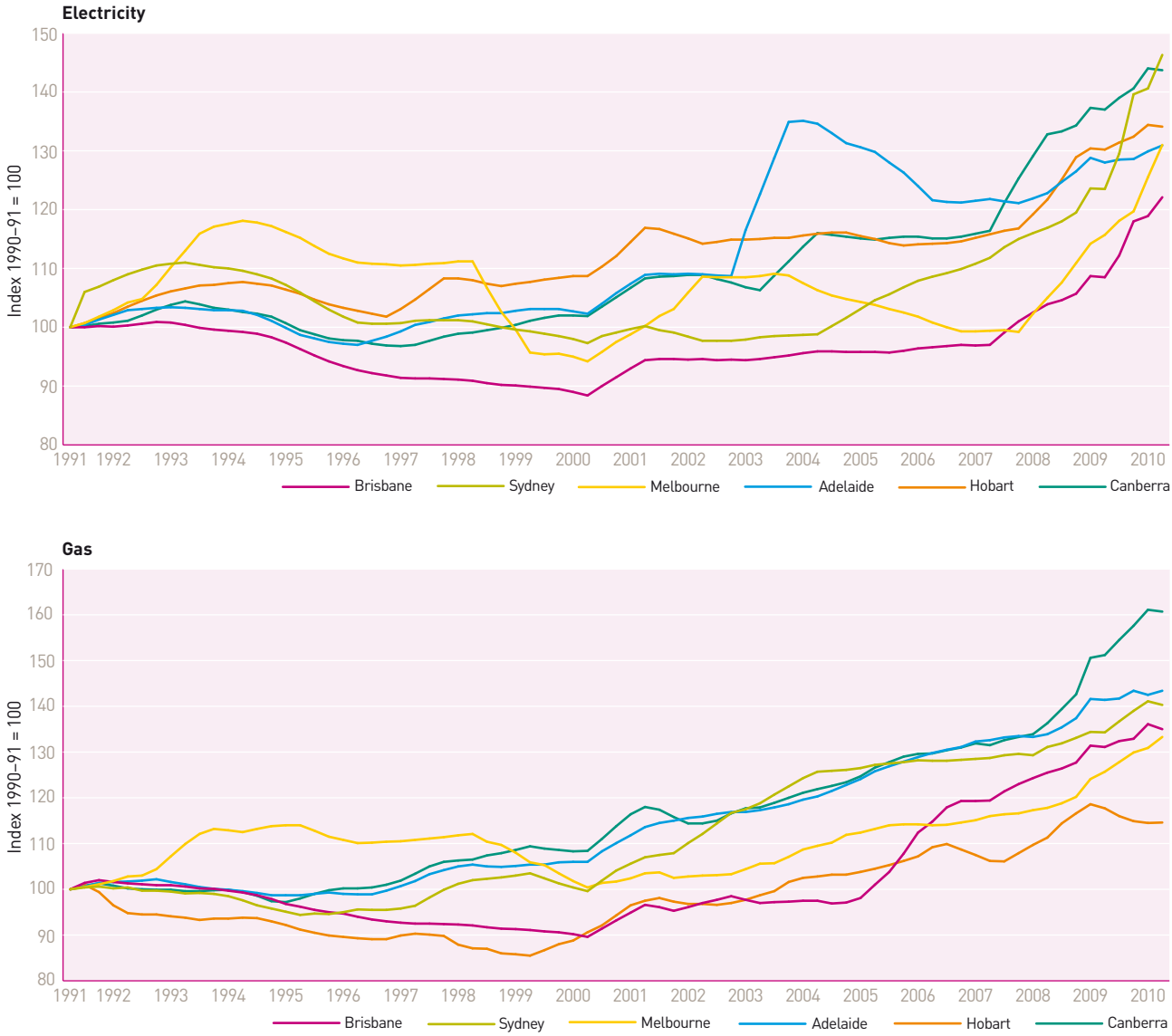
A key performance indicator of affordability and access is the rate of residential customer disconnections for failure to meet bill payments (figure 4.5). In 2008–09 the rate of electricity disconnections declined in Queensland and the ACT, and was unchanged in New South Wales. Tasmania recorded a slight increase in disconnection rates.

12 ESCOSA, '2010 Regulated electricity price adjustment impact on residential and small business customers', Media release, June 2010; ESCOSA, *2010 Review of retail electricity standing contract price path, draft inquiry report and draft price determination*, 2010.
13 OTTER, 'Electricity price investigation, final report', Media release, 29 October 2010.
14 IPART, 'Review of regulated retail tariffs and charges for gas from 1 July 2010 to 30 June 2013—final report', Fact sheet, 2010.
15 St Vincent de Paul Society, *Victorian energy prices July 2008 – July 2010: a report from the Victorian tariff-tracking project*, 2010.

Victoria and South Australia recorded an increase in disconnection rates for both electricity and gas. In Victoria, disconnection rates for AGL Energy and TRUenergy increased significantly.[16]

The South Australian regulator noted that a slight increase in disconnection rates may indicate increased financial hardship among small customers, but equally could reflect tighter credit management practices by energy retailers.[17]

Figure 4.4
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.

16 ESC, *Energy retailers—comparative performance report 2008–09*, 2009, p. 13.

17 ESCOSA, *08/09 Annual performance report: South Australian energy supply industry*, 2009.

4.4.2 Customer complaints

Figure 4.6 illustrates rates of retail customer complaints for electricity and gas. In 2008–09 the rate of electricity customer complaints increased significantly in Victoria, Queensland and South Australia. The increases were partly attributed to billing system issues that AGL Energy experienced.[18]

Figure 4.5
Residential disconnections for failure to pay amount due, as a percentage of the small customer base

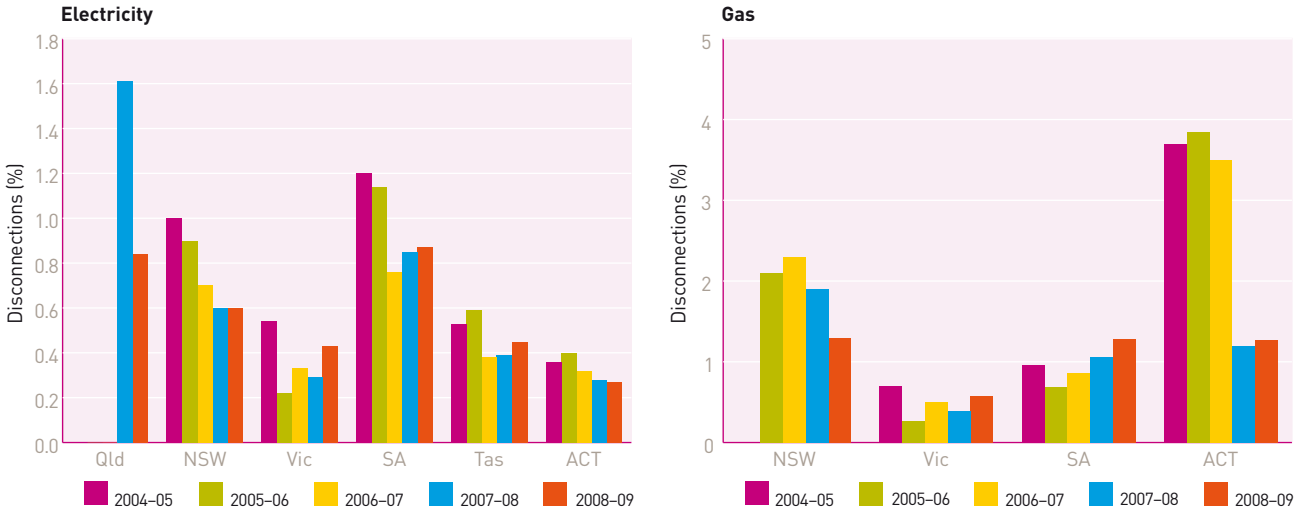
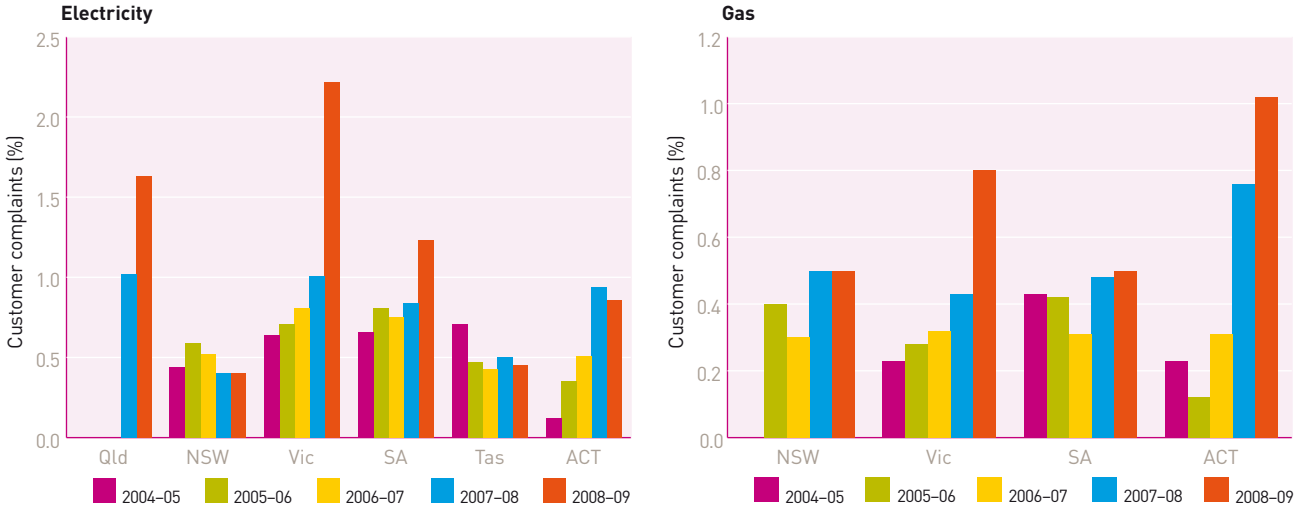


Figure 4.6
Retail customer complaints, as a percentage of total customers



Sources for figures 4.5 and 4.6: Reporting against Utility Regulators Forum templates and 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).

18 ESC, *Energy retailers—comparative performance report 2008–09*, 2009, p. 15; ESCOSA, *08/09 Annual performance report: South Australian energy supply industry,* 2009, p. 50; QCA, *Small electricity customer disconnection and complaints data—year ended 30 June 2009,* 2009, p. 3.