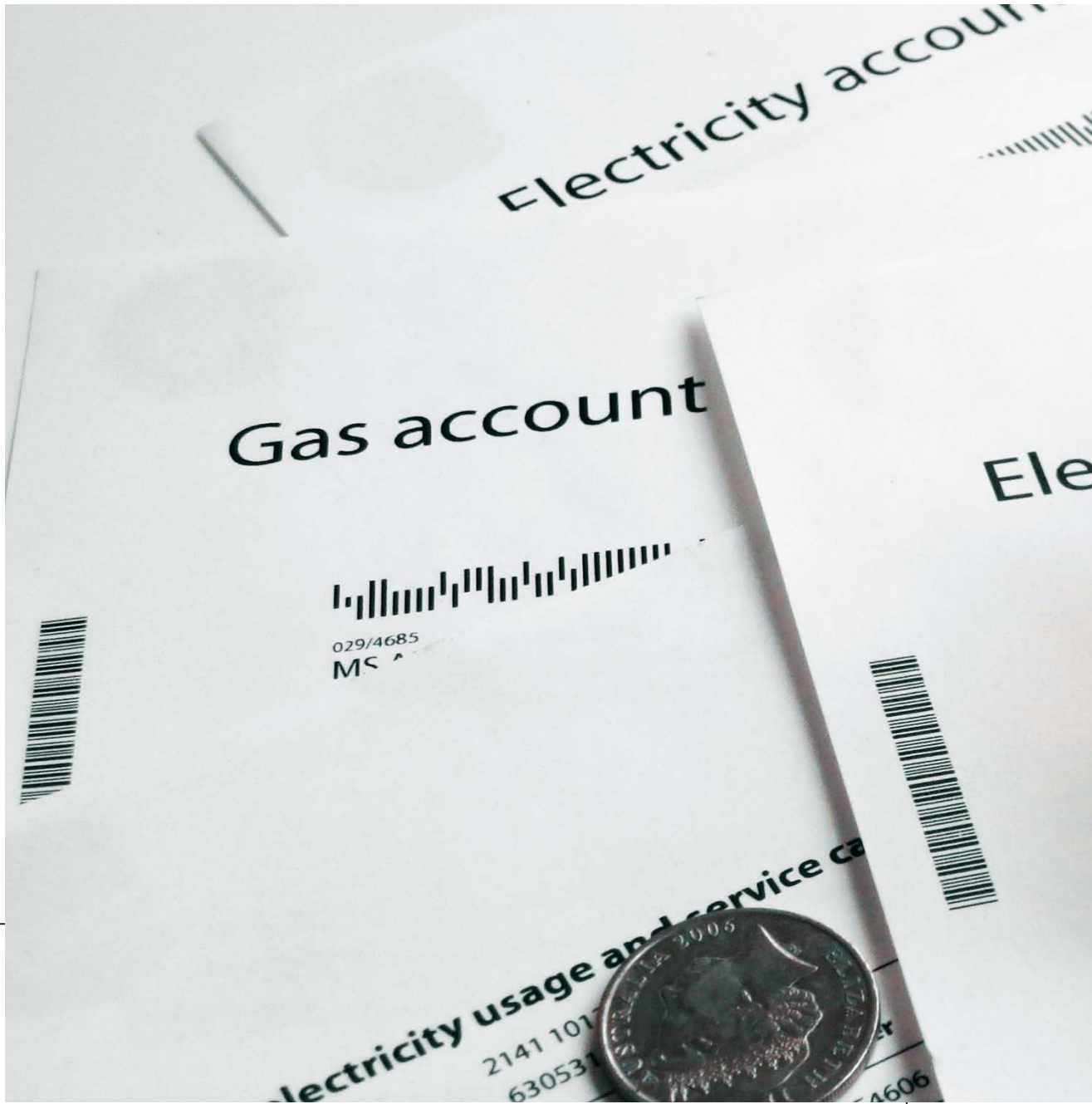


5 ENERGY RETAIL MARKETS


Account number
Service address
Tax Invoice
Internet
Email
Go Easy

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) is taking on significant functions under national reforms (box 5.1). The transition date for the the National Energy Retail Law (Retail Law) varies among participating jurisdictions—Queensland, New South Wales, Victoria, South Australia, Tasmania and the Australian Capital Territory (ACT). The law commenced in Tasmania (for electricity only) and the ACT on 1 July 2012.

The Retail Law aims to ensure effective protection for small energy customers—residential energy users and small businesses annually consuming less than 100 megawatt hours (MWh) of electricity or one terajoule (TJ) of gas.[1] This chapter covers the retailing of energy to small customers in those jurisdictions participating (or expected to participate) in the national reforms.

5.1 Retail market structure

Table 5.1 lists licensed energy retailers that were active in the market for residential and small business customers in August 2012. Active retailers are those supplying energy services to customers (whether or not the retailer is seeking new customers). The number of active retailers has 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 August 2012 held authorisations to sell in every jurisdiction once the Retail Law is adopted.[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 level of competition in gas may include the smaller market (not all households have a gas connection) and the difficulties that new entrant retailers face in contracting for wholesale gas supplies.

Victoria has the largest number of active retailers selling to small customers—both for electricity (16) and gas (seven). Queensland, New South Wales and South Australia each have 11–12 electricity retailers and three to six gas retailers.

Figure 5.1 illustrates retail market shares in electricity and gas by jurisdiction. Three major privately owned retailers—AGL Energy, Origin Energy and EnergyAustralia (formerly TRUenergy)—supply 76 per cent of small electricity customers and 84 per cent of small gas customers in eastern Australia in 2012.

Smaller private retailers (such as Simply Energy, Lumo Energy and Australian Power & Gas) have been successful in building market share in Victoria and South Australia.

- In Victoria, smaller retailers account for 28 per cent of electricity customers in 2012 (up from 8 per cent in 2005) and 22 per cent of gas customers (up from 1 per cent).
- In South Australia, smaller retailers account for 17 per cent of electricity customers (up from 5 per cent in 2005) and 7 per cent of gas customers (up from 3 per cent).

Government retailers are prominent 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. The Tasmanian Government announced significant reforms to the state's energy market structure in 2012 (section 5.3).
- In the ACT, ActewAGL (a joint venture between the ACT Government and AGL Energy) remains the dominant retailer, with over 95 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.

Some regional markets are heavily concentrated. Three or fewer retailers account for more than 90 per cent of electricity market share in four of the six jurisdictions. Similar

1 For electricity, some jurisdictions have a consumption threshold different from that specified in the Retail Law. In New South Wales and South Australia, for example, small electricity customers are those consuming less than 160 megawatt hours (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 consuming less than 50 MWh of electricity per year.

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

Box 5.1 National retail regulation

National reforms to retail energy markets are being progressively implemented from 1 July 2012. The Retail Law, which transfers significant functions to the AER, will work with the Australian Consumer Law to provide small energy customers with effective protections around their electricity and gas supply arrangements.

The transition date for the the Retail Law varies among participating jurisdictions—Queensland, New South Wales, Victoria, South Australia, Tasmania and the ACT. The law commenced in Tasmania and the ACT on 1 July 2012. South Australia and New South Wales announced target implementation dates of 1 February 2013 and 1 July 2013 respectively. Victoria committed to implementing the Law as soon as practicable and no later than 1 January 2014 (providing outstanding issues are resolved).

On 7 August 2012, Prime Minister Julia Gillard urged the remaining jurisdictions to commence the Retail Law as soon as possible to give consumers the benefit of the law's strong protections and use of the AER's *Energy Made Easy* price comparator website.

The Retail Law transfers a range of functions to the AER, including:

- providing an energy price comparator website (www.energymadeeasy.gov.au) for small customers
- enforcing compliance with the Law and its supporting Rules and Regulations
- authorising energy retailers to sell energy, and granting exemptions from the requirement (for example, to retirement villages and caravan parks that onsell energy)
- approving retailers' policies for dealing with customers facing hardship
- administering a 'retailer of last resort' scheme, to protect customers and the market if a retail business fails
- reporting on retailer performance and market activity, including energy affordability, disconnections and competition indicators.

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

The AER published procedures and guidelines on how it will undertake its roles under the Retail Law. In Tasmania and the ACT, the AER has commenced these roles, including on retail performance reporting, retail pricing information, compliance and enforcement activity and the connection charging regime. The *Energy Made Easy* price comparator website was launched for customers in those jurisdictions on 1 July 2012. The AER expected to release in late 2012 its retail performance reports on businesses operating in Tasmania and the ACT.

In addition to transitioning retailers that held jurisdictional licences before April 2011, the AER has granted 'national retailer authorisations' to a number of entities. An authorisation enables an entity to sell electricity or gas in those jurisdictions that adopt the Retail Law.

ratios apply in gas. In addition, substantial vertical integration exists between retailers and energy producers (section 5.2).

Some new entry occurred in retail markets in 2011–12, notably Powershop and Blue NRG in Victoria. Existing retailers Alinta Energy, Sanctuary Energy and Momentum Energy widened the geographic range of their activity, moving into Victoria, South Australia and New South Wales respectively, while QEnergy was granted a retail licence in South Australia.

5.2 Vertical integration

While governments structurally separated the energy supply industry in the 1990s, there has since been significant vertical integration of retailers and generators to form 'gentailers.' 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 for generators and retailers that are not vertically integrated.

Across the National Electricity Market (NEM), three retailers—AGL Energy, Origin Energy and EnergyAustralia—jointly supply 76 per cent of customers. The entities:

- acquired significant market share in Queensland (in 2007) and New South Wales (in 2010) following the privatisation of government owned retailers in those states
- increased their market share in electricity generation from 11 per cent in 2007 to 35 per cent in 2012, following the commissioning of Origin Energy's Mortlake power station and AGL Energy's full acquisition of Loy Yang A in Victoria

Table 5.1 Active energy retailers—small customer market, October 2012

RETAILER	OWNERSHIP	QLD	NSW	VIC	SA	TAS	ACT
ActewAGL Retail	ACT Government and AGL Energy						*
			*				*
AGL Energy	AGL Energy			*	*		
		*	*	*			
Alinta Energy	Alinta Energy						
Aurora Energy	Tasmanian Government					*	
Australian Power & Gas	Australian Power & Gas						
BlueNRG	BlueNRG						
Click Energy	Click Energy						
Diamond Energy	Diamond Energy						
Dodo Power & Gas	Dodo Power & Gas						
EnergyAustralia[1]	CLP Group		*	*			
				*			
Ergon Energy	Queensland Government	*					
Lumo Energy	Infratil						
Momentum Energy	Hydro Tasmania (Tasmanian Government)						
Neighbourhood Energy	Alinta Energy						
Origin Energy[2]	Origin Energy	*	*	*			
		*	*	*	*		
Powerdirect	AGL Energy						
Powershop	Meridian Energy						
Qenergy	Qenergy						
Red Energy	Snowy Hydro[3]						
Sanctuary Energy	Living Choice Australia / Sanctuary Life						
Simply Energy	International Power						
Tas Gas Retail (formerly Option One)	Brookfield Infrastructure						

Electricity retailer
Gas retailer
Host retailer *

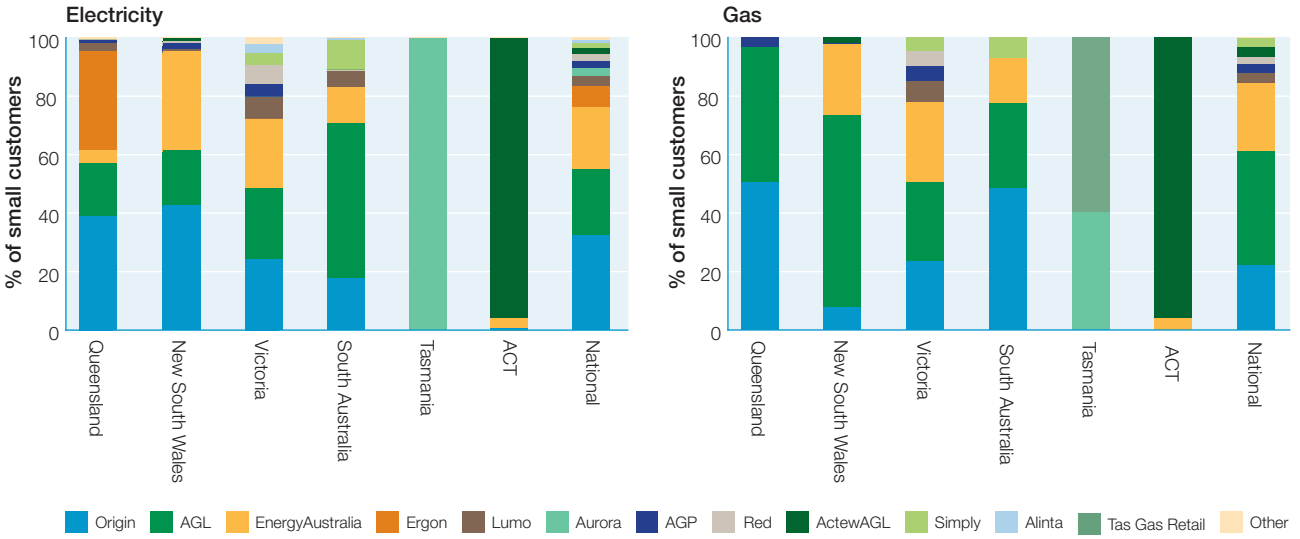
1. TRUenergy rebranded as EnergyAustralia in 2012.
2. Origin Energy also operates under the brands Country Energy and Integral Energy in New South Wales after acquiring these businesses from the New South Wales Government in 2011.
3. Snowy Hydro is owned by the New South Wales Government (58 per cent), the Victorian Government (29 per cent) and the Australian Government (13 per cent).

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

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

Figure 5.1

Retail market share (small customers), by jurisdiction, 2012



Source: AER estimates.

- supply around 85 per cent of gas retail customers and are expanding their interests in upstream gas production and storage.

The expanding profile of AGL Energy, Origin Energy and EnergyAustralia is apparent across all mainland regions of the NEM (section 5.2.1). The three entities control 58 per cent of new generation capacity commissioned or committed since 2007. Generation investment since 2007 by entities that do not also retail energy has been negligible. In addition, many new entrant retailers in that period are vertically integrated with entities that were previously stand-alone generators—for example, International Power (trading as Simply Energy in retail markets), Infratil (Lumo Energy) and Alinta (table 5.2).

Government owned generators are also vertically integrating. The generator Snowy Hydro owns Red Energy, which operates in the New South Wales, Victorian and South Australian retail markets. The Tasmanian Government owns Hydro Tasmania, a generation business that also has a retail arm (Momentum Energy), and the stand-alone retailer Aurora Energy; Momentum Energy is restricted from operating in Tasmania.

Australian Power and Gas is the only retailer with a significant market share that does not have related generation interests. However, a number of smaller retailers, including recent market entrants, operate only in the retail market.

There is also vertical integration 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 acquired gas reserves in the Gunnedah Basin (New South Wales) in 2011.

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. In September 2012 it released a position paper stating a preference to adopt a nationally consistent approach to ring fencing.

5.2.1 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:

Table 5.2 Vertical integration activity in NEM jurisdictions, 2006–12

DATE	EVENT
2012	AGL acquired full ownership of 2080 MW Loy Yang A power station in Victoria
	Origin Energy commissioned 518 MW Mortlake power station in Victoria
	AGL Energy commissioned 63 MW Oaklands Hill wind farm in Victoria and 33 MW The Bluff wind farm in South Australia
2011	TRUenergy announced two 500 MW power plants in Queensland
	Alinta Energy entered retail market in South Australia (and Victoria in 2012)
	AGL Energy commissioned 82 MW North Brown Hill wind farm in South Australia
	TRUenergy acquired 111 MW Waterloo wind farm in South Australia
	AGL Energy (with Meridian Energy) committed to 420 MW Macarthur wind farm in Victoria
2010	Origin Energy acquired Integral Energy and Country Energy (retail) and trading rights for Eraring and Shoalhaven power stations from New South Wales Government
	TRUenergy acquired EnergyAustralia (retail) and trading rights for Mount Piper and Wallerawang power stations from New South Wales Government
2009	Origin Energy commissioned 605 MW Darling Downs power station in Queensland
	Origin Energy commissioned 648 MW Uranquinty power station in New South Wales
	Origin Energy completed a 131 MW expansion of Mount Stuart power station in Queensland
	Origin Energy completed a 128 MW expansion of the Quarantine power station in South Australia
	AGL Energy commissioned 71 MW Hallett 2 wind farm in South Australia
	AGL Energy commissioned 140 MW Bogong Hydro power station in Victoria
2008	TRUenergy commissioned 435 MW Tallawarra power station in New South Wales
	Hydro Tasmania acquires controlling interest in Momentum Energy (full acquisition occurred in 2010)
2007	AGL Energy acquired Torrrens Island power station (40 per cent of South Australian capacity) from TRUenergy in exchange for the 150 MW Hallett power station and a cash sum
	Origin Energy commissioned 30 MW Cullerin Range wind farm in New South Wales
	AGL Energy commissioned 95 MW Hallett 1 wind farm in South Australia
	Origin Energy acquired Sun Retail from Queensland Government
	AGL Energy acquired Powerdirect from Queensland Government
2006	Infratil entered retail market (now trading as Lumo Energy)
	International Power entered retail market (now trading as Simply Energy)

state owned corporations control 60 per cent of capacity, including a power purchase agreement over the privately owned Gladstone power station. The degree of market concentration increased in 2011 with the Queensland Government dissolving the state owned Tarong Energy and reallocating its capacity into the remaining two state owned entities.

While generation is largely state owned, the retail sector was privatised in 2007, with Origin Energy and (to a lesser extent) AGL Energy emerging as the key players. 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 20 per cent of the basin's gas production. AGL has a small interest, accounting for less than 3 per cent of the basin's gas production. The basin will soon supply LNG projects as well as the domestic market.

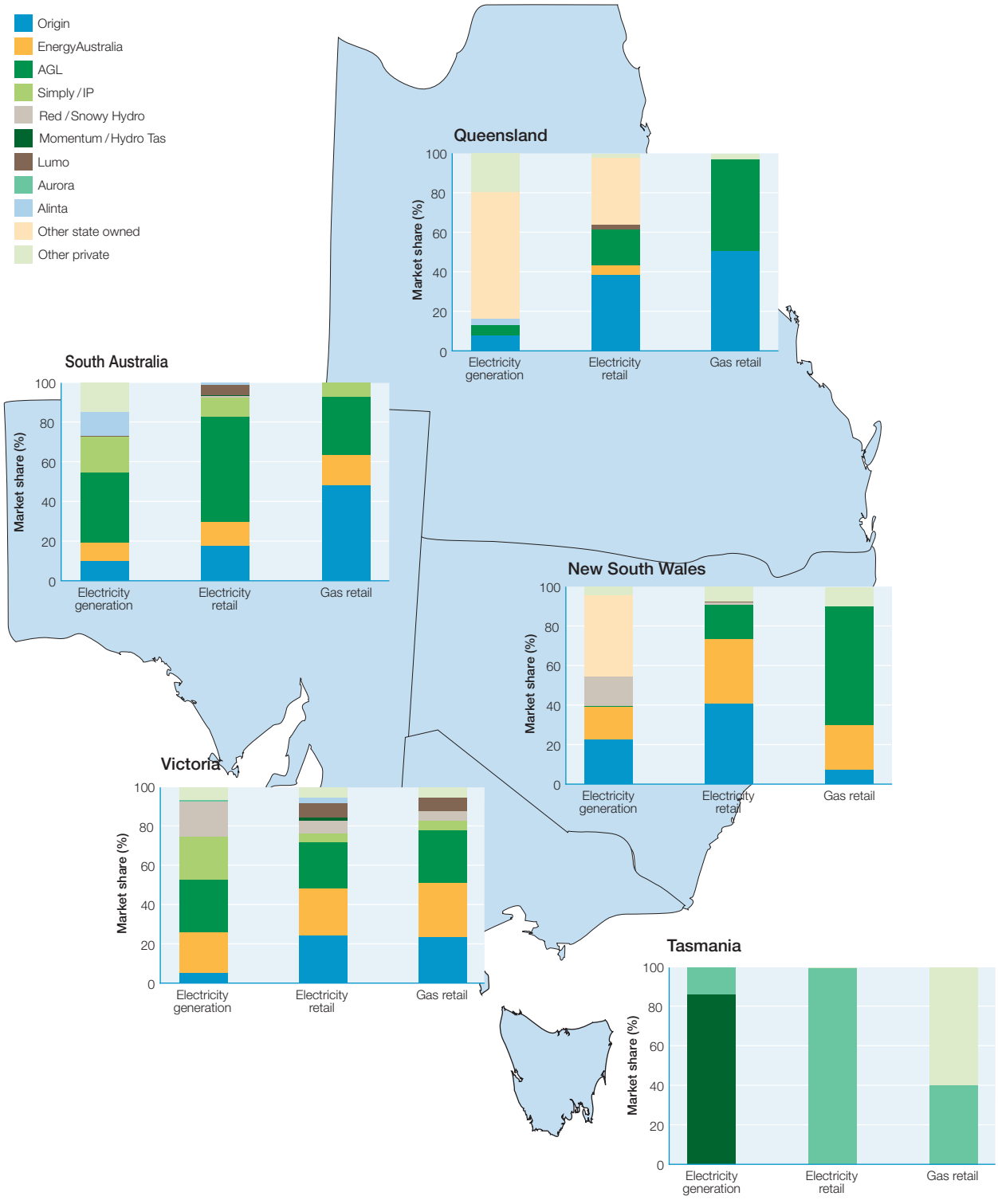
EnergyAustralia supplies around 5 per cent of Queensland's retail electricity customers, but has no local generation assets. It announced plans in 2011 to construct two 500 megawatt power plants in the region.

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 now supply over 75 per cent of retail electricity customers, and control 39 per cent of statewide generation capacity (through either direct ownership or contracted trading rights). EnergyAustralia has also acquired significant market share in gas retail (around 25 per cent of customers).

Figure 5.2

Vertical integration in NEM jurisdictions, 2012



AGL Energy was the historical incumbent in gas retail supply, and retains 65 per cent of customers. It fully owns the state's only operating gas producing entity. AGL Energy's position in the gas market has helped it acquire market share in electricity retail (around 20 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 there is reasonable market depth, Victoria has significant vertical integration. The three major retailers control about 52 per cent of generation capacity—up from 28 per cent in 2007—following the commissioning of Origin Energy's Mortlake power station and AGL Energy's full acquisition of Loy Yang A in 2012. Victoria's other major generators—International Power and Snowy Hydro—jointly supply around 10 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 also the Bass Basin.

South Australia's electricity sector is concentrated, with AGL Energy supplying over 50 per cent of retail customers. AGL Energy's acquisition of the Torrens Island power station in 2007, combined with recent investment in wind capacity, raised its share of generation capacity from 5 per cent in 2007 to 36 per cent in 2012.

Origin Energy, EnergyAustralia and International Power are significant but minority players in both generation and retail. Alinta too has generation assets and entered the electricity retail market in 2011. Gas for electricity generation has been 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 nearly all small retail customers and owns 14 per cent of generation capacity; Hydro Tasmania controls the remaining 86 per cent of generation capacity. The Tasmanian Government in 2012 announced reforms aimed at reducing the extent of market concentration (section 5.3).

5.3 Retail competition

NEM jurisdictions other than Tasmania have introduced full retail contestability (FRC) in electricity, allowing all customers to enter a contract with their retailer of choice. Box 5.2 discusses the types of energy contract available. All jurisdictions have introduced FRC in gas retail markets.

At 1 July 2011 Tasmania extended contestability to customers using at least 50 MWh per year. Contestability will likely soon extend to all customers, with the Tasmanian Government announcing it will introduce FRC from 1 January 2014. To coincide with this introduction, the Tasmanian Government will sell Aurora's retail customer base in blocks to private retailers. Hydro Tasmania will retain ownership of its retail business (Momentum Energy). Reforms will also apply to Tasmania's wholesale market arrangements to encourage new retail entry (section 1.5.4). The Tasmanian Government will retain retail price regulation until satisfied competition is fully effective.

5.3.1 Consumer protection in competitive retail markets

The introduction of FRC has increased competition among retailers for new customers and intensified retailer marketing activity. Door-to-door marketing is widely used in the energy industry and accounts for more than half of all new contracts—around one million new energy contracts resulted from door-to-door marketing in 2011.[4] The use of energy switching websites has also increased.

Door-to-door sales enable retailers to target regions and customers considered open to switching retailer. Additionally, outsourcing sales to door-to-door agents paid on a commission basis is less expensive than undertaking other forms of marketing. However, criticisms of door-to-door marketing practices include aggressive sales behaviour.

The Australian Consumer Law, enforced by the Australian Competition and Consumer Commission (ACCC), contains provisions that protect customers from improper conduct by door-to-door salespeople. The provisions relate to unsolicited sales, misleading and deceptive conduct and unconscionable conduct. The Retail Law also contains marketing provisions that protect customers.

The ACCC has taken action against energy retailers and energy switching sites for alleged breaches of the Australian Consumer Law:

4 Frost and Sullivan, *Research into the door-to-door sales industry in Australia*, Report for the ACCC, 2012, p. 11.

Box 5.2 Types of energy retail contract

Small customers have access to two types of energy contract—standard retail contracts and market retail contracts. 'Host' retailers are required to offer a standard retail contract to customers that have not entered a market contract with a retailer of choice. For standard retail contracts, the Retail Law includes model terms and conditions that the retailer cannot amend.

Market retail contracts have a minimum set of terms and conditions, but otherwise vary from contract to contract. A contract may be widely available, or offered only to 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. Under the Retail Law, retailers must obtain explicit informed consent from a customer entering a market retail contract.

The number of customers on standing contracts varies significantly across jurisdictions—22 per cent of electricity customers are on standing contracts in South Australia, compared with 30 per cent in Victoria, 50 per cent in New South Wales, 55 per cent in Queensland and 80 per cent in the ACT.

- On 27 March 2012 the ACCC filed proceedings against AGL Energy and Neighbourhood Energy, and the marketing companies engaged by them, for misleading and deceptive conduct in door-to-door selling. Also, the ACCC alleged each respondent failed to immediately leave the premises at the request of an occupier. It contended customers requested that salespeople leave by placing a 'do not knock' sign on their door. In September 2012, the Federal Court found Neighbourhood Energy and its marketing contractor had breached the Australian Consumer Law and imposed penalties of $1 million. At November 2012 the AGL Energy matters were before the Federal Court.
- On 13 July 2012 the Federal Court ordered Energy Watch—a provider of energy price comparison services—to pay $1.95 million for misleading advertising. It also ordered the former chief executive officer of Energy Watch to pay $65 000 for his role in the advertisements. The advertising related to representations about the nature of the Energy Watch service and the savings that consumers would make by switching energy retailers.

5.3.2 Customer switching

The rate at which customers switch their supply arrangements is one indicator of customer participation in the market. While switching (or churn) rates can indicate competitive activity, they must be interpreted with care. Switching is sometimes high during the early stages of market development, when customers can first exercise choice, but may then stabilise as a market acquires depth. Similarly, switching may be low in a competitive market if retailers deliver good quality service that gives customers no reason to change.

The Australian Energy Market Operator (AEMO) publishes churn data measuring the number of customer switches from one retailer to another (it does not include customer switches between contracts with the same retailer). If a customer switches to a number of retailers in succession, then each move counts as a separate switch. Cumulative switching rates may thus exceed 100 per cent. Figure 5.3 sets out annual and cumulative switching data.

Victoria continues to have a higher switching rate than that of other jurisdictions, although the rate in 2011–12 was below the high of the previous year. Switching activity in New South Wales and South Australia rose in each of the past few years, with rates in 2011–12 the highest recorded in each state for both electricity and gas. Queensland introduced FRC later than other jurisdictions did. Its annual switching rates have generally been comparable with those in New South Wales and South Australia, but fell in 2011–12 below those jurisdictions' rates (recording its lowest level of switching in electricity since the introduction of FRC).

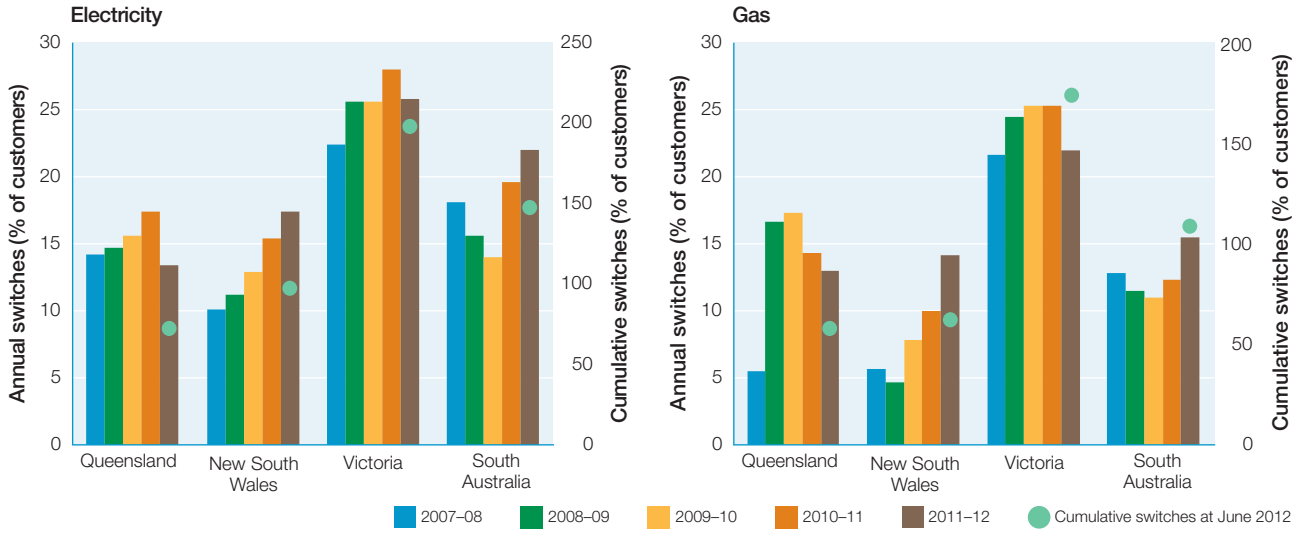
Switching levels remain lower in gas than electricity in all jurisdictions, reflecting the lower number of active participants in the gas market.

5.4 Retail prices

The energy bills paid by retail customers cover the costs of wholesale energy, transport through transmission and distribution networks, and retail services. Table 5.3 estimates the composition of a typical electricity retail bill for a residential customer in each NEM jurisdiction that regulates prices. While data for gas are limited, the table includes estimates for New South Wales and South Australia.

Figure 5.3

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



Sources: Customer switches: AEMO, MSATS transfer data to July 2012 and gas market reports, transfer history to July 2012; customer numbers: estimated from retail performance reports by IPART (New South Wales), the ESC (Victoria), ESCOSA (South Australia) and the QCA.

In electricity, the cost of using transmission and distribution networks to transport electricity is the largest component (43–52 per cent) of retail bills, followed by wholesale energy costs (25–36 per cent). Retailer operating costs (including margins) contribute around 10 per cent of retail bills.

The carbon price, introduced in July 2012, contributes 4–11 per cent of the final electricity bill. Other green costs—that is, costs associated with schemes to develop renewable or low emission generation, or promote energy efficiency—have been stable over the past two years and make up 4–7 per cent of retail bills. The most significant of these costs relates to the renewable energy target scheme (section 1.2.2).

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

5.4.1 Retail price regulation

Many jurisdictions continue to regulate retail prices for energy supplied under a standard retail contract. All jurisdictions except Victoria apply some form of retail price regulation for electricity services. In gas, only New South Wales and South Australia regulate prices for small customers. The 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:

- a building block approach, whereby the regulator determines efficient cost components (for example, wholesale costs, retail operating costs and costs associated with regulatory obligations), and passes through costs that have been determined elsewhere (for example, network costs). The regulator uses these costs to determine a maximum revenue requirement to be reflected in the prices 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 (for 2012–13 onwards) 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; it was also previously used in Queensland.

Table 5.3 Indicative composition of residential electricity and gas bills, 2012

JURISDICTION	WHOLESALE ENERGY COSTS	NETWORK COSTS	CARBON COSTS	GREEN COSTS	RETAIL COSTS
	PER CENT OF TYPICAL SMALL CUSTOMER BILL				
ELECTRICITY					
Queensland	34	44	10	4	8
New South Wales	26	52	8	5	10
South Australia	36	44	4	4	12
Tasmania	35	48	5	4	8
ACT	29	43	11	7	10
GAS					
New South Wales	32	45	5		18
South Australia	15	60	5		20

Note: Solar PV feed-in tariff costs are included within the network component.

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

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

While Victoria does not regulate retail prices, its retailers must publish unregulated standing offer prices that small customers can access. The prices are also published in the Victorian Government gazette and cannot be changed for six months following publication.

Australian governments agreed to review the continued use of retail price regulation and to remove it if effective competition can be demonstrated.[5] The Australian Energy Market Commission (AEMC) is assessing the effectiveness of retail competition in each jurisdiction, to advise on whether to remove price regulation and provide a strategy for this to occur. 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, but competition in South Australia was more intense in electricity than in gas.[6] In response to the review, the Victorian Government removed retail price regulation on 1 January 2009. The South Australian Government did not accept the AEMC's recommendations to remove retail price regulation; it was concerned that more than 30 per cent of small customers remained on standing contracts (with a regulated price), and that stakeholders had differing views on the effectiveness of competition.

In March 2011 the AEMC reported competition in the ACT 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.[7] 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.[8]

The AEMC in 2012 commenced its review of the effectiveness of competition in the New South Wales energy retail markets. The review is scheduled to be completed in September 2013. The Standing Council on Energy and Resources (SCER, formerly the Ministerial Council on Energy) and the Council of Australian Governments agreed to further energy retail market reviews for Queensland (2013), South Australia (2015), the ACT (2016) and Tasmania (within 18 months of FRC being introduced in the electricity retail market).[9]

5 Australian Energy Market Agreement 2004 (as amended).

6 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.

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

8 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.

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

5.4.2 Regulated prices—recent trends

Table 5.4 summarises movements in regulated and standing offer electricity and gas prices for the past four years, and estimates the annual bills for customers under these arrangements. Box 5.3 provides additional background on recent changes in retail energy prices for each jurisdiction.

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 should not be taken to represent a typical household in the jurisdiction.

The data illustrate significant increases in retail electricity prices over the four years (although customers in some jurisdictions can negotiate significant discounts against these prices by entering a market contract). Rising prices have led to a greater focus on the issue of energy affordability (section 5.4.5).

Network costs were the largest contributor to energy price increases over the four years. Chapter 2 discusses the factors driving network costs. Although network cost increases continued to flow through to retail prices for 2012–13, the introduction of carbon pricing on 1 July 2012 had an impact. The carbon price resulted in retail electricity price increases of 5–13 per cent for 2012–13. Coinciding with the introduction of the carbon price, the Australian Government introduced a Household Assistance Package in 2012 to offset the rise in energy costs for low and middle-income households. The package provides for households to receive compensation through pensions, allowances and other assistance payments, and to benefit from tax adjustments.

Cost pressures from other climate change policies have remained fairly stable since changes to the renewable energy target scheme from 1 January 2011 affected retail prices in 2011–12. The impact of these policies on energy price increases in 2012–13 was minimal.

5.4.3 Retail prices—long term trends

Figure 5.4 tracks movements in real energy prices for metropolitan households since 1991, using the electricity and gas components of the consumer price index. Figure 2 in the *Market overview* compares price outcomes for household and business customers.

Electricity prices began to rise in 2007–08, when drought affected wholesale prices by constraining hydro generation and low cost thermal generators that rely on water for cooling. More recently, rising network costs (especially for distribution networks and pipelines) and the costs of introducing and expanding green schemes have driven retail price rises. Electricity prices rose nationally over the past five years by an average of 66 per cent in real terms (91 per cent in nominal terms). Gas prices rose by 40 per cent in real terms (62 per cent in nominal terms). The discussion of regulated price movements in box 5.3 outlines the drivers of recent price rises in each jurisdiction.

5.4.4 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. On 1 July 2012 the AER launched 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 have commenced the Retail Law (at 1 October 2012, Tasmania and the ACT). Additionally, the Queensland, South Australian, New South Wales and Victorian regulators and a number of private entities operate websites allowing customers to compare their energy contract with available market offers.

Table 5.5 draws on state regulators' price comparison websites to estimate price offerings in 2012 for residential customers in those jurisdictions with relatively established markets—Queensland, New South Wales Victoria and South Australia. The table provides estimates for February 2012 and August 2012.

The data indicate varying degrees of price diversity, with opportunities for customers to negotiate discounts being greatest in Victoria. In relation to discounting, the average annual electricity bill under *market contracts* in February 2012 was around 5.5 per cent below the equivalent *standing offer* cost (in all jurisdictions). The average discount against the standing offer in August 2012 remained relatively unchanged in Queensland, New South Wales and South

Table 5.4 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	ESTIMATED ANNUAL COST ($)
ELECTRICITY							
Queensland	QCA	Energex and Ergon Energy	15.5	13.3	6.6	10.6	1755
New South Wales	IPART	AusGrid	21.7	10.0	17.9	20.6	2027
		Endeavour Energy	21.1	7.0	15.5	11.8	2011
		Essential Energy	17.9	13.0	18.1	19.7	2741
Victoria	Unregulated	Citipower	5.7	14.6	3.7	19.9	1886
		Powercor	5.2	15.4	7.7	23.1	2257
		SP AusNet	6.0	11.3	23.6	19.7	2122
		Jemena	7.7	17.7	10.5	23.2	2205
		United Energy	7.0	11.4	9.7	25.2	2068
South Australia	ESCOSA	SA Power Networks	3.1	18.3	17.4	18.0	2557
Tasmania	OTTER	Aurora Energy	6.2	15.3	11.0	10.6	2166
ACT	ICRC	ActewAGL	6.4	2.3	6.5	17.7	1523
GAS							
New South Wales	IPART	Jemena	4.4	5.2	4.0	14.8	841
South Australia	ESCOSA	Envestra	5.3	3.1	13.8	17.7	961

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 'peak only' tariff at August 2012. The South Australian gas cost is estimated for a metropolitan customer.

The Victorian price movements (and estimated annual costs) are for the calendar year ending in that period—for example, the 2012–13 Victorian data are for calendar year 2012. They are based on unregulated standing offer prices published in the Victorian Government gazette by the local area retailer in each of Victoria's five distribution networks.

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

Australia, but rose to 8 per cent in Victoria. These outcomes are reflected in a change in energy bill spreads (in dollars).

In August 2012 the average discount from the standing offer cost was lower in gas than electricity—less than 2 per cent in all jurisdictions other than Victoria, where it was around 6 per cent.

Across all jurisdictions, the annual bill spread in August 2012 (measured within a particular distribution network) was:

- up to $500 in electricity, except in Victoria where the spread was $850–1150. This was a larger spread than in February 2012 for Victoria and South Australia, but smaller for Queensland and New South Wales
- up to $200 in gas. This was a larger spread than in February 2012 for all jurisdictions except Queensland.

5.4.5 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.

The New South Wales regulator, the Independent Pricing and Regulatory Tribunal, reports annually on energy affordability. It found energy costs would increase by $170–410 for residential customers in 2012–13. The impact would be less if energy use continues to fall (average consumption fell by 6 per cent in the four years to 2010–11). But price rises are outstripping changes in disposable income. Around 50 per cent of metropolitan New South Wales households will spend more than 4 per cent of their disposable income on energy bills in 2012–13, compared with 20 per cent of households in 2006–07.

Box 5.3 Retail energy prices, by jurisdiction—recent developments

The *Queensland* Government in 2012 imposed a price freeze on the regulated electricity peak tariff for residential customers, apart from increases resulting from the introduction of the carbon price. The government's decision limited electricity price increases for an average customer on this tariff to 10.6 per cent for 2012–13.

New South Wales regulated electricity prices rose by an average of 18.1 per cent for 2012–13, following an average rise of 17.3 per cent in 2011–12. The carbon price was responsible for around half of the increase for 2012–13 (pushing up prices by 8.9 per cent). Network costs accounted for an 8.4 per cent rise in prices for 2012–13 and contributed to almost 60 per cent of retail price rises over the past five years. Retail costs had a small impact on 2012–13 prices, pushing them up by 1.2 per cent, while wholesale energy costs fell slightly.

Victorian standing electricity price rose by about 20–25 per cent across the state's five distribution networks in 2012, following a wide spread of outcomes in 2011. Because prices are unregulated, limited information is available on underlying cost drivers, including reasons for these outcomes. The carbon price would have been a cost driver, but is likely to account for less than half the overall price increase. Distribution network costs accounted for retail price changes of between 2.4 per cent and 5.9 per cent, and metering charges accounted for a further 1 per cent. A doubling of the target under the Victorian Energy Efficiency Target Scheme on 1 January 2012, along with less 'low hanging fruit' to meet it, would have affected retail prices. Little information is available on the impact of wholesale energy costs (including hedging costs), retailer costs and retail margins in the Victorian market.

South Australian retail electricity prices rose by 18 per cent for 2012–13. Network costs caused around 60 per cent of the increase, of which solar feed-in tariff costs were a major contributor. Carbon pricing caused around 25 per cent of the price increase. The impact of the carbon price was lower in South Australia than in the other mainland jurisdictions, given the state's high reliance on renewable energy (wind) generation. Retail costs and margins accounted for the balance of the retail price increase.

The South Australian regulator, ESCOSA, in 2012 reviewed the method for setting the wholesale energy cost component in its retail price determinations. In its draft report (October 2012) ESCOSA proposed using market costs, rather than the long run marginal cost of generation, to estimate wholesale energy costs. Poor liquidity in hedging markets had previously precluded this approach.

The decision, to take effect on 1 January 2013, would reduce the wholesale cost allowance by 22 per cent and the regulated retail price by 8.1 per cent.

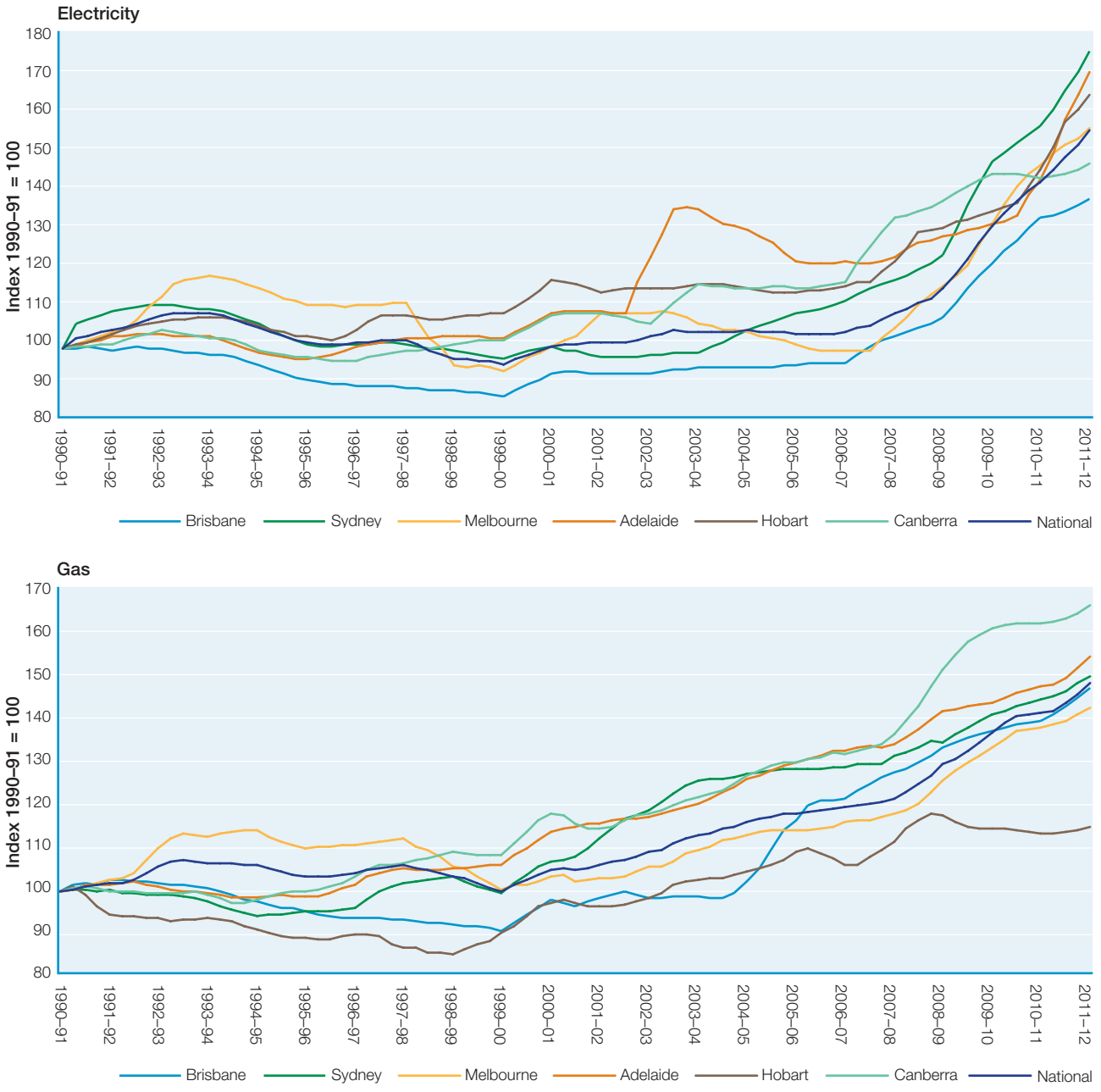
The regulated electricity price in *Tasmania* rose by 10.6 per cent for 2012–13. The carbon price led to prices rising by 5.6 per cent. Network costs were the other significant cost driver, with green schemes also contributing. A change in the basis for estimating wholesale energy costs reduced the retail price by 6.1 per cent, partly offsetting the rises in other cost elements.

ACT electricity prices increased on average by 17.7 per cent for 2012–13. This followed relatively modest price rises in the previous two years of 2.3 and 6.5 per cent. The carbon price accounted for almost 80 per cent of the 2012–13 price increase (increasing prises by around 14 per cent). The impact of the carbon price was similar to that in New South Wales in dollar terms, but accounted for a larger percentage change in the ACT, where retail prices were lower. Network and retail costs increased retail prices for 2012–13 by around 4 per cent and 1.5 per cent respectively. For the second year in a row wholesale costs fell slightly. Green scheme costs also decreased in 2012–13.

Retail price increases have generally been lower in *gas* than electricity for a number of years. While this was still the case for South Australia and New South Wales in 2012–13, the rises were substantially higher than the gas price increases in previous years. Retail gas prices rose by 14.8 per cent in New South Wales and by 17.7 per cent in South Australia. Higher network charges were the main contributor in both jurisdictions, increasing retail prices by 6.7 per cent in New South Wales and 12.3 per cent in South Australia. The carbon price caused prices to rise by 6 per cent and 4.5 per cent respectively in the two jurisdictions.

Figure 5.4

Retail price index (inflation adjusted)—Australian capital cities

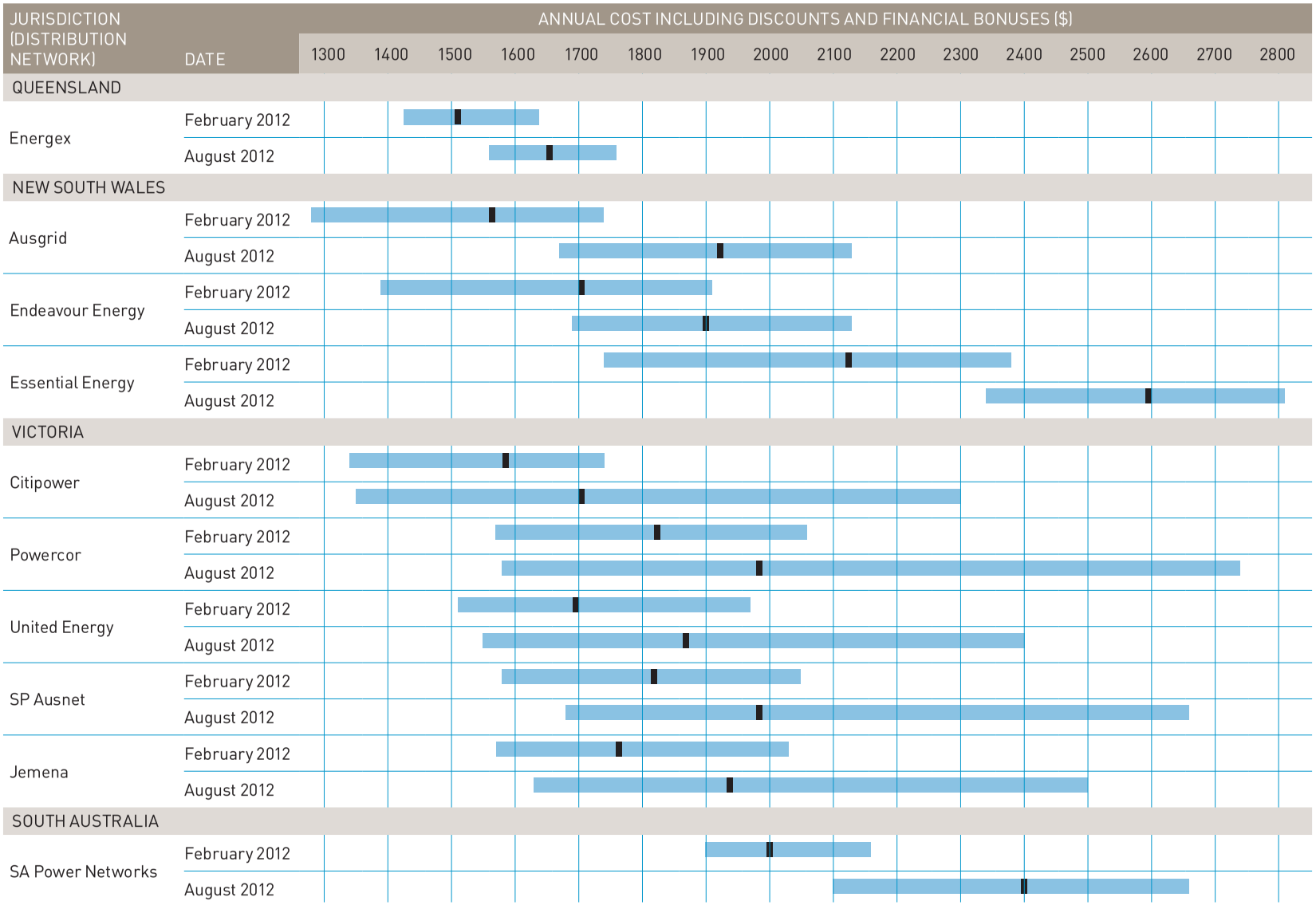


Note: Consumer price index electricity and gas series, deflated by the consumer price index for all groups.

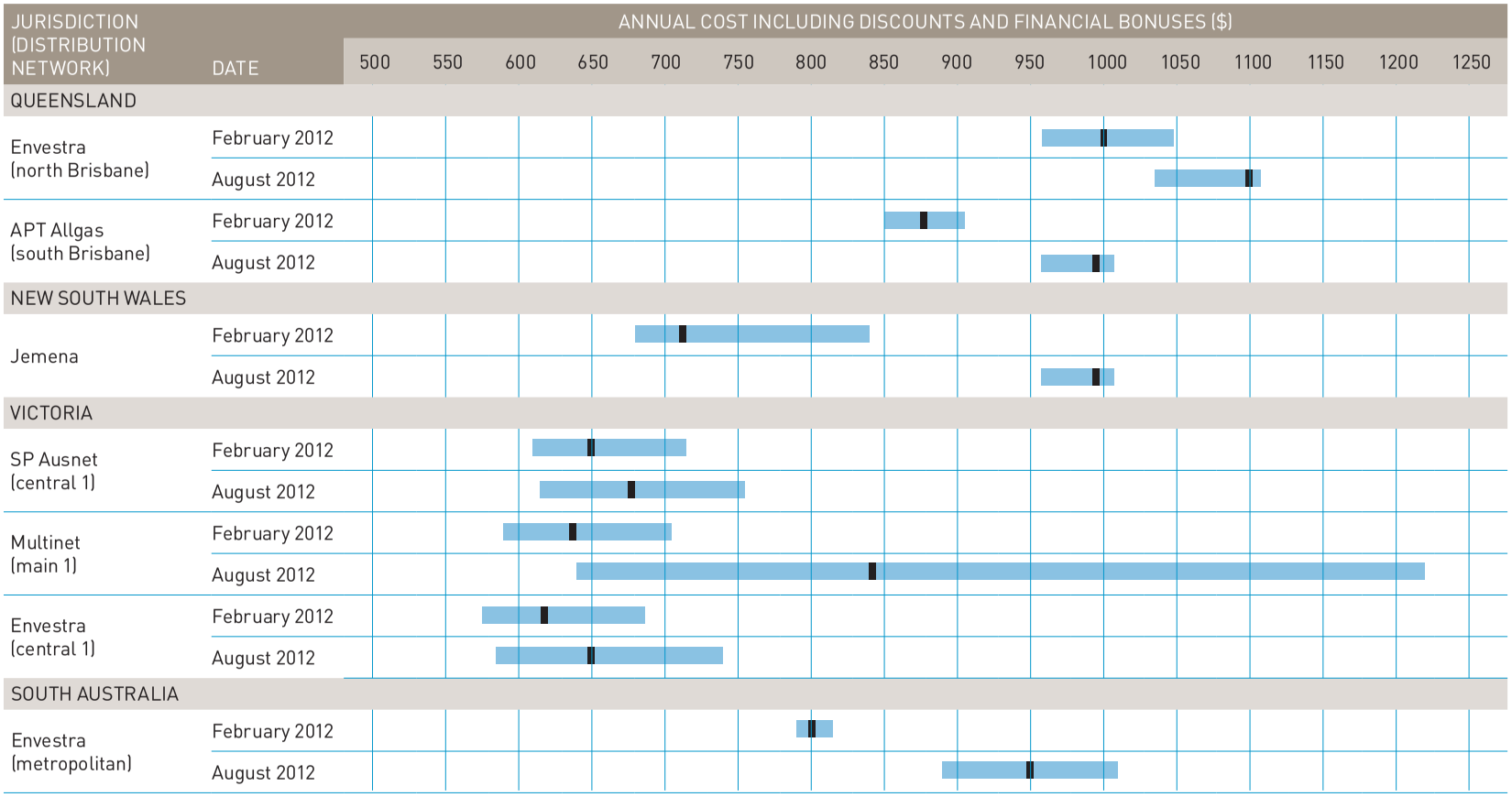
Source: ABS, *Consumer price index*, cat. no. 6401.0, various years.

Table 5.5 **Price diversity in retail product offers—February and August 2012**

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.

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

Low income households are likely to spend about 8 per cent of their disposable income on energy. Around 11 per cent of households will spend over 8 per cent of their disposable income on energy bills in 2012–13, up from 4 per cent of households in 2006–07. Additionally, households in inland areas tend to spend more of their disposable income on energy than do those in coastal areas.[10]

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

- protect customers from disconnection in certain circumstances, including if a customer's premises are registered as requiring life support equipment
- take steps to assist customers before considering disconnection for non-payment of a bill, including 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
- assistance in identifying government concession and rebate programs that may be available
- referrals to financial counselling services
- review of a customer's energy contract to make sure it is appropriate to their needs
- energy efficiency advice to help reduce a customer's bills, which may include conducting an energy audit and helping replace appliances
- waiver of late payment fees that might have applied.

5.5 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 5.5).

In 2010–11 the rate of electricity disconnections decreased in Tasmania and the ACT. In Victoria and South Australia, the disconnection rate increased for electricity customers and decreased for gas customers. The regulators noted many electricity customers were reconnected within a week, indicating retailers might have been resorting to disconnection too quickly and the provision of more targeted assistance might have prevented some disconnections.[11] The disconnection rate in New South Wales was consistent with that of the previous year for electricity and increased for gas.

Figure 5.6 illustrates rates of retail customer complaints in electricity and gas. In 2010–11 the rate of electricity complaints rose in several jurisdictions. Billing issues were a significant source of complaint.

10 IPART, *Changes in regulated electricity retail prices from 1 July 2012, final report*, 2012.

11 ESC, *2010–11 Energy retailers comparative performance report*, 2011; ESCOSA, *2010–11 Annual performance report: South Australian energy supply industry*, 2011.

Figure 5.5

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

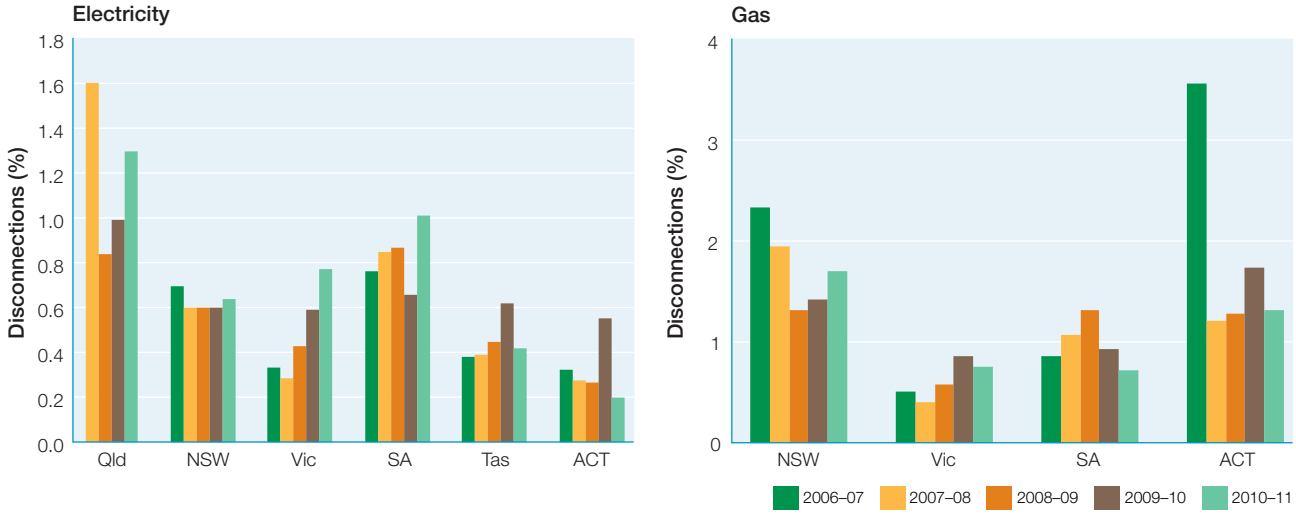
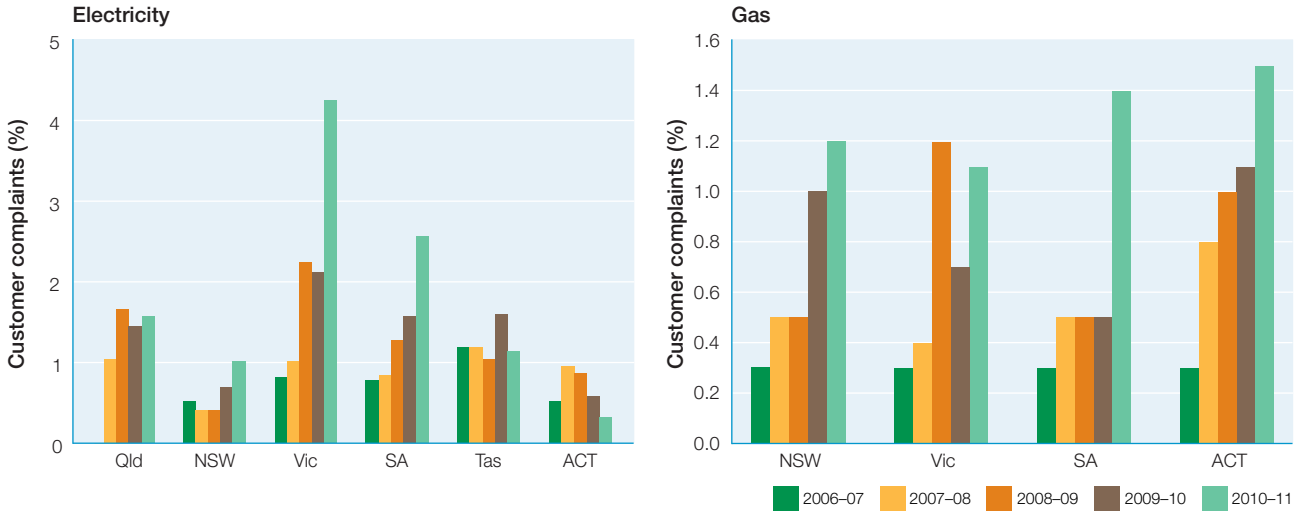


Figure 5.6

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 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).