5 ENERGY RETAIL MARKETS

Energy retailers buy electricity and gas in wholesale markets and package it with network (transportation) services for sale to customers. While state and territory governments have been responsible for regulating retail energy markets, the Australian Energy Regulator (AER) has taken on significant functions under national energy reforms. The National Energy Retail Law (Retail Law) protects small energy customers—that is, residential energy users and small businesses annually consuming less than 100 megawatt hours (MWh) of electricity or 1 terajoule (TJ) of gas.[1]

5.1 Energy retailers

Table 5.1 lists licensed energy retailers that were active in the market for residential and small business customers in October 2013. Active retailers are those that supply energy services to customers (whether or not they are seeking new customers). The number of active retailers steadily increased over the past 10 years, following the introduction of full retail contestability in most jurisdictions.

Not all retailers are active in every jurisdiction. However, all retailers active at October 2013 were authorised to sell in each jurisdiction that adopted the Retail Law.[2] In considering whether to enter a particular market, a retailer considers a range of factors, including whether prices are regulated (and the level of those prices), the size of the market, the extent of competition, the ability to acquire hedging contracts to manage risk and, for gas retailing, whether wholesale gas contracts and pipeline access can be negotiated.

Around half of all active retailers offer to supply both electricity and gas in at least some of the jurisdictions in which they are active. Other retailers offer only electricity, and one retailer specialises in gas (Tas Gas Retail, which operates in Tasmania). Reasons for the lower competition in gas may include the smaller market (that is, not all households have a gas connection) and the difficulties that new entrant retailers face in contracting for wholesale gas supplies.

Victoria has the most active retailers selling to small customers, for both electricity (18) and gas (nine). Queensland, New South Wales and South Australia each have 12–13 electricity retailers and three to six gas retailers.

New entry occurred in retail markets in 2012–13, with People Energy commencing electricity retailing in Victoria. And some existing retailers—notably, Diamond Energy and Simply Energy (Queensland), Click Energy (New South Wales) and Qenergy (New South Wales and Victoria)—widened the geographic range of their activity. Further, two retailers that previously sold only electricity moved into the retail gas market: Alinta Energy (Victoria and South Australia) and Dodo Power & Gas (Victoria).

5.2 Retail market structure

Australia's retail energy markets tend to be highly concentrated. Three or fewer retailers account for more than 90 per cent of electricity market share in four of the six jurisdictions. Similar ratios apply in gas. In addition, substantial vertical integration exists between retailers and energy producers.

Three privately owned businesses—AGL Energy, Origin Energy and EnergyAustralia (formerly TRUenergy)—are the leading energy retailers in southern and eastern Australia (figure 5.1). The three jointly supplied 77 per cent of small electricity customers and over 85 per cent of small gas customers in southern and eastern Australia at 30 June 2013. Their combined market share fell by 2 per cent in 2012–13, mainly as a result of competition from smaller retailers in the New South Wales and Victorian electricity markets. Overall AGL Energy gained some market share (mainly in New South Wales), but largely at the expense of Origin Energy and EnergyAustralia.

Growth in the market share of smaller retailers in 2012–13 was mostly for relatively new entrants with less than 1 per cent share in any regional market. More established retailers such as Simply Energy and Lumo Energy did not have a significant change in their customer base. But in August 2013 AGL Energy acquired Australian Power & Gas, reversing most of the market share gains by the smaller retailers over the previous year.

Victoria has the highest penetration of smaller private retailers, which accounted for 27 per cent of electricity customers and 18 per cent of gas customers in 2013. In South Australia, smaller retailers accounted for 17 per cent of electricity customers and 8 per cent of gas customers.

1 For electricity, some jurisdictions have a consumption threshold different from that specified in the Retail Law. In South Australia, for example, small electricity customers are those consuming less than 160 MWh per year; in Tasmania, the threshold is 150 MWh per year.

2 Some limitations apply, including a restriction on selling electricity to customers in Tasmania that consume less than 50 MWh of electricity per year.

Table 5.1 Active energy retailers—small customer market, October 2013

RETAILER	OWNERSHIP	QLD	NSW	VIC	SA	TAS	ACT
ActewAGL Retail	ACT Government and AGL Energy		Electricity; Gas *				Electricity *; Gas *
AGL Energy	AGL Energy	Electricity; Gas *	Electricity; Gas *	Electricity *; Gas *	Electricity *; Gas		
Alinta Energy	Alinta Energy			Electricity; Gas	Electricity; Gas		
Aurora Energy	Tasmanian Government					Electricity *; Gas	
Australian Power & Gas	AGL Energy	Electricity; Gas	Electricity; Gas	Electricity; Gas			
BlueNRG	BlueNRG			Electricity			
Click Energy	Click Energy	Electricity	Electricity	Electricity			
Diamond Energy	Diamond Energy	Electricity		Electricity	Electricity		
Dodo Power & Gas	M2 Telecommunications Group	Electricity	Electricity	Electricity; Gas			
EnergyAustralia	CLP Group	Electricity	Electricity *; Gas	Electricity *; Gas *	Electricity; Gas		Electricity; Gas
Ergon Energy	Queensland Government	Electricity *					
Lumo Energy	Infratil	Electricity	Electricity; Gas	Electricity; Gas	Electricity		
Momentum Energy	Hydro Tasmania (Tasmanian Government)		Electricity	Electricity	Electricity		
Neighbourhood Energy	Alinta Energy			Electricity			
Origin Energy	Origin Energy	Electricity *; Gas *	Electricity *; Gas *	Electricity *; Gas *	Electricity; Gas *		Electricity
People Energy	People Energy			Electricity			
Powerdirect	AGL Energy	Electricity	Electricity	Electricity	Electricity		
Powershop	Meridian Energy			Electricity			
Qenergy	Qenergy	Electricity	Electricity	Electricity	Electricity		
Red Energy	Snowy Hydro[1]		Electricity	Electricity; Gas	Electricity		Electricity
Sanctuary Energy	Living Choice Australia/Sanctuary Life	Electricity	Electricity		Electricity		
Simply Energy	International Power	Electricity		Electricity; Gas	Electricity; Gas		
Tas Gas Retail	Brookfield Infrastructure					Gas	

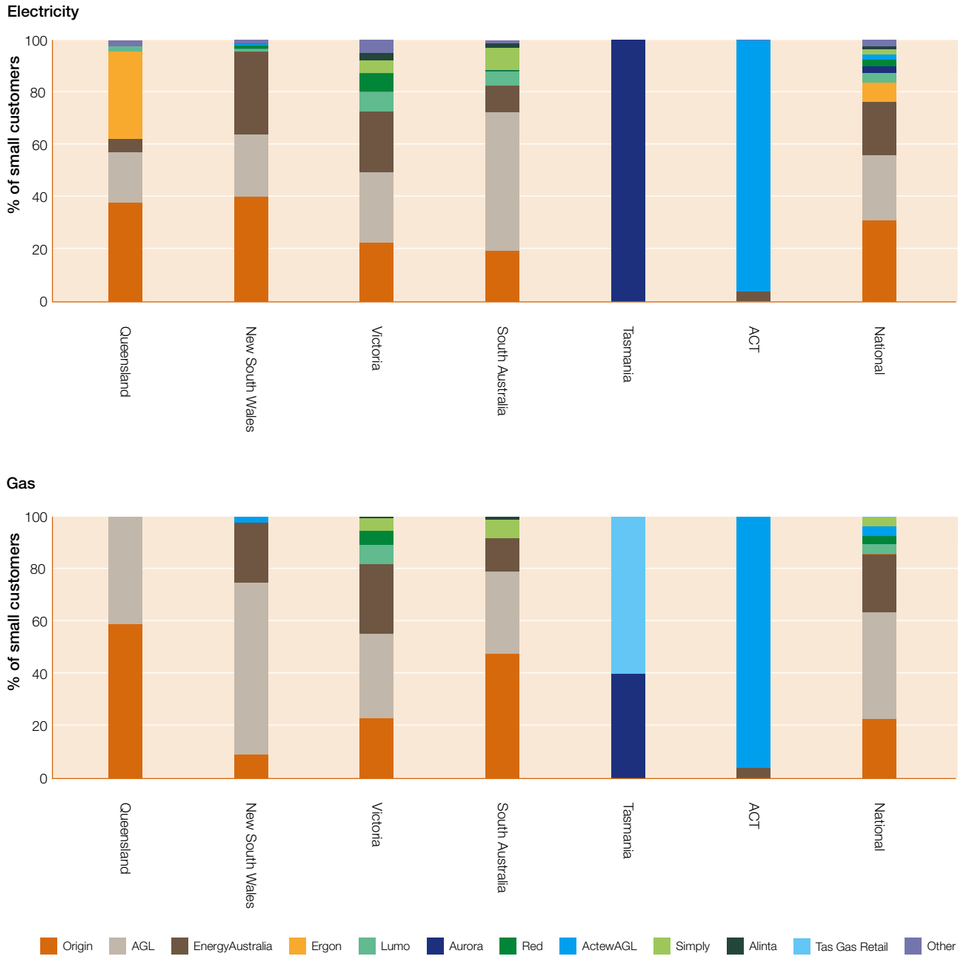
Electricity retailer
Gas retailer
Host retailer *

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).

Note: The host retailers listed for New South Wales, Tasmania and the ACT are those responsible for offering 'regulated offer' contracts to customers in defined regions of each state. The host retailers listed for Victoria, South Australia and Queensland are those responsible for offering 'standing offer' contracts to customers that establish a new connection in defined regions of each state.

Sources: AER, jurisdictional regulator websites, retailer websites and other public sources.

Figure 5.1
Retail market share (small customers), by jurisdiction, August 2013



Source: AER estimates.

Government retailers retain a strong presence in some jurisdictions:

- The Queensland Government owns Ergon Energy, which supplies electricity at regulated prices to customers in rural and regional Queensland. Ergon Energy is not permitted to compete for new customers.
- In Tasmania, the government owned host retailer—Aurora Energy—supplies most small electricity customers. Legislation prevents new entrants from supplying small customers that use less than 50 MWh per year. A proposal to sell Aurora Energy's retail customer base was abandoned in September 2013 (section 5.4).
- In the ACT, ActewAGL (a joint venture between the ACT Government and AGL Energy) remains the dominant retailer, with over 96 per cent of small customers.[3]
- Red Energy (owned by the New South Wales, Victorian and Australian governments) and Momentum Energy (owned by the Tasmanian Government) operate in a number of jurisdictions.

5.2.1 Vertical integration

While governments structurally separated the energy supply industry in the 1990s, the subsequent vertical integration of retailers and generators to form 'gentailers' has been significant. 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 reduced need for hedge contracts can reduce liquidity in contract markets, posing a potential barrier to entry and expansion by generators and retailers that are not vertically integrated.

Across the National Electricity Market (NEM), three private businesses—AGL Energy, Origin Energy and EnergyAustralia—have significant market share in both generation and retail markets. The three businesses:

- control 36 per cent of generation capacity, up from 15 per cent in 2009. Over this period Origin Energy commissioned new power stations in Queensland and Victoria, and (along with EnergyAustralia) acquired the trading rights to government owned generators in New South Wales. AGL Energy acquired full ownership of Loy Yang A in Victoria.

  The three entities control 45 per cent of new generation capacity commissioned or committed since 2009. Generation investment over this period by entities that do not also retail energy was negligible, except for in wind generation.
- jointly supply 80 per cent of energy retail customers. Origin Energy and EnergyAustralia acquired significant retail market share in New South Wales (in 2010) following the privatisation of government owned retailers. AGL Energy acquired Australian Power & Gas (one of the largest independent retailers) in August 2013.
- supply 86 per cent of gas retail customers and are expanding their interests in upstream gas production and storage.

Vertical integration is common among other market participants too. Former stand-alone generators International Power, Infratil and Alinta established retail arms, which trade as Simply Energy, Lumo and Alinta respectively. Similar behaviour is apparent among government owned generators:

- Snowy Hydro owns Red Energy, which operates in the New South Wales, Victorian and South Australian retail markets.
- Hydro Tasmania has a retail arm (Momentum Energy) that targets medium to large customers.

Vertical integration also occurs between the retail sector and other segments of the supply chain. AGL Energy, Origin Energy and EnergyAustralia 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.
- EnergyAustralia has gas storage facilities in Victoria and holds gas reserves in the Gunnedah Basin (New South Wales).

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. The AER applies jurisdictional ring fencing guidelines to distribution businesses.

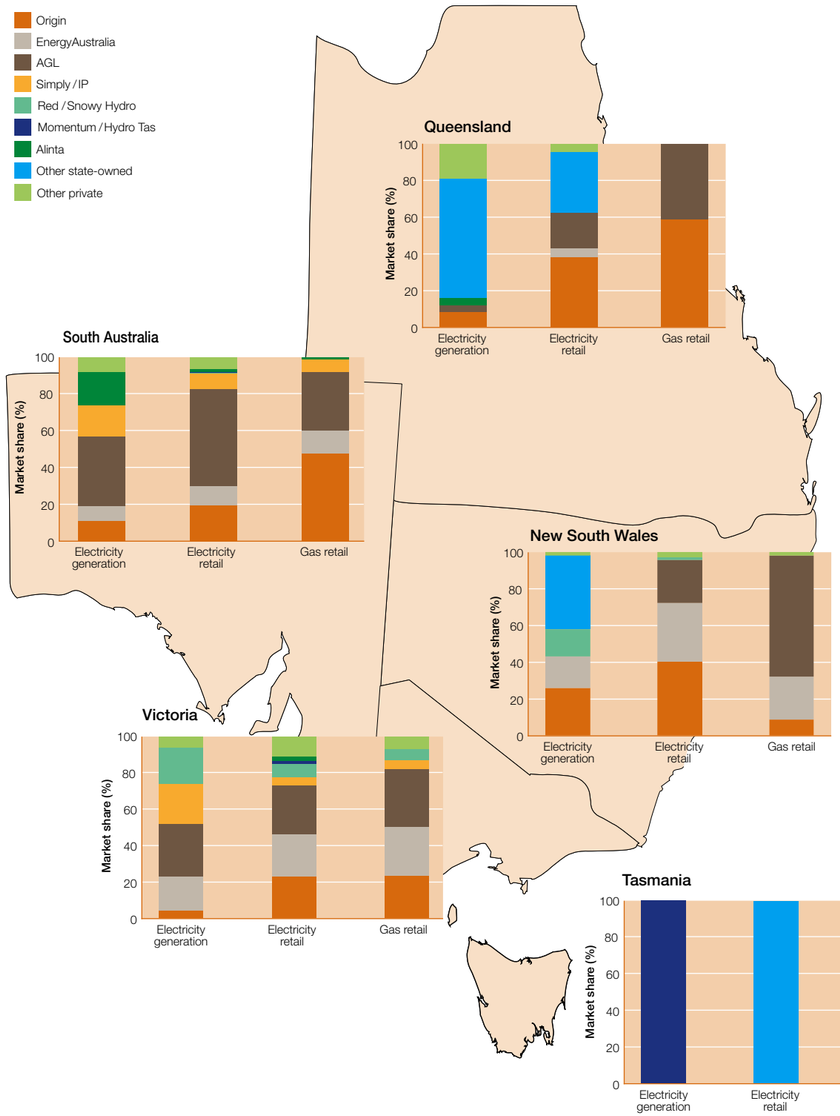
5.2.2 Market concentration and vertical integration by jurisdiction

The extent of market concentration and vertical integration in energy markets varies across jurisdictions (figure 5.2).

Queensland has a highly concentrated generation sector but exhibits less vertical integration than most regions do. Electricity generation remains largely in public hands:

3 AER, *Annual retail energy market performance report, 2012–13*, 2013.

Figure 5.2
Vertical integration in National Energy Market jurisdictions, 2013



Note: Electricity generation market shares are based on summer availability for January 2014, except wind, which is adjusted by an average contribution factor. Electricity and gas retail market shares are based on small customer numbers at June 2013.

Source: AER estimates.

state owned corporations control 65 per cent of capacity, including a power purchase agreement over the privately owned Gladstone power station. The degree of market concentration increased in 2011, when the Queensland Government dissolved the state owned Tarong Energy and reallocated its capacity to the remaining two state owned entities.

Origin Energy and (to a lesser extent) AGL Energy are the key players in the retail sector following privatisation in 2007. These entities also account for 12 per cent of statewide generation capacity (mainly new investments in gas fired capacity).

Origin Energy is also one of the leading producers in Queensland's Surat–Bowen Basin, accounting for 17 per cent of the basin's gas production. AGL has a small interest in the basin, accounting for less than 3 per cent of gas production. The basin will soon supply liquefied natural gas projects as well as the domestic market.

EnergyAustralia supplies around 5 per cent of Queensland's retail electricity customers, but has no local generation assets.

The **New South Wales** electricity sector was dominated by government entities until 2011, when Origin Energy and EnergyAustralia acquired assets through the privatisation of retailers and generation contracts. State owned corporations (including Snowy Hydro) still control around 55 per cent of generation capacity.

Origin Energy and EnergyAustralia supply 72 per cent of retail electricity customers, and control 43 per cent of statewide generation capacity (through either direct ownership or contracted trading rights). EnergyAustralia also supplies 23 per cent of gas retail customers.

AGL Energy was the incumbent in gas retail supply, and retains 66 per cent of customers. It fully owns the state's only operating gas producing entity. AGL Energy's position in the gas retail market helped it acquire market share in electricity retail (around 24 per cent of customers).

Victoria's generation sector is disaggregated across a number of private entities. It has no single dominant retailer, with AGL Energy, Origin Energy and EnergyAustralia each supplying around one-quarter of retail electricity and gas customers.

While having reasonable market depth, Victoria has significant vertical integration. The three major retailers control 52 per cent of generation capacity. Victoria's other major generators—International Power and Snowy Hydro—jointly supply around 12 per cent of electricity customers via their ownership of Simply Energy and Red Energy respectively.

Origin Energy has also been active in Victoria's gas supply market. It is a leading player in the Otway Basin (which supplies the Victorian and South Australian markets) and the Bass Basin.

South Australia's electricity sector is concentrated, with AGL Energy supplying over 50 per cent of retail customers. AGL Energy controls 38 per cent of generation capacity, including the Torrens Island power station.

Origin Energy, EnergyAustralia and International Power are significant but minority players in both generation and retail. Alinta too has generation assets, and it entered the electricity retail market in 2011. Gas for electricity generation is sourced mainly from the Cooper and Otway basins; Origin Energy is a producer in both basins.

Tasmania's electricity industry is dominated by government entities. Aurora Energy supplies all small retail customers, while Hydro Tasmania controls nearly all generation capacity. The Tasmanian Government in 2012 announced reforms aimed at encouraging new entry in the retail market (section 5.3).

5.3 Energy market regulation

The Retail Law establishes national regulation of retail energy markets and transfers significant functions from state and territory governments to the AER. The law operates with the Australian Consumer Law to protect small energy customers in their electricity and gas supply arrangements.

The Retail Law commenced in Tasmania (for electricity only) and the ACT on 1 July 2012, in South Australia on 1 February 2013 and in New South Wales on 1 July 2013. Victoria and Queensland are yet to implement the Retail Law.

The AER's role in national retail regulation is to:

- provide an energy price comparator website (www.energymadeeasy.gov.au) for small customers
- authorise energy retailers to sell energy, and grant exemptions from the authorisation requirement (for example, to retirement villages and caravan parks that onsell energy)
- approve retailers' policies for dealing with customers facing hardship
- administer a 'retailer of last resort' scheme, to protect customers and the market if a retail business fails

Box 5.1 Types of energy retail contract

'Host' retailers are required to offer a *standard retail contract* to customers without a market contract. A standard retail contract includes model terms and conditions that a retailer may not amend.

Market retail contracts vary from contract to contract, but must reflect minimum terms and conditions. A contract may be widely available or offered to only specific customers. It may offer discounts on the retailer's standard rates, or other inducements (section 5.5.3). Market contracts typically have fixed term durations, with exit fees for early withdrawal. Retailers must obtain explicit informed consent from a customer entering a market retail contract.

The share of customers on market contracts varies significantly across jurisdictions—81 per cent of electricity customers in South Australia, compared with 75 per cent in Victoria, 60 per cent in New South Wales, 46 per cent in Queensland (but 70 per cent in south east Queensland) and 19 per cent in the ACT. Proportions are similar for gas customers in each jurisdiction.

- report on retailer performance and market activity, including energy affordability, disconnections and competition indicators
- enforce compliance with the Retail Law and its supporting rules and regulations

Consumers in New South Wales, South Australia and the ACT have access to all of the functions on the Energy Made Easy website. This includes a price comparator tool that provides information on all generally available retail market offers, a benchmarking tool for households to compare their electricity use with that of similar households, and information on the energy market, energy efficiency and consumer protections.

The AER does not regulate retail energy prices, which remain a matter for state and territory governments.

5.4 Retail competition

Queensland, New South Wales, Victoria, South Australia and the ACT have full retail contestability (FRC) in electricity, so all customers can enter a contract with their retailer of choice. These jurisdictions, along with Tasmania, have similar arrangements in gas. Box 5.1 outlines the types of energy contract that a consumer may enter.

In Tasmania, electricity customers using at least 50 MWh per year are free to choose their retailer. Contestability will soon extend to all customers, with the Tasmanian Government planning to introduce FRC from 1 July 2014. To coincide with this introduction, the Tasmanian Government had planned to sell Aurora's retail customer base to private retailers. It abandoned this process in September 2013. But reforms to Tasmania's wholesale market arrangements began in June 2013, to encourage new retail entry (section 1.4.1). The Tasmanian Government will retain retail price regulation until satisfied that competition is fully effective.

5.4.1 Consumer protection in competitive retail markets

Increased competition among retailers for new customers has intensified retailer marketing activity. This activity has been matched by a growth in customer complaints about inappropriate conduct of energy salespersons. The Australian Consumer Law, enforced by the Australian Competition and Consumer Commission (ACCC), contains provisions that protect customers from improper sales or marketing conduct. The provisions relate to unsolicited sales, misleading and deceptive conduct, and unconscionable conduct. The Retail Law also contains marketing provisions that protect customers.

Until recently, door-to-door marketing was the principal method of signing up new customers in the energy industry. It enables energy retailers to target regions and customers that may be open to switching retailers. Additionally, outsourcing sales to door-to-door agents paid on a commission basis can be less expensive than undertaking other forms of marketing.

However, door-to-door marketing is sometimes criticised for involving aggressive sales behaviour. For this reason, and as customers increasingly use energy price comparison and switching websites, the three largest energy retailers—AGL Energy, EnergyAustralia and Origin Energy—committed in 2013 to cease door-to-door marketing.

In September 2011, the ACCC launched the 'Knock! Knock! Who's there?' awareness campaign. The campaign informed consumers about their rights and ability to refuse door-to-door sales. The campaign materials included educational videos, a consumer guide, and 'do not knock' door hangers and stickers. At June 2013, over 95 000 stickers, 39 000 door hangers and 24 000 consumer guide brochures had been distributed.

The ACCC has acted on several alleged breaches of the Australian Consumer Law related to retailers' door-to-door marketing activities:

- In 2012 the ACCC took action against AGL Energy and Neighbourhood Energy, and the marketing companies engaged by them, for misleading and deceptive conduct in door-to-door selling. The Federal Court found each business and its respective marketing companies had breached the Australian Consumer Law. Neighbourhood Energy and its marketing contractor received a penalty of $1 million in September 2012. AGL Energy and its marketing contractor received a penalty of $1.76 million in May 2013.

  The Federal Court further found in October 2013 AGL Energy had breached the Australian Consumer Law when a salesperson failed to immediately leave premises at the request of an occupier. The occupier had requested the salesperson leave by placing a 'do not knock' sign on their door.
- In 2013 the ACCC instituted further proceedings for misleading and deceptive conduct in door-to-door selling against EnergyAustralia, Australian Power & Gas and Origin Energy. The proceedings against Australian Power & Gas and Origin Energy also cover allegations of unconscionable conduct.

  In November 2013 the Federal Court ordered Australian Power & Gas to pay a penalty of $1.1 million for illegal door-to-door selling practices. It found sales representatives acting on behalf of Australian Power & Gas made false or misleading representations while calling on consumers for the purpose of negotiating energy retail contracts, and a sales representative engaged in unconscionable conduct involving a consumer from a non-English speaking background with very limited English skills.

  The proceedings against EnergyAustralia and Origin Energy were continuing at November 2013.
- In July 2013 Lumo Energy provided a three year court enforceable undertaking that it will comply with the Australian Consumer Law. The undertaking followed the ACCC's finding that Lumo Energy's door-to-door sales agents failed to provide consumers with all required information.

The ACCC also took action against energy retailers and energy switching sites for other inappropriate marketing activity:

- In 2012 the Federal Court ordered Energy Watch—a provider of energy price comparison services—to pay $1.95 million for misleading advertising.
- In September 2013 Red Energy paid infringement notices totalling $26 400 and provided a court enforceable undertaking to the ACCC for alleged misleading and deceptive conduct by a telemarketer.
- In December 2013 the ACCC instituted proceedings in the Federal Court against AGL Energy. The ACCC alleged that AGL Energy made false or misleading representations, and engaged in misleading and deceptive conduct, relating to statements to consumers on the level of discount that would be provided under their energy plans.

5.4.2 Customer switching

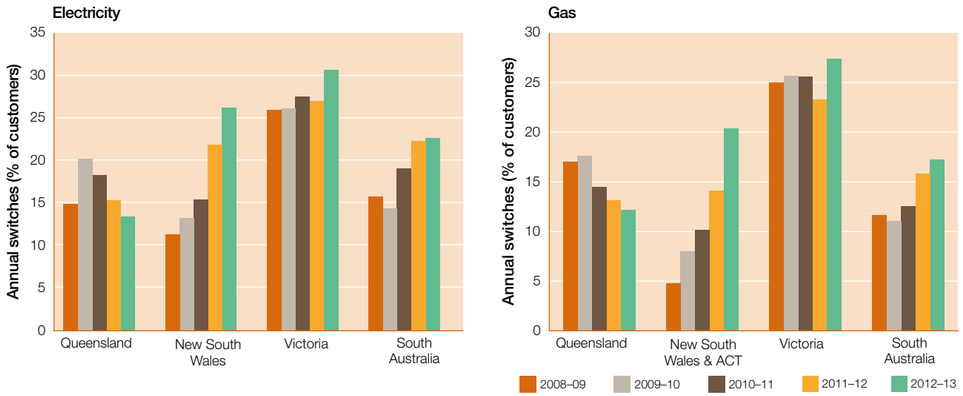
The rate at which customers switch their supply arrangements can indicate customer participation in the market. While switching (or churn) rates may indicate competitive activity, they must be interpreted with care. Switching is sometimes high during the early stages of market development, when customers can first exercise choice, but may then stabilise as a market acquires depth. Similarly, switching may be low in a competitive market if retailers deliver good quality and low priced 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 (but not customer switches between contracts with the same retailer). Figure 5.3 sets out annual switching data.

Victoria continues to have a higher switching rate than that of other jurisdictions, and in 2013–14 recorded its highest ever switching rates in both electricity (30 per cent of customers) and gas (27 per cent of customers). Switching activity in New South Wales and South Australia rose in each of the past few years, with rates in 2012–13 being the highest recorded in each state for both electricity and gas. Particularly strong growth in New South Wales in 2012–13 led its switching rates to exceed that of South Australia for the first time. And its switching rate for electricity reached a level previously seen only in Victoria.

Queensland's switching rates were once comparable with those in New South Wales and South Australia, but fell in recent years. This fall coincided with a reduction in

Figure 5.3
Customer switching of energy retailers, as a percentage of small customers



Sources: Customer switches: AEMO, MSATS transfer data to July 2013 and gas market reports, transfer history to July 2013; customer numbers: estimated from retail performance reports by the AER, IPART (New South Wales), the ESC (Victoria) and the QCA.

marketing effort by energy retailers in Queensland, reflecting concerns about the process for setting regulated electricity prices. Queensland's electricity switching rate in 2012–13 was its lowest since the introduction of FRC.

Switching levels remain lower in gas than electricity in all jurisdictions, reflecting the lower number of active participants in the gas market.

5.5 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 5.2 estimates the composition of a typical electricity retail bill for a residential customer in each jurisdiction. While data for gas are limited, the table includes gas estimates for New South Wales.

The composition of energy bills varies across jurisdictions. In electricity, the cost of using transmission and distribution networks to transport electricity is the largest component (36–57 per cent) of retail bills, followed by wholesale energy costs (21–27 per cent). Retailer operating costs (including margins) contribute 10–15 per cent of retail bills.

Carbon pricing, introduced in July 2012, contributes 3–12 per cent of the final electricity bill. The carbon price impact was lowest in South Australia and Tasmania, which have significant renewable generation. Other green costs—that is, costs associated with schemes to develop renewable or low emission generation, or promote energy efficiency—make up 3–8 per cent of retail bills. The most significant of these costs relate to the renewable energy target (section 1.3.1) and feed-in tariffs for solar photovoltaic installations.

In gas, pipeline charges are the most significant component of retail prices. Transmission and distribution charges account for 48 per cent of gas retail prices in New South Wales. Distribution charges account for the bulk of pipeline costs. Wholesale costs typically account for a similar share of retail gas prices as for electricity. Retailer operating costs (including margins) are similar for gas and electricity customers, but lower overall gas charges mean these costs account for a higher share of gas bills.

5.5.1 Retail price regulation

All jurisdictions except Victoria and South Australia apply some form of retail price regulation for electricity supplied under a standard retail contract. In gas, only New South Wales regulates prices for small customers. The regulated prices are set by state or territory government agencies; the AER does not regulate retail prices in any jurisdiction.

Jurisdictions generally apply one of two methods to regulate energy retail prices:

Table 5.2 **Indicative composition of residential electricity and gas bills, 2013**

JURISDICTION	NETWORK COSTS	WHOLESALE ENERGY COSTS	RETAIL COSTS	CARBON COSTS	GREEN COSTS
	PER CENT OF TYPICAL SMALL CUSTOMER BILL				
ELECTRICITY					
Queensland	52	21	15	9	3
New South Wales	51	23	10	7	8
Victoria	36	na	na	8	4
South Australia	55	21	13	4	8
Tasmania	57	27	9	3	4
ACT	43	26	11	12	8
GAS					
New South Wales	48	28	19	5	–

Note: The AEMC did not provide a breakdown of wholesale energy and retail costs for Victoria. These components jointly accounted for 52 per cent of retail bills.

Sources: AEMC, *Electricity price trends, final report*, 2013 (electricity); Determinations and factsheets by IPART (gas).

- 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 determined elsewhere (for example, network costs). The regulator uses these costs to determine a maximum revenue requirement to be reflected in the prices that the retailer charges. Determinations typically cover a number of years, but some cost components are adjusted annually. Separate pass through provisions cover unexpected costs. New South Wales, Tasmania and Queensland use this approach.
- a benchmark retail cost index, whereby the regulator determines movements in benchmark costs to calculate annual adjustments in retail prices. The ACT uses this approach, which was also previously used in Queensland.

In September 2013 the AEMC completed a review for energy ministers into best practice retail electricity price regulation. Its report sets out the AEMC's preferred methods for estimating each cost component, based on the objective of regulated prices reflecting the efficient costs of providing retail services and facilitating competition. Under the ministerial terms of reference, jurisdictions may adopt the AEMC's proposed method where regulation remains necessary, or transfer regulatory responsibility to the AER.

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 whether to remove price regulation and, if so, how. State and territory governments make the final decisions on this matter.

The AEMC in 2008 reviewed the effectiveness of competition in the *Victorian* and *South Australian* energy retail markets. It found competition was effective in both markets. In response to the review, the Victorian Government removed retail price regulation on 1 January 2009. South Australia followed in February 2013. While these jurisdictions no longer regulate retail prices, retailers must publish unregulated standing offer prices that small customers can access. The prices can be changed no more than once every six months.

In March 2011 the AEMC found competition in the *ACT's* small customer market was not effective, partly because customers were unaware of their ability to switch retailers. It 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.[5] However, the ACT Government decided to retain price controls for another two years. It noted the AEMC's finding that removing price controls would increase the average cost of electricity, which would not benefit customers.[6]

4 Australian Energy Market Agreement 2004 (as amended).

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

6 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.

Table 5.3 Movements in regulated and standing offer prices—electricity and gas

JURISDICTION	REGULATOR	DISTRIBUTION NETWORK	AVERAGE PRICE INCREASE (PER CENT) 2009–10	2010–11	2011–12	2012–13	2013–14	ESTIMATED ANNUAL COST ($)
ELECTRICITY								
Queensland	QCA	Energex and Ergon Energy	15.5	13.3	6.6	10.6	20.4	2113
New South Wales	IPART	AusGrid	21.7	10.0	17.9	20.6	3.9	2106
		Endeavour Energy	21.1	7.0	15.5	11.8	1.6	2044
		Essential Energy	17.9	13.0	18.1	19.7	–0.6	2725
Victoria	Unregulated	Citipower	5.7	14.6	3.7	19.9	6.4	2006
		Powercor	5.2	15.4	7.7	23.1	5.8	2389
		SP AusNet	6.0	11.3	23.6	19.7	12.4	2386
		Jemena	7.7	17.7	10.5	23.2	6.1	2339
		United Energy	7.0	11.4	9.7	25.2	4.8	2167
South Australia	Unregulated	ETSA Utilities	3.1	18.3	17.4	12.7	2.8	2510
Tasmania	OTTER	Aurora Energy	6.2	15.3	11.0	10.6	1.8	2205
ACT	ICRC	ActewAGL	6.4	2.3	6.5	17.7	3.5	1577
GAS								
New South Wales	IPART	Jemena	4.4	5.2	4.0	14.8	9.6	922
South Australia	Unregulated	Envestra	5.3	3.1	13.8	17.7	11.6	1072

Notes:

Estimated annual cost is based on a customer using 6500 kilowatt hours of electricity per year and 24 gigajoules of gas per year on a single-rate tariff at August 2013.

The Victorian price movements (and estimated annual costs) are for the calendar year ending in that period—for example, the 2013–14 Victorian data are for the calendar year 2013. Victorian price movements (and those for South Australia in 2013–14) are based on unregulated standing offer prices of the local area retailer for each distribution network. The data for South Australia in 2013–14 relates to movements in the standing offer in the six months to December 2013.

The price increase for Tasmania in 2013–14 relates to the period 1 July 2013 to 31 December 2013. A further price adjustment will occur on 1 January 2014.

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

The AEMC in September 2013 found competition was effective in *New South Wales* energy retail markets, with substantial discounts being offered from the regulated price. It recommended the New South Wales Government remove retail price regulation and improve consumer information and ongoing market monitoring. The AEMC provided further advice in October 2013 on how to inform and empower consumers to promote effective competition. The government had not responded to the recommendations at November 2013.

In May 2013 the Standing Council on Energy and Resources recommended to the Council of Australian Governments that the AEMC undertake annual competition reviews covering all NEM jurisdictions, to remove the need for further jurisdictional reviews. Under this review system, individual jurisdictions could request a more detailed assessment of issues that the annual review identifies.[7]

The *Queensland* Government committed to removing electricity retail price regulation in south east Queensland by 1 July 2015, so long as appropriate consumer protection and engagement policies are in place. Regulated price setting will continue for the Ergon Energy distribution area, pending the development of a strategy to introduce retail competition in regional Queensland.

5.5.2 Trends in regulated prices

Table 5.3 summarises recent movements in regulated and standing offer electricity and gas prices, and estimates the annual bills for customers under these arrangements. The data assume fixed electricity and gas use across all jurisdictions. In practice, average use varies significantly between (and within) jurisdictions for a range of reasons, including climate and the penetration of gas supply. The data on annual cost may not represent a typical household in the jurisdiction.

In New South Wales and Victoria, standing offer electricity prices vary across distribution networks. Prices are highest in those networks servicing regional and remote areas, where the costs of providing and servicing infrastructure are higher and recovered from fewer customers.

Retail electricity prices rose significantly over the past five years. Network costs were the key driver (section 2.x). The carbon price also contributed, leading to price increases of 5–13 per cent in 2012–13, although the impact on low and middle income residential customers was offset by the Australian Government's Household Assistance Package. Cost pressures from other climate change policies also had an impact, but have remained fairly stable since changes to the renewable energy target scheme from 1 January 2011 affected retail prices in 2011–12. Rising prices have led to a greater focus on the issue of energy affordability (section 5.4.5).

Slower growth in network charges contained price rises for 2013–14 to below 4 per cent in New South Wales, South Australia, Tasmania and the ACT. Queensland customers experienced the largest price increases for 2013–14, following the delayed pass through of costs for the previous year (box 5.2).

Box 5.2 Retail energy prices, by jurisdiction—recent developments

Queensland's regulated electricity single-rate tariff for residential customers rose by 20.4 per cent for 2013–14. Almost half of this rise related to higher network costs. Following the Queensland Government's price freeze for this tariff in 2012–13, the price rise for 2013–14 covers two years of network cost increases. Retailers' costs (relating to billing, metering and customer acquisition) pushed up retail prices by 5 per cent, while wholesale costs and solar feed-in tariffs each pushed up prices by around 2.7 per cent.

New South Wales regulated electricity prices were relatively stable for 2013–14, increasing by an average 1.7 per cent. A rise in retailer operating costs (such as for customer service and billing) was the main driver, adding 4.4 per cent to retail charges. Costs associated with green schemes also had a small impact, pushing up prices by 1.3 per cent. But falling wholesale and network costs partly offset these price increases.

Victoria's standing electricity prices rose by 5–12 per cent across the state's five distribution networks in 2013, following increases of 20–25 per cent in 2012. Because prices are unregulated, limited information is available on underlying cost drivers, including the reasons for the price outcomes. But distribution network costs, which increased from 6–30 per cent across the networks, account for a proportion of the retail price increases for most networks. Little information is available on the impact of wholesale energy costs (including hedging costs), retailer costs and retail margins in the Victorian market. A rise in wholesale costs during the year (section 1.7) might have flowed through to retail prices, depending on retailers' hedge positions. The Essential Services Commission of Victoria reported in May 2013 that retailer margins in Victoria have increased since the removal or retail price regulation in 2009.[1]

South Australian retail electricity prices rose by 12.7 per cent for 2012–13. Prices rose by 18 per cent on 1 July 2012, but following the government's decision to deregulate prices, the standing offer fell by 9.1 per cent on 1 January 2013. Retail prices rose a further 2.8 per cent in July 2013. Network costs are the likely main driver, accounting for a 1.7 per cent increase in retail prices.

The regulated electricity price in *Tasmania* rose by 1.8 per cent for 1 July 2013 to 31 December 2013, broadly in line with inflation. A further price determination will reset the standing offer price from 1 January 2014.

ACT electricity prices rose on average by 3.5 per cent for 2013–14. Two-thirds of the increase related to higher network charges. Costs associated with the ACT's energy efficiency scheme, which commenced on 1 January 2013, accounted for the remainder of the increase.

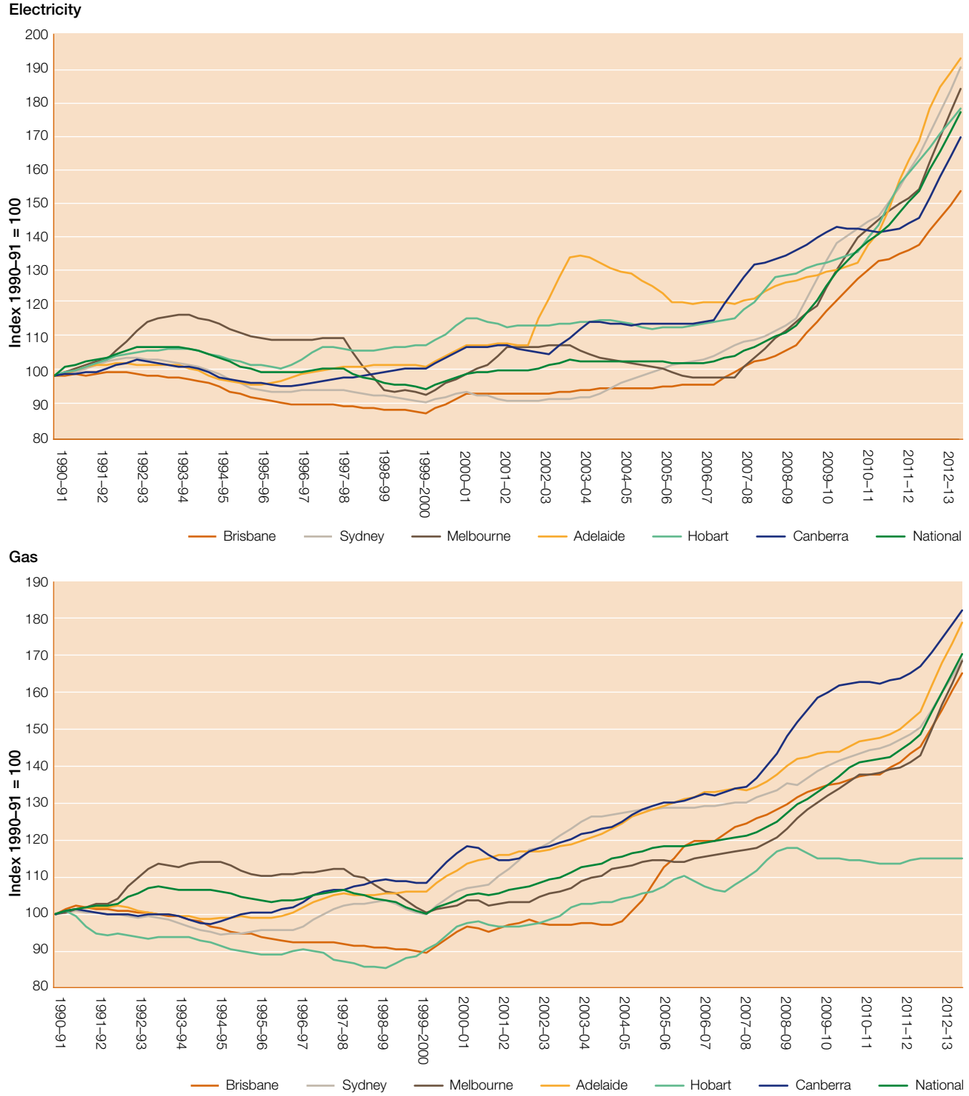
In gas, retail prices in New South Wales rose by an average of 8.5 per cent for 2013–14. Higher network charges were the main contributor, accounting for 60 per cent of the price rise. Gas retail operating costs also rose.

Gas wholesale prices rose in all markets over 2012–13, ranging from around 30 per cent in Melbourne and Adelaide to 70 per cent in Brisbane; these higher wholesale costs are likely to be reflected in current retail gas prices.

7 AEMC, *Review of competition in the retail electricity and natural gas markets in New South Wales, final report*, October 2013, p. 68.

1 ESC, *Retailer Margins in Victoria's Electricity Market, discussion paper*, May 2013.

Figure 5.4
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.

ABS data on energy prices

Figure 5.4 tracks movements in real energy prices for metropolitan households since 1991, using the electricity and gas components of the ABS consumer price index. Figure 2 in the *Market overview* compares price outcomes for household and business customers. Electricity prices rose nationally over the five years to 2012–13 by 64 per cent in real terms (87 per cent in nominal terms). Gas prices rose by 39 per cent in real terms (59 per cent in nominal terms).

5.5.3 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 AER operates an online price comparison service—Energy Made Easy—to help small customers compare retail product offerings. The website is available for customers in those jurisdictions that implement the Retail Law (at December 2013, New South Wales, South Australia, Tasmania and the ACT). Additionally, the Queensland and Victorian regulators, and a number of private entities operate websites that allow customers to compare available market offers.

Table 5.4 draws on Energy Made Easy and state regulators' price comparison websites to estimate price offerings for residential customers in those jurisdictions with relatively established markets—Queensland, New South Wales Victoria and South Australia. The table provides estimates for August 2012 and August 2013.

The data indicate varying degrees of price diversity. Victoria exhibited the greatest price diversity, with the annual cost under the cheapest contract 35–40 per cent lower than under the most expensive contract. The average discount in annual electricity bills across all contracts in August 2012 was 5–6 per cent below the base offer in Queensland, New South Wales and South Australia, and 8–9 per cent lower in Victoria.[8] The average discount in August 2013 remained relatively unchanged in Queensland, but fell in New South Wales (to below 4 per cent) and South Australia (to 1.5 per cent). The variation in average discounts across Victorian network areas was 7–11 per cent.

In August 2013 the average discount from the base offer cost was lower in gas than electricity—less than 4 per cent in all jurisdictions other than Victoria. The average gas discount in Victoria remained unchanged at 6 per cent in August 2012 and August 2013, although the variation in discounts was greater across the networks. In South Australia and in Queensland's North Brisbane network, gas contract prices on average *exceeded* the base offer price of the local area retailer.

The annual bill spread in August 2013 (measured within a particular distribution network) varied among jurisdictions:

- In electricity, it ranged from $200 in Queensland to around $1000 in Victoria. The spread for most networks was larger in August 2013 than in August 2012.
- In gas, it was around $200 for most networks. The spread for all networks rose between August 2012 and August 2013.

5.5.4 Retail prices and energy affordability

Energy affordability relates to customers' ability to pay their energy bills. While rising energy prices contribute to the number of customers with payment difficulties, affordability also depends on energy consumption levels, household income and financial assistance or concessions.

AER research found average energy costs rose faster than household disposable income during 2012–13 (figure 5.5). For a benchmark low income household that receives energy bill concessions:

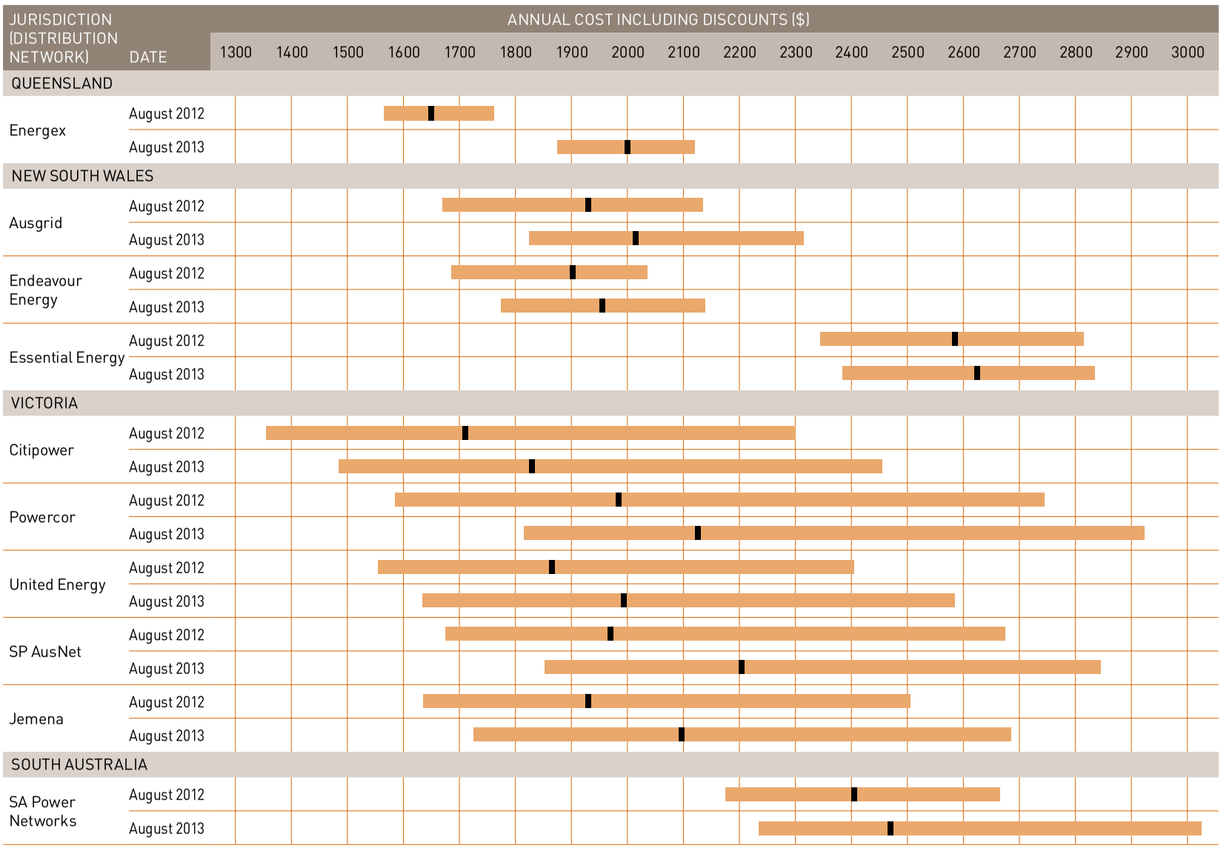
- electricity costs accounted for 2.4–7.1 per cent of their disposable income in 2011–12 (depending on region), rising to 2.9–7.9 per cent in 2012–13
- gas costs accounted for 1.2–3.2 per cent of their disposable income in 2011–12, rising to 1.4–3.4 per cent in 2012–13.[9]

Electricity costs were highest in Tasmania; while charges in that state were lower than in some other jurisdictions, Tasmania's average electricity use for a low income household was 8100 kWh per year (compared with 4700 to

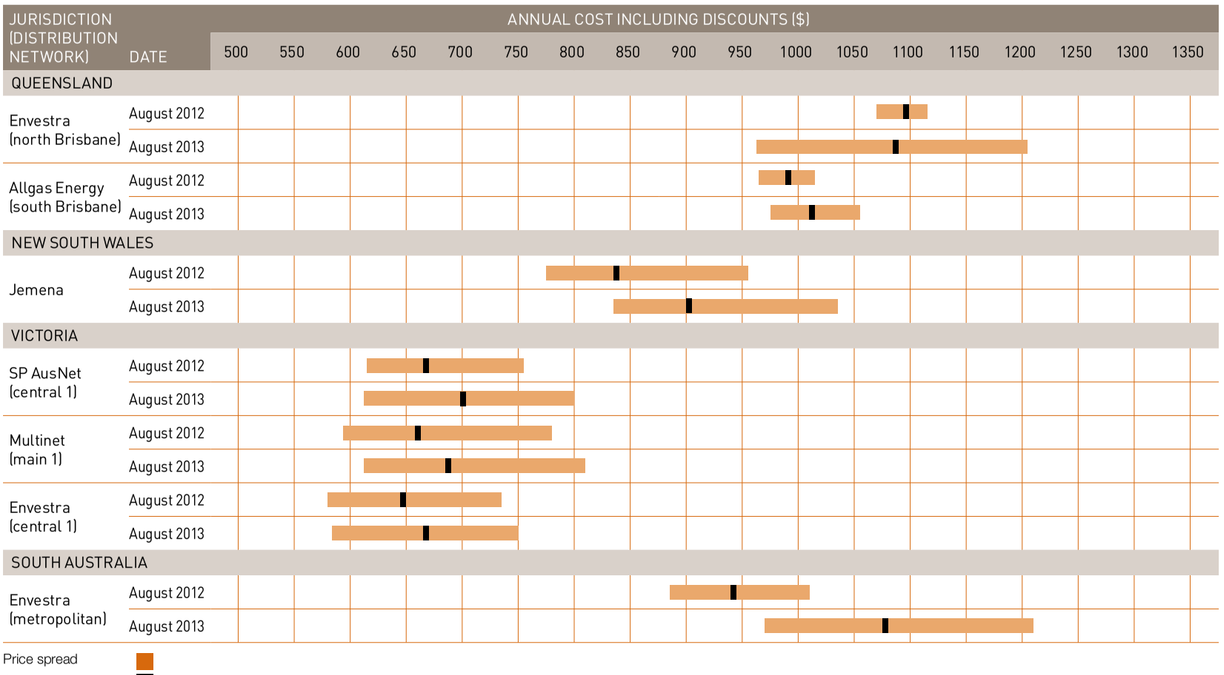
8 Base offers are regulated offers in New South Wales (electricity and gas) and Queensland (electricity). Elsewhere, base offers are the standing offers of the local area retailer for each distribution network.

9 AER, *Annual retail energy market performance report, 2012–13*, 2013.

Table 5.4 **Price diversity in retail product offers—August 2012 and August 2013**
Electricity



Gas

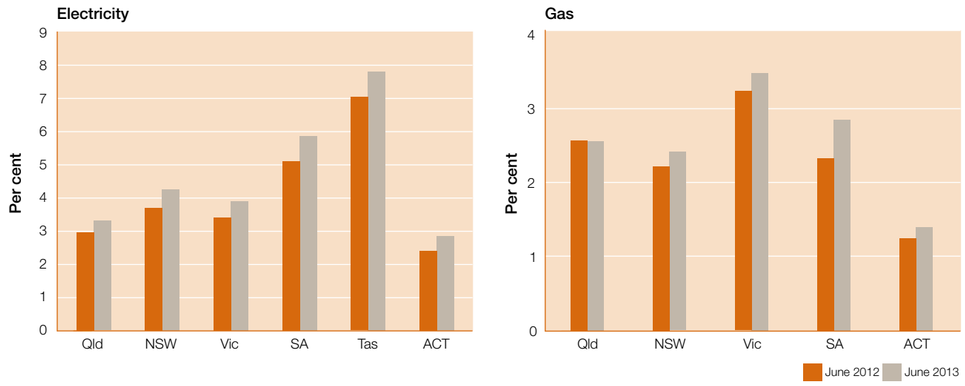


Price spread
Average annual cost

Note: Data are based on market offers (adjusted for discounts) for a customer consuming 6500 kilowatt hours of electricity and 24 gigajoules of gas per year on a peak only (single rate) tariff. Data do not account for Greenpower offers.

Figure 5.5

Annual energy costs as a percentage of disposable income for a low income household



Notes:

Energy consumption levels vary for each jurisdiction. Electricity consumption is for a household the size of an average low income household. Gas consumption is the average for all households.

Energy charges are based on the median market offer available at June 2012 and June 2013. Charges are adjusted for concessions available to low income households.

Disposable income for a low income household is the average of the second and third income deciles.

Sources: AER; ABS; Price comparator websites operated by jurisdictional regulators.

7000 kWh elsewhere). Gas costs were highest in Victoria, where average use exceeded 60 gigajoules (compared with up to 24 gigajoules for a typical customer in other regions).

Costs for both electricity and gas were lowest in the ACT. While that region's energy consumption is similar for gas and higher for electricity compared with most other jurisdictions, energy charges in the ACT are substantially lower.

This analysis does not account for the impact on bills of falling average domestic electricity consumption, which would offset some of the rise in overall electricity costs.

Hardship issues

The Retail Law requires retailers to assist customers experiencing payment difficulties or financial hardship. Retailers must:

- protect customers from disconnection in certain circumstances, including when a customer's premises are registered as requiring life support equipment
- assist customers before considering disconnection for non-payment of a bill. Such assistance includes offering access to a hardship program.

Hardship programs aim to provide early assistance to customers. Retailers may offer:

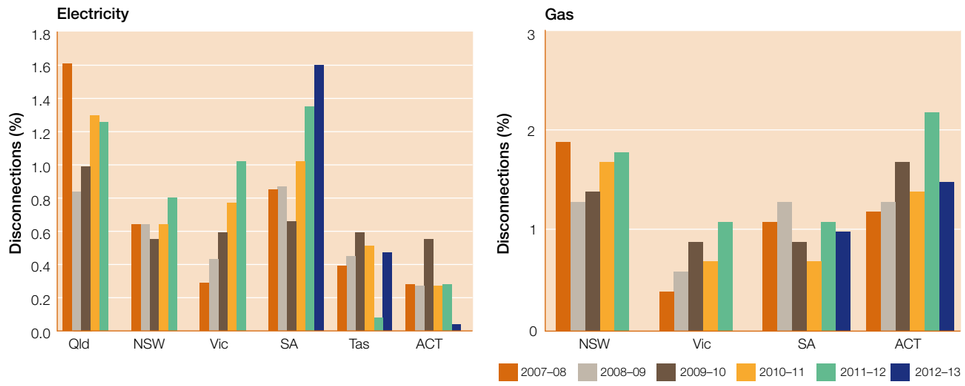
- specialised staff and teams as a dedicated contact for customers
- extensions of time to pay, as well as flexible payment options
- help to identify government concession and rebate programs
- referrals to financial counselling services
- review of a customer's energy contract to make sure it suits their needs
- energy efficiency advice to help reduce a customer's bills, which may include conducting an energy audit and helping replace appliances
- a waiver of late payment fees that might have applied.

5.6 Quality of retail service

Reporting on retail service quality tends to focus on affordability, access and customer service indicators. A key indicator of affordability and access is the rate of residential customer disconnections for failure to meet bill payments (figure 5.6).

Figure 5.6

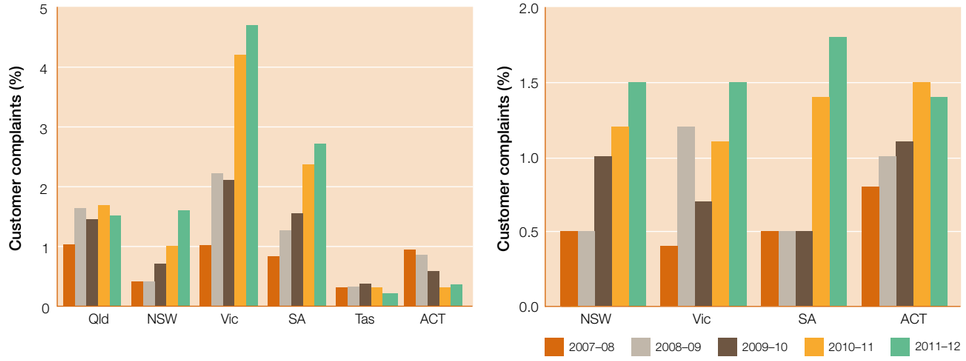
Residential disconnections for failure to pay amount due, as a percentage of customers



Note: 2012–13 disconnection data are available for only those jurisdictions that had implemented the Retail Law in that year (South Australia, Tasmania and the ACT).

Figure 5.7

Retail customer complaints, as a percentage of total customers



Sources for figures 5.5 and 5.6: Reporting against Utility Regulators Forum templates; retail performance reports by the AER, 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).

In 2011–12 the rate of electricity and gas disconnections remained stable or increased in all mainland jurisdictions. Many customers were reconnected within a week, indicating retailers might have resorted to disconnection too quickly; more targeted assistance might have prevented some disconnections.

Aurora Energy (Tasmania) advised it stopped disconnecting customers between October 2011 and June 2012 because it undertook internal restructuring. Its disconnection rate in 2012–13 returned to the rate of previous years.

Figure 5.7 illustrates rates of retail customer complaints in electricity and gas. In 2011–12 New South Wales, Victoria and South Australia experienced record levels of complaints from electricity and gas customers. Consistent with previous years, billing issues accounted for the majority of complaints in all jurisdictions.

ABBREVIATIONS

2P	proved plus probable (natural gas reserves)
ABS	Australian Bureau of Statistics
ACCC	Australian Competition and Consumer Commission
ACT	Australian Capital Territory
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
ASX	Australian Securities Exchange
CCGT	combined cycle gas turbine
CoAG	Council of Australian Governments
CSG	coal seam gas
Electricity Law	National Electricity Law
Electricity Rules	National Electricity Rules
ESC	Essential Services Commission (Victoria)
ESCOSA	Essential Services Commission of South Australia
EU	European Union
FRC	full retail contestability
Gas Law	National Gas Law
Gas Rules	National Gas Rules
GJ	gigajoule
GSL	guaranteed service level
GW	gigawatt
GWh	gigagwatt hour
ICRC	Independent Competition and Regulatory Commission
IPART	Independent Pricing and Regulatory Tribunal
kW	kilowatt
kWh	kilowatt hour
LNG	liquefied natural gas
MOS	market operator service
MSATS	Market Settlement and Transfer Solution
MW	megawatt
MWh	megawatt hour
NCC	National Competition Council
NEM	National Electricity Market
OCGT	open cycle gas turbine
OTC	over-the-counter
OTTER	Office of the Tasmanian Economic Regulator
PC	Productivity Commission
PJ	petajoule
PV	photovoltaic
QCA	Queensland Competition Authority
RAB	regulated asset base
RERT	reliability and emergency reserve trader
RET	renewable energy target
Retail Law	National Energy Retail Law
RIT-D	regulatory investment test for distribution
RIT-T	regulatory investment test for transmission
SAIDI	system average interruption duration index
SAIFI	system average interruption frequency index
SCER	Standing Council on Energy and Resources
TJ	terajoule
TW	terawatt
TWh	terawatt hour
WACC	weighted average cost of capital