Quarterly retail performance report October – December 2022

Q2 2022–23

March 2023

AUSTRALIAN ENERGY REGULATOR

Australian Government

Purpose of the AER's retail market reporting

What we report on

- The AER reports quarterly on the performance of the retail energy market and energy businesses. Our reports cover:
  - energy pricing
  - customers facing payment difficulty including trends in debt, payment plans and hardship programs
  - trends in disconnection of customers for non-payment of energy bills
  - customer complaints
  - market share.

Which regions this report relates to

- The AER's retail reporting covers jurisdictions that have adopted the National Energy Customer Framework and are covered by the Retail Law and the Retail Rules – NSW, Queensland, South Australia, Tasmania and the ACT.

Reporting period

- This report looks at the market from October to December 2022, analysing key trends and providing comparisons with the same time in the previous year.
- The corresponding quarterly schedules are available through our website.

Retail market at a glance

October to December 2022 (as at 31 December 2022)

Customer numbers

RESIDENTIAL

6,797,612
Electricity

2,284,975
Gas

Customer debt (excludes hardship customers)

RESIDENTIAL

2.5%
of customers in debt

Down 0.18% on Oct–Dec 2021

$972
average energy debt

Down $80 on Oct–Dec 2021

Residential payment plans

Electricity

99,194
1.5% of customers

Up 3,941 on Oct–Dec 2021

Gas

22,629
1.0% of customers

Up 1,871 on Oct–Dec 2021

Residential disconnections

Electricity

6,001
0.09% of customers

Gas

1,696
0.07% of customers

Residential credit collection

Electricity

33,299
0.49% of customers

Down 0.18% on Oct–Dec 2021

Gas

8,257
0.36% of customers

Down 0.14% on Oct–Dec 2021

Residential hardship

Electricity

1.2%
of customers on hardship programs

Up 0.15% on Oct–Dec 2021

$1,846
average hardship debt

Up $124 on Oct–Dec 2021

Gas

0.8%
of customers on hardship programs

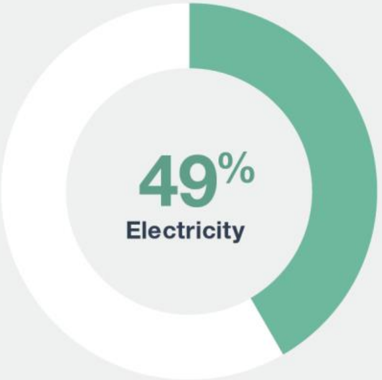
Up 0.14% on Oct–Dec 2021

$885
average hardship debt

Up $69 on Oct–Dec 2021

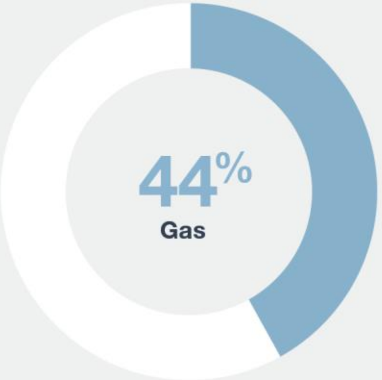
Hardship customers not meeting usage costs

Electricity



Up 5.2% on Oct–Dec 2021

Gas



Up 2.1% on Oct–Dec 2021

Key trends

- Retail prices rose in mid-2022. As we predicted in the Annual retail markets report 2021–22, we have seen a worsening of some retail performance metrics. This is because energy arrears are only classified as in debt after 90 days, and retailers typically bill in 3-monthly cycles. The flow-on effects of these retail price rises and debt cycles are now becoming apparent in the October–December 2022 metrics.
- The extent to which governments are applying supports and bill relief may soften the trend in some metrics. These include:
    - the Queensland Government's $175 rebate from 1 August 2022
    - the Tasmanian Government's $180 Winter Bill Buster Package from 1 August 2022.
- There are some positive signs. In the preceding 12 months, we observed:
    - a 4% increase in the number of customers participating in payment plans
    - a 15% increase in the number of customers participating in hardship programs (now above pre-pandemic levels), with the proportion of residential electricity hardship customers now at 1.22% of all residential electricity customers
    - average debt on entry to a hardship program fell by $178
    - 25% fewer electricity customers and 27% fewer gas customers were referred to external credit collection agencies
    - rates of disconnection remain higher than the same time last year but have fallen now for two consecutive quarters.
- Earlier retailer engagement with customers experiencing payment difficulties may explain increased program participation, and lower debt on entry to hardship programs.

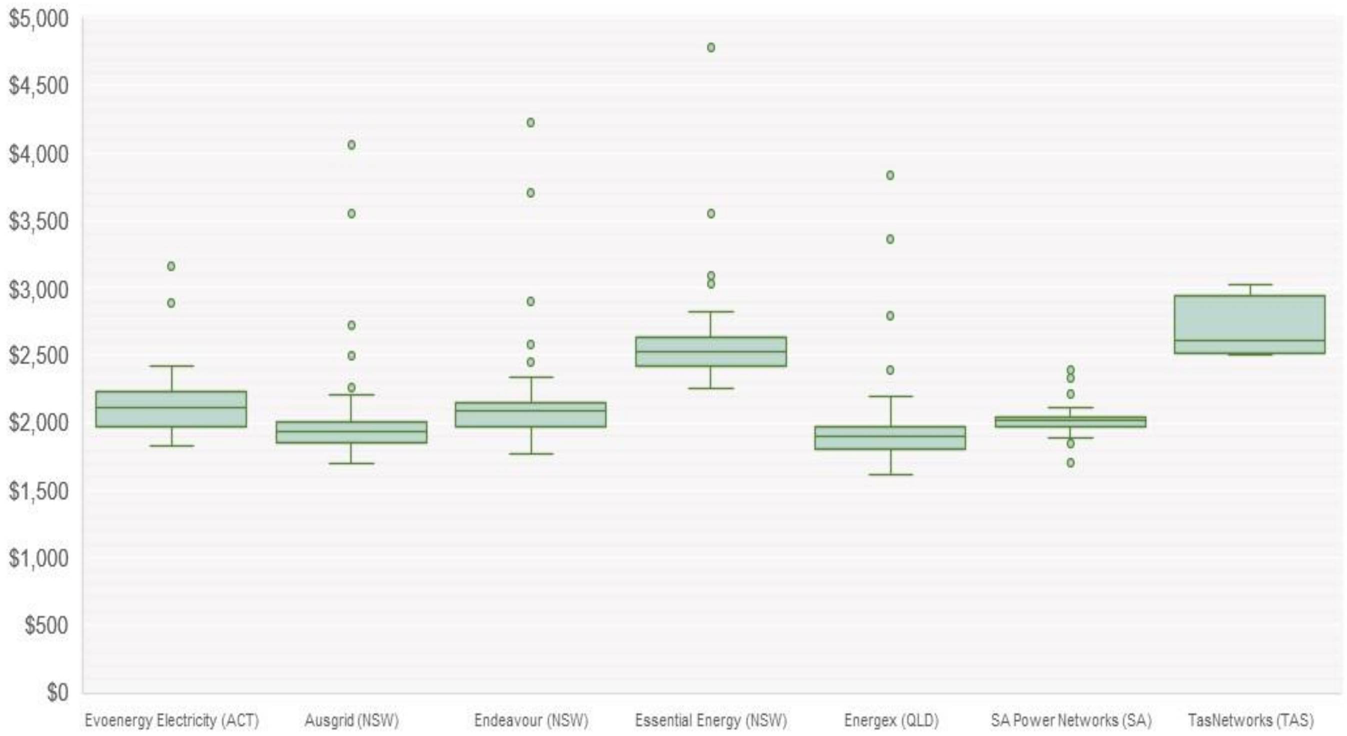
Key trends

- A number of indicators show that hardship programs are not yet fully effective. We observed the following metrics of particular concern:
  - rising average hardship customer debt levels (up by $124)
  - increasing number of hardship customers holding debts greater than 2 years (up 30% or by 334 customers)
  - 49% of electricity hardship customers had not met their usage costs (up 5%), indicating many hardship customers are becoming worse off while in a hardship program.
- However, we note some hardship indicators have improved:
  - a 13% increase in the number of electricity hardship customers successfully completing programs
  - a 6% reduction in electricity hardship customers excluded from programs for non-compliance.
- Between June and December 2022, the price of median market offers increased by 8% to 18% across electricity distribution zones and 4% to 18% across gas distribution zones. The spread of retailer market offers remains close to the median price while cheaper offers remain available to customers who shop around.

Electricity median market offer prices have increased since June 2022 as range of offers narrowed

- From June to December 2022, the median market offer increased by between 8% and 18% across electricity distribution zones, before slightly decreasing in 2023 in many of the zones.
- As at 3 March 2023, a large proportion of electricity market offers were priced near the median offer in each distribution zone. The boxes in Figure 1 show the interquartile range where 50% of offers are available. All remaining market offers comprising the upper and lower quartiles are denoted by the range lines (excepting outliers).
- There are several outlying offers (indicated by the dots) that are significantly higher than the median price. However, these represent a very small number of offers in the market.
- Cheaper offers remain accessible for customers below the median offer prices shown by the horizontal line in each of the boxes.

Figure 1: Retail market offers update – annual bill impact for electricity



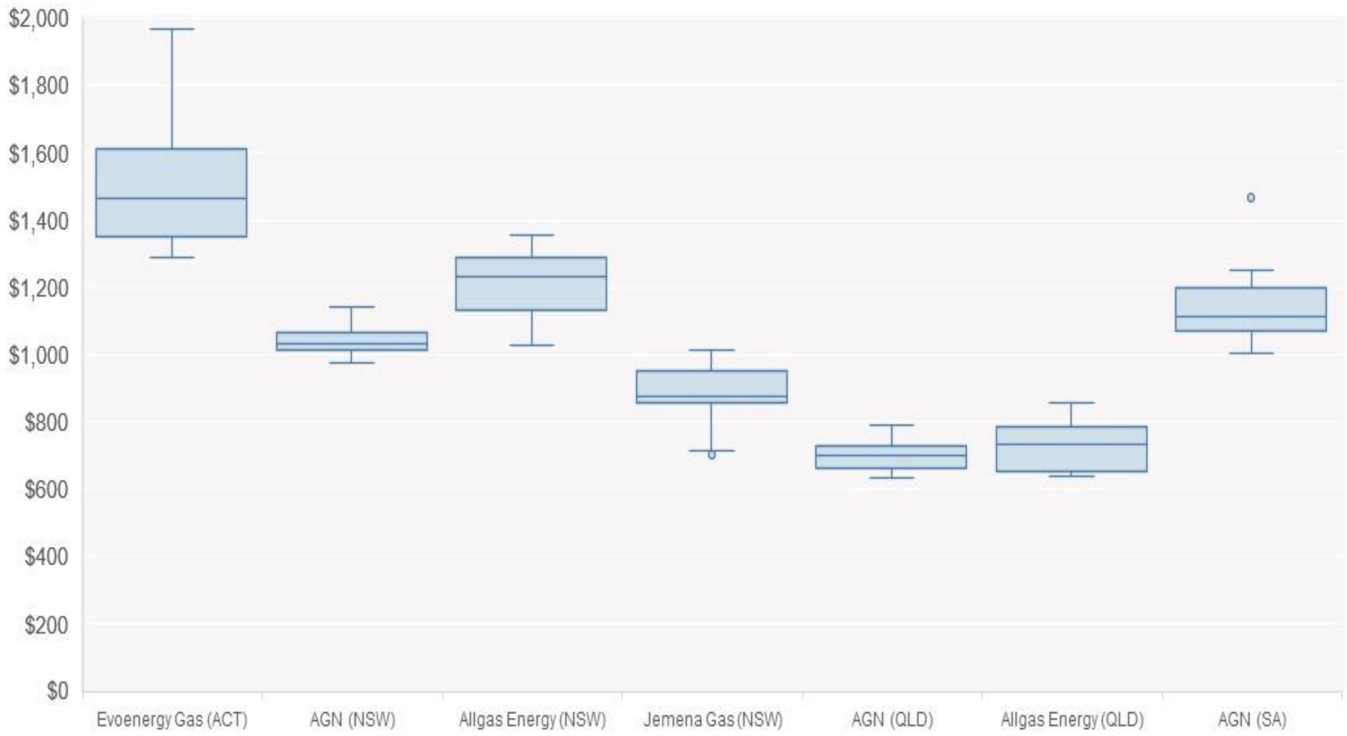
Note: Pricing data is based on prices as at 3 March 2023. Outliers are 3 standard deviations from the median offer. This analysis does not include Victorian offers.

Source: EME

Gas median market offer prices have also increased since June 2022 as range of offers narrowed

- From June to December 2022, the median market offer increased by between 4% and 18% across gas distribution zones.
- As at 3 March 2023, a large proportion of gas market offers were priced near the median offer in each distribution zone. The boxes in Figure 2 show the interquartile range where 50% of offers are available. All remaining market offers comprising the upper and lower quartiles are denoted by the range lines (excepting outliers).
- Cheaper offers remain accessible for customers below the median offer prices shown by the horizontal line in each of the boxes.

Figure 2: Retail market offers update – annual bill impact for gas



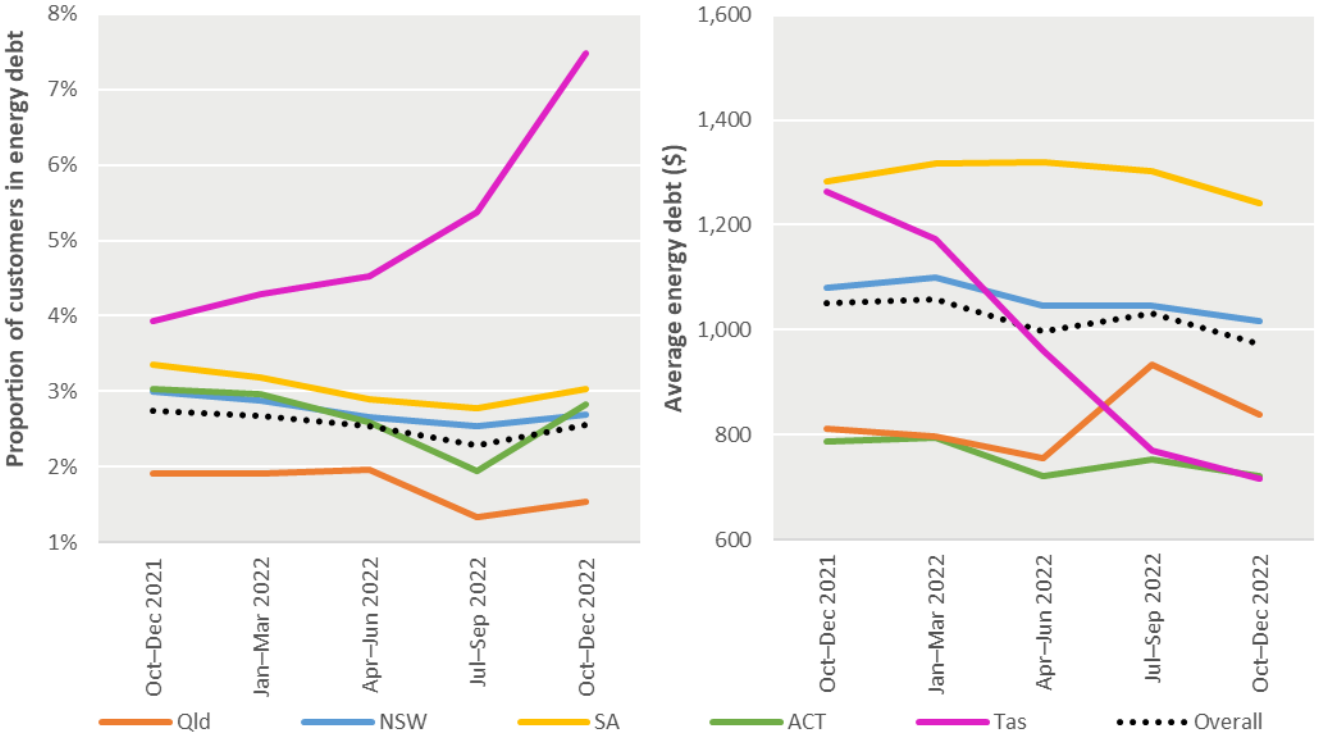
Note: Pricing data is based on prices as at 3 March 2023. Outliers are 3 standard deviations from the median offer. This analysis does not include Victorian offers.

Source: EME

Residential energy debt decreased over the last 12 months

- The proportion of customers repaying energy debt decreased 0.2% (Figure 3), with the number of customers with energy debt declining by 5.6% to 173,297.
- This trend may not reflect a reduction in longer term entrenched debt for the subset of customers experiencing vulnerability because we have seen a quarter-on-quarter increase of 12.3% in the number of customers with energy debt.
- The 66% increase in the number of Tasmanian customers with energy debt is due to a relaxation of debt collection practices since June 2022.
- Average residential energy debt ($) decreased from $1,052 to $972 (down $80 or 7.6%), with all jurisdictions experiencing a reduction. Government subsidies likely contributed to the Queensland and Tasmanian declines during October–December 2022.

Figure 3: Proportion of residential energy debt

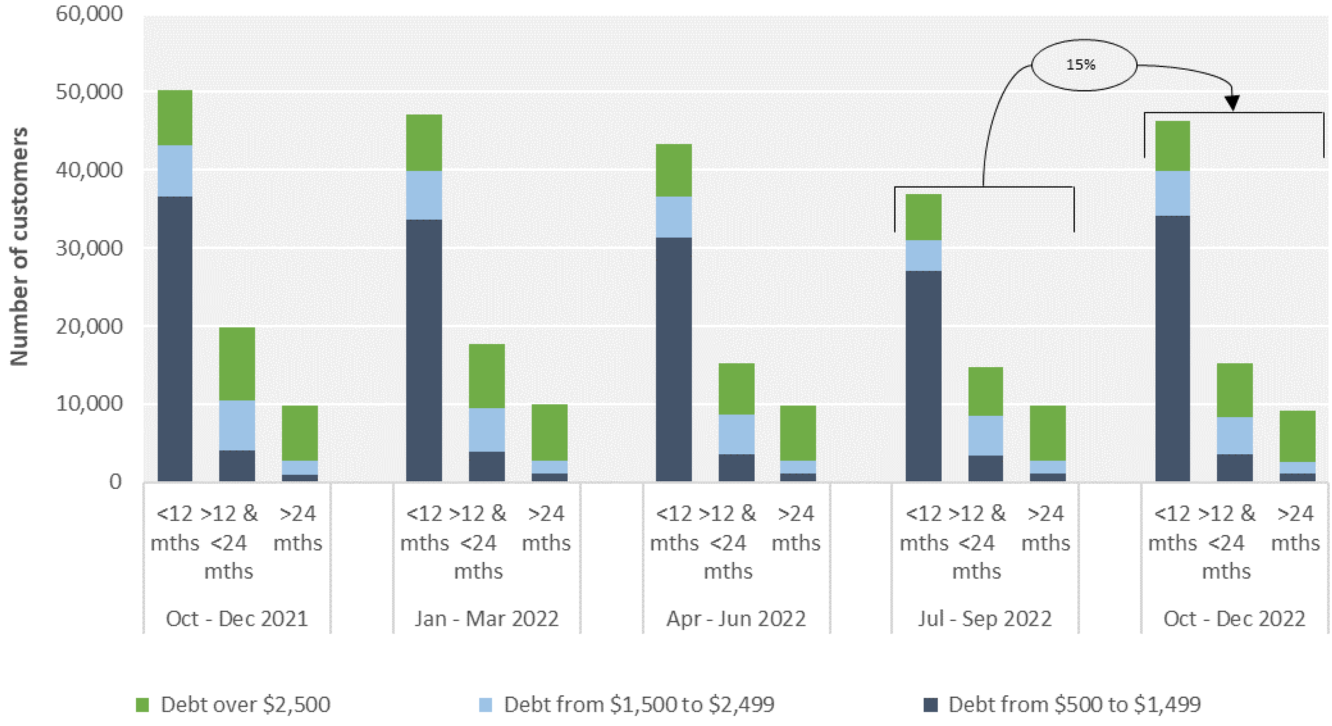


Source: AER

Increase in residential customers holding debts less than 12 months old

- The number of residential customers holding more than $500 energy debt across all categories decreased from 79,947 to 70,564 (down by 12%) over the last 12 months.
- However, quarter-on-quarter, there has been a 15% increase in customers holding debt greater than $500 (Figure 4).
- The accumulation of debt is a concern because it may lead to the increased likelihood of customers entering hardship programs and disconnections in the future.

Figure 4: Quarterly change in number of residential customers with ageing energy debt

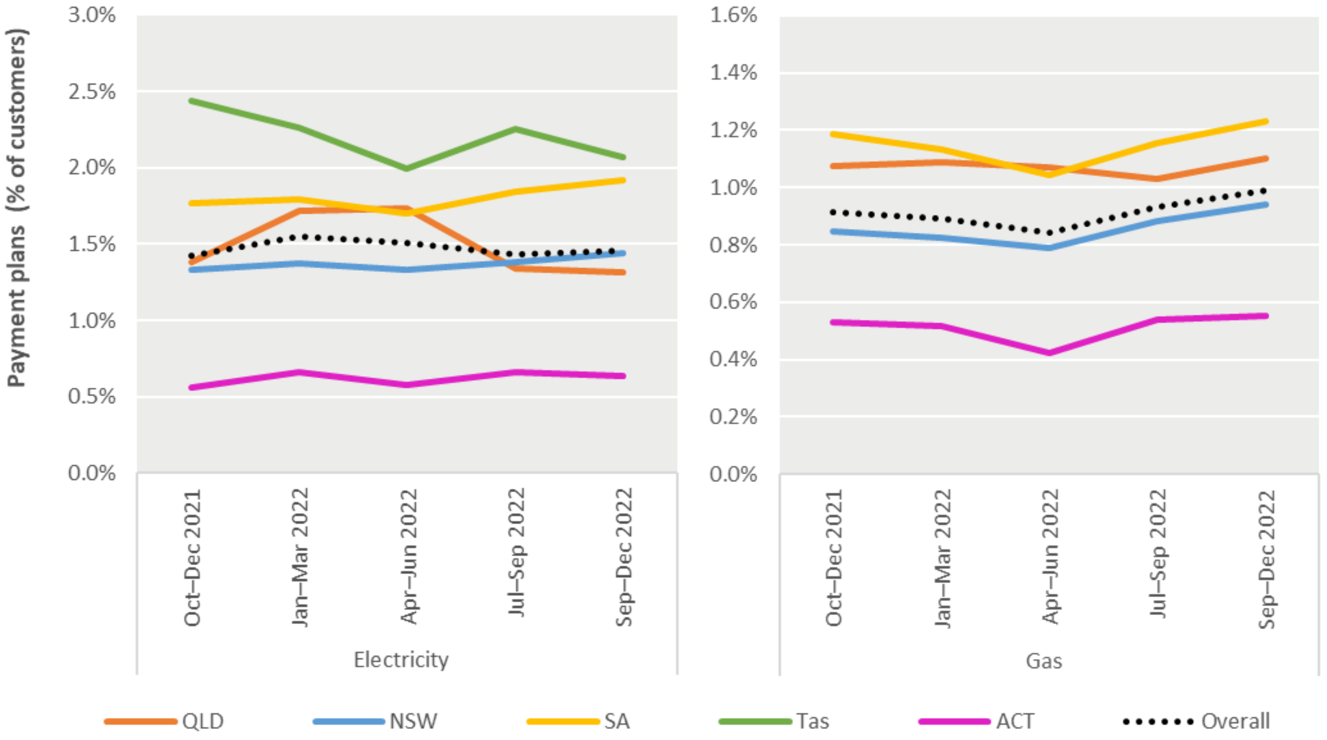


Source: AER

Increase in payment plans following more retailer engagement

- The proportion of residential customers with an electricity payment plan increased by 0.1% (Figure 5), with the number of customers on a payment plan increasing by 4% to 99,194.
- Similarly, the proportion of customers on a gas payment plan increased, with the number of customers on a payment plan growing by 9% to 22,269.
- Retailers have advised that they have increased engagement with customers experiencing payment difficulties, driven by recent economic and market factors.

Figure 5: Proportion of residential electricity and gas customers on payment plans

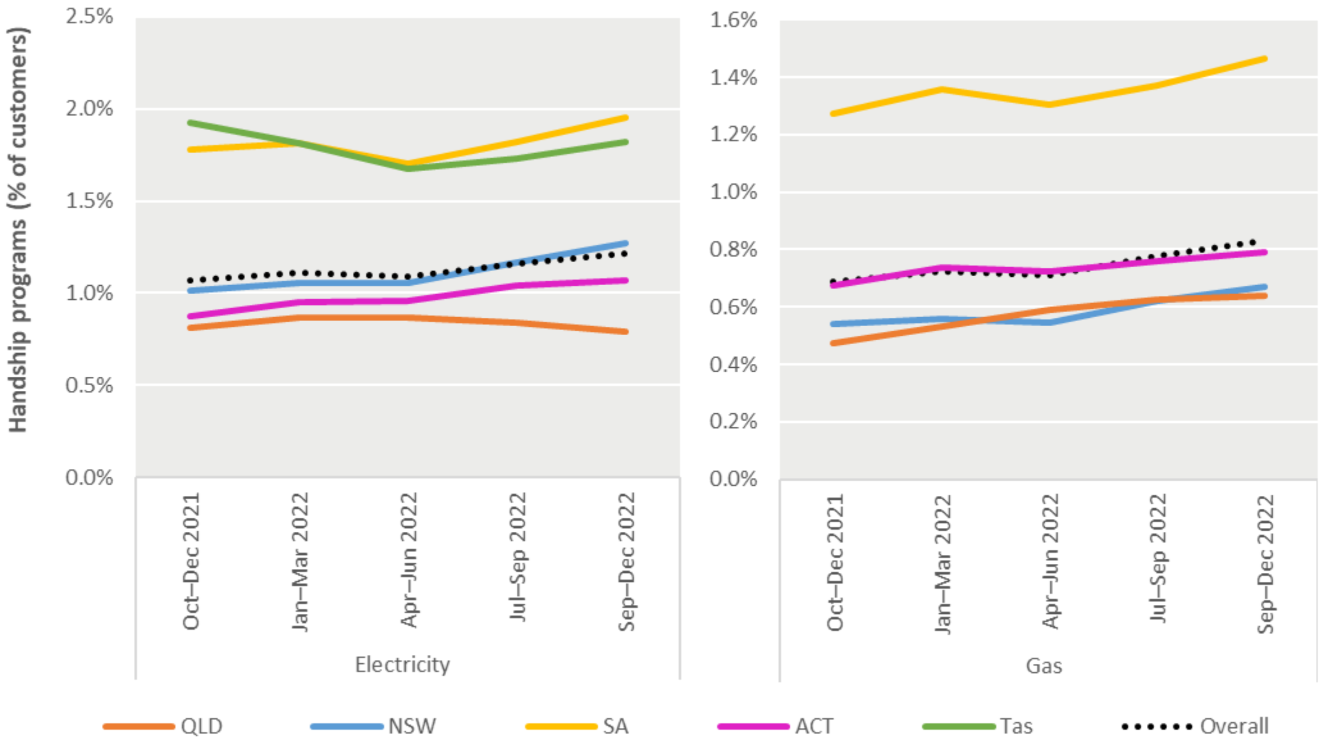


Source: AER

Hardship program participation now above pre-pandemic levels

- The proportion of residential electricity hardship customers increased from 1.07% to 1.22% (Figure 6). This is a result of the number of electricity customers on hardship plans growing by 15% to 82,675. This is now above pre-pandemic levels.
- Gas customers hardship numbers also increased from 15,586 to 18,996 (up 22%).
- The only exception is Queensland, which continues to decrease this quarter – we believe is likely due to the application of the government rebate, which will have reduced customer debt.
- Retailers have told us that they have had greater engagement with customers over the last 12 months. This is reflected in the number of retailer referrals to the hardship program having increased by 18%.

Figure 6: Percentage of residential electricity and gas customers on hardship programs

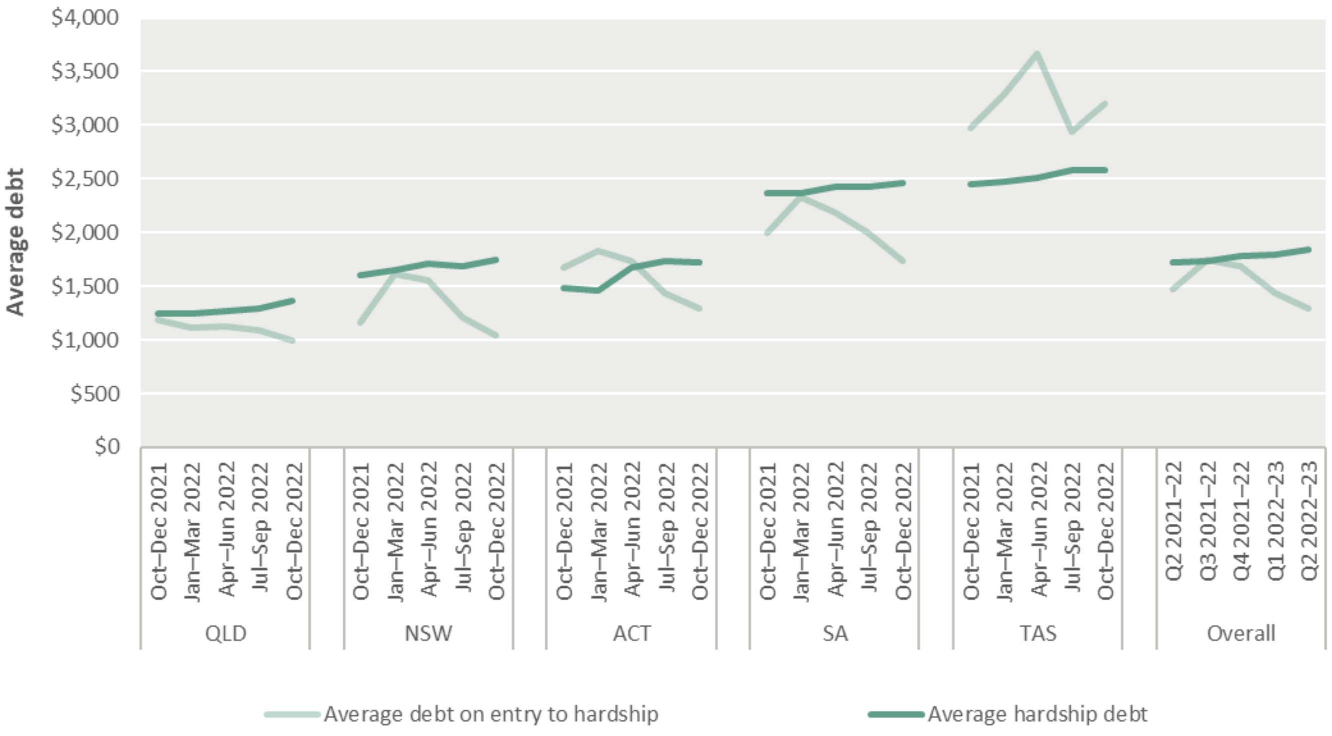


Source: AER

Customers entering hardship programs earlier with lower debts, but debts increased while in hardship

- Average debt on entry to hardship programs decreased from $1,468 to $1,291 (down $178 or 12%) (Figure 7). While the level of debt on entry fluctuated across jurisdictions, all regions (except for Tasmania) decreased over the last 12 months.
- Average debt of hardship customers increased from $1,721 to $1,846 (up $124 or 7%). While the level of average debt fluctuated across jurisdictions, all regions experienced an increase over the last 12 months.

Figure 7: Average electricity hardship debt and average electricity debt at time of entry to hardship programs



Source: AER

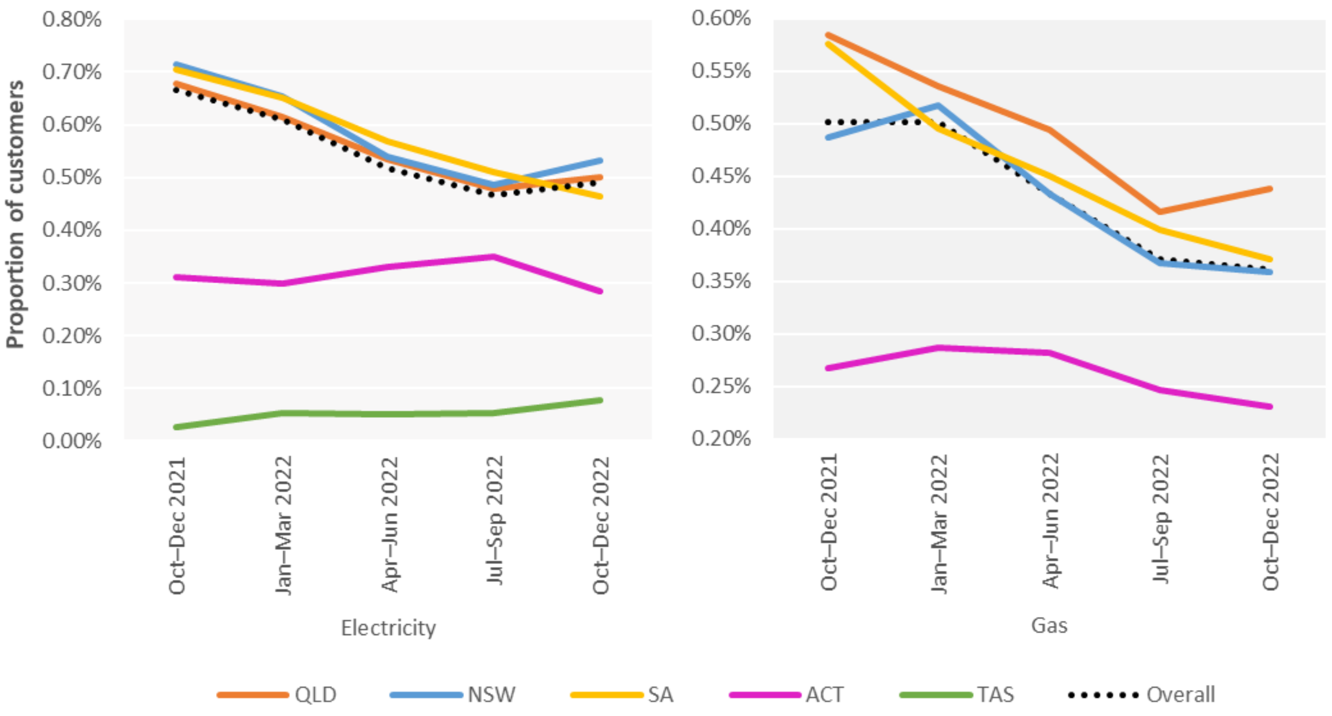
Customers in hardship programs continue to experience financial difficulties

- The increase in average debt of hardship customers may correlate with the 30% increase (334 customers) in the number of customers holding debts for more than 2 years.
- Further, 49% of electricity customers on hardship programs did not meet their usage costs as at 31 December 2022 (up 5%), which suggests customers may be struggling to meet their debts.
- However, in slightly positive signs, there was a:
    - 6% decrease in electricity hardship customers who were excluded from the program for non-compliance
    - 13% increase in electricity hardship customers who successfully completed the program.
- These positive signs could reflect that retailers may be more effectively assisting customers in hardship and may also be a result of the AER's compliance and enforcement activities, which have focused on ensuring retailers effectively identify customers in financial difficulty.

Retailers are referring fewer customers for credit collection

- There were 25% fewer electricity customers and 27% fewer gas customers referred to external credit collection agencies over the last 12 months.
- Retailers have advised that this downward trend may be related to natural disasters (i.e. widespread floods) in the previous 2 quarters (April–June 2022 and July–September 2022), when they paused credit collection activities. However, credit collection activities were recommenced in October–December 2022 (Figure 8).

Figure 8: Proportion of residential electricity and gas customers on credit collection

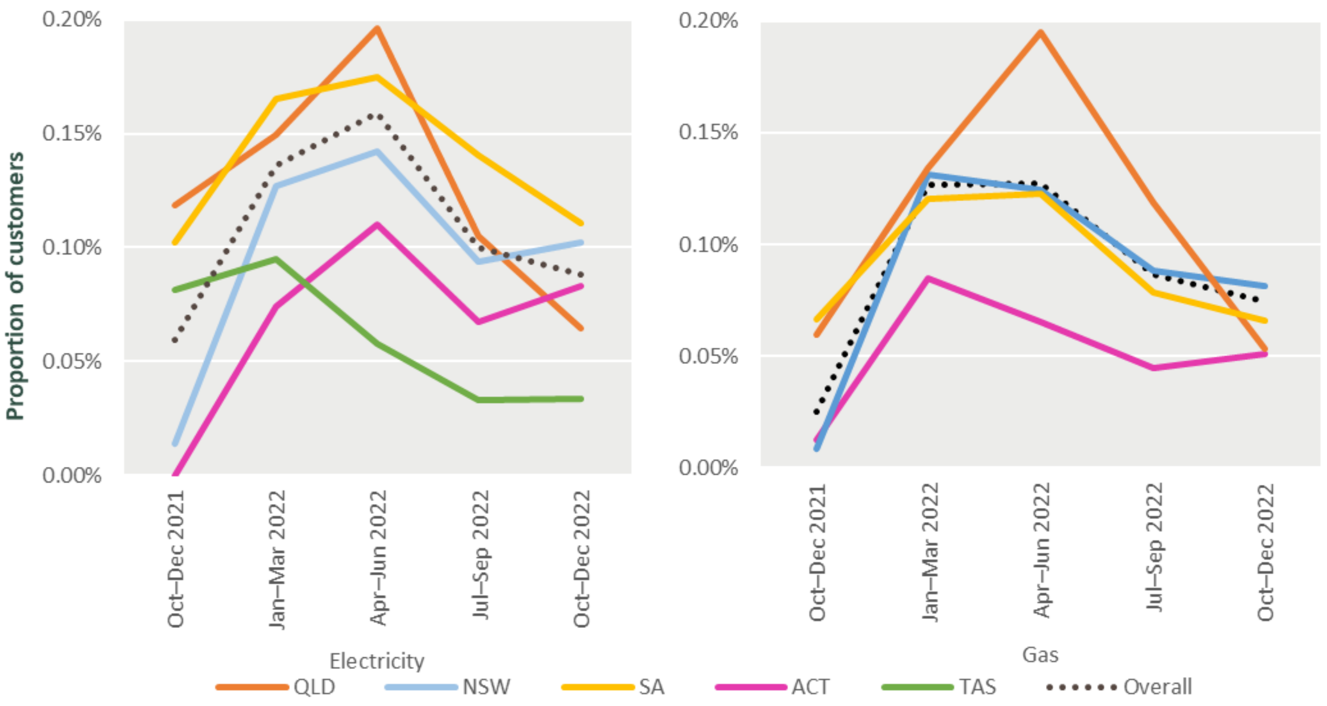


Source: AER

Disconnection rates have decreased in recent quarters but remain higher than 12 months ago

- Disconnections for both electricity and gas have continued decreasing since April–June 2022 to October–December 2022 but remained higher when compared with this time last year, just after the end of COVID-19 lockdowns in NSW (Figure 9).
- The rebates in Queensland and Tasmania may have been one of the factors that drove down disconnections in the last 2 quarters. Once the benefit of these rebates becomes exhausted, the trend may change.

Figure 9: Proportion of residential electricity and gas customers on disconnections

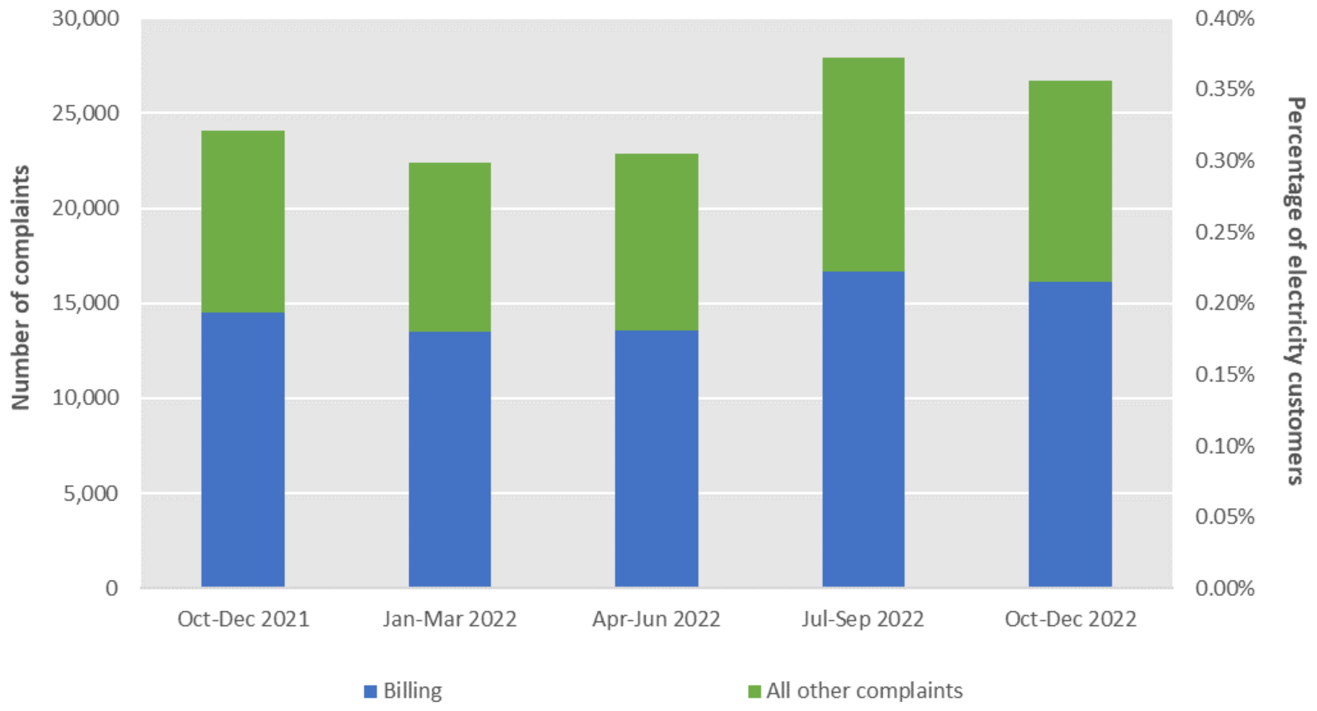


Source: AER

Billing complaints remain high

- Total number of complaints have increased from 24,071 to 26,691 (up 11%) (Figure 10).
- Billing complaints were the largest contributor to complaints this quarter, with 60.4% of total complaints categorised as a billing issue. These complaints may relate to prices, billing errors, payment arrangements or debt recovery practices.
- 0.36% of electricity customers recorded a complaint this quarter, up from 0.33% last year.

Figure 10: Electricity customer complaint types, by number and percentage

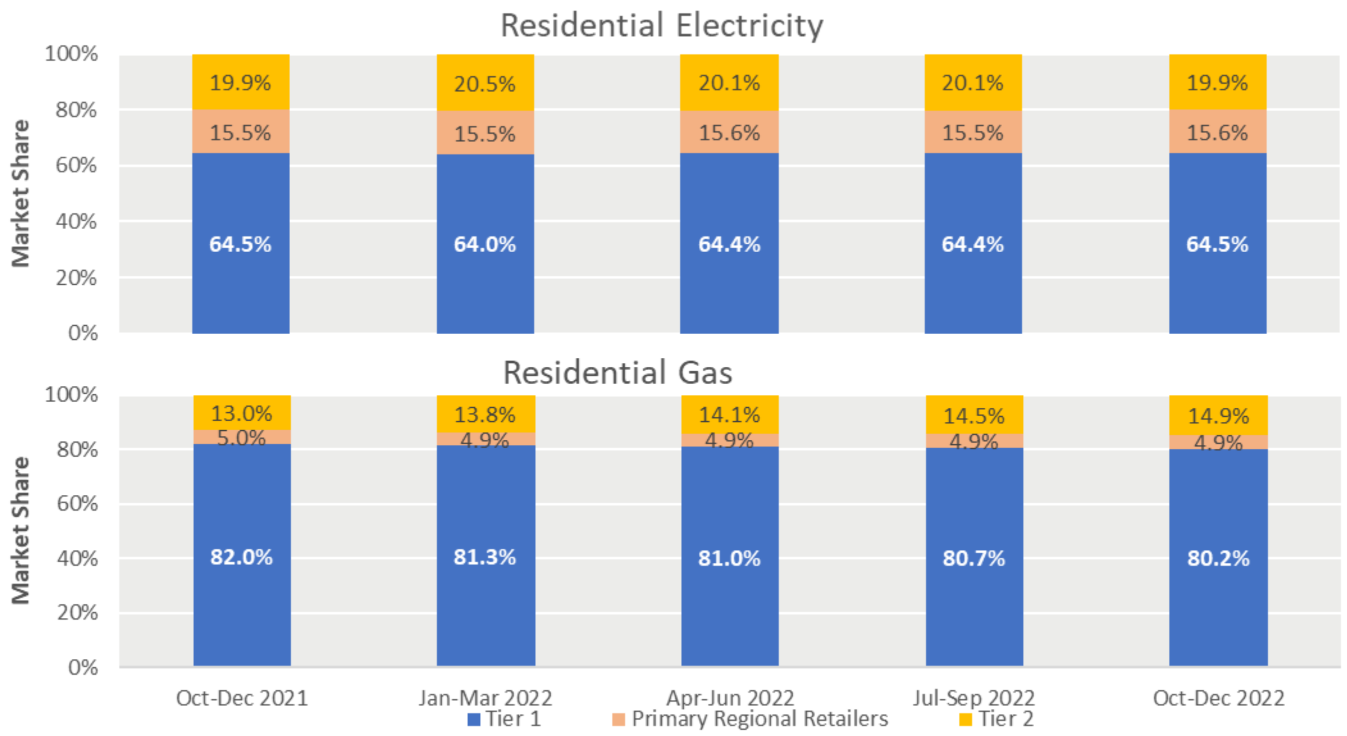


Source: AER

Retailer market share remains stable, majority of customers with a Tier 1 retailer or primary regional retailer

- The residential electricity market remained relatively unchanged since December 2021, with 80.1% of customers still with either a Tier 1 or primary regional retailer (Figure 11).
- The residential gas market recorded a slight trend away from Tier 1 retailers and towards Tier 2 retailers, with Tier 2 retailers increasing their market share from 13.0% to 14.9%.
- Tier 1 retailers comprise Origin Energy, AGL and Energy Australia. Primary regional retailers comprise Ergon Energy in Queensland, ActewAGL in the ACT and Aurora Energy in Tasmania. Tier 2 retailers are all other retailers.

Figure 11: Residential market share by Tier 1, primary regional and Tier 2 retailers



Source: AER

The data in this report is correct as at 15 March 2023.