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ENERGY RETAIL MARKETS

Energy retailers typically buy electricity and gas in wholesale markets and package it with network (transportation) services for sale to customers under a retail contract. The customer pays charges based on rates set out in the contract and is not exposed to short term movements in wholesale market prices. Retailers use hedging arrangements to manage the risks of price volatility in the wholesale market.

However, alternative retail models have emerged or grown in recent years, driven by rising energy prices, consumers wishing to manage their energy use, and wider access to renewable energy options. These models include:

- *onselling*, when a business buys bulk energy from a retailer and on-sells it to customers within an embedded distribution network¹
- *solar power purchase agreements*, when businesses sell energy generated from solar panels installed at a customer's home or business
- *pool pass-through arrangements*, when the retailer sources energy from the wholesale market (similarly to the typical retailing model), but the customer takes on the risk of wholesale market volatility
- *customised or packaged energy sales*, when retailers target customers with specific energy requirements (such as households with swimming pools) or sell energy as part of a service package that provides customers with greater control over their energy use.

While state and territory governments traditionally regulated 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.² Small customers make up 98 per cent of electricity connections and over 99 per cent of gas connections, but account for less than 50 per cent of energy sales by volume.

¹ Embedded distribution networks have a single connection point with the main distribution network.
² 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.

5.1 Retail market structure

A retailer must be authorised or licensed to sell energy. Under the national scheme, an authorised retailer can provide energy services to contestable customers in all jurisdictions that have implemented the Retail Law. A business may apply to the AER for an exemption from the need to be authorised if it wishes to supply energy services to a limited customer group.

Not all retailers are active in every jurisdiction. And, while many retailers offer energy services to all customers, others focus on particular areas of the market. In considering whether to enter a market or customer segment, 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 both electricity and gas in at least one jurisdiction in which they are active. Other retailers offer only electricity, while one specialises in gas (Tas Gas Retail, 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 entrants face in contracting for wholesale gas supplies.

Table 5.1 lists authorised or licensed energy retailers that were active (currently have customers) in the residential and small business market in June 2014. The number of active retailers rose over the past 10 years. Victoria has the largest number of active retailers selling to small customers, in both electricity (20) and gas (eight). New South Wales (NSW) and South Australia also have a significant number of participants in electricity (19 and 16 retailers respectively) and gas (five retailers each). Queensland has 15 active electricity retailers, but only two active gas retailers.

New entrants in 2013–14 included CovaU and GoEnergy, which retail electricity in NSW. M2 Energy, which owns Dodo Power & Gas, also began retailing electricity under a new brand—Commander—aimed at the small business market.

Some existing electricity retailers widened the range of their activity in 2013–14. ERM Power and Pacific Hydro, which previously focused on the large business market, acquired some small customers. Other retailers expanded into new geographic markets, including BlueNRG, Diamond Energy and Simply Energy (NSW), Red Energy and Momentum Energy (Queensland) and Dodo Power & Gas (South Australia).

Table 5.1 Active energy retailers—small customer market, June 2014

RETAILER	OWNERSHIP	QLD	NSW	VIC	SA	TAS	ACT
ActewAGL Retail	ACT Government/AGL Energy		*				*
AGL Energy	AGL Energy	*	*	*	*		
Alinta Energy	Alinta Energy						
Aurora Energy	Tasmanian Government					*	
BlueNRG	BlueNRG						
Click Energy	Click Energy						
Commander	M2 Energy						
CovaU	Tel.Pacific						
Diamond Energy	Diamond Energy						
Dodo Power & Gas	M2 Energy						
EnergyAustralia	CLP Group		*	*	*		*
Ergon Energy	Queensland Government	*					
ERM Power	ERM Power						
GoEnergy	GoEnergy						
Lumo Energy	Snowy Hydro ¹						
Momentum Energy	Hydro Tasmania (Tasmanian Government)						
Neighbourhood Energy	Alinta Energy						
Origin Energy	Origin Energy	*	*	*	*		*
Pacific Hydro	Pacific Hydro	*	*	*	*		*
People Energy	People Energy						
Powerdirect	AGL Energy						
Powershop	Meridian Energy						
Qenergy	Qenergy						
Red Energy	Snowy Hydro ¹						
Sanctuary Energy	Living Choice Australia/Sanctuary Life						
Simply Energy	GDF Suez/Mitsui						
Tas Gas Retail	Brookfield Infrastructure						

¹ Snowy Hydro is owned by the NSW Government (58 per cent), the Victorian Government (29 per cent) and the Australian Government (13 per cent).
 Note: The host retailers listed for Tasmania and the ACT are those responsible for offering 'regulated offer' contracts to customers in each region. The host retailers listed for NSW, 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; other public sources.

5.1.1 Market concentration

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

Three private businesses—AGL Energy, Origin Energy and EnergyAustralia—are the leading energy retailers in southern and eastern Australia (figure 5.1). The three jointly supplied over 70 per cent of small electricity customers and over 80 per cent of small gas customers at 30 June 2014.³ However, competition from smaller retailers eroded their market share by around 5 per cent over the past two years. The market share of smaller retailers grew more strongly in Victoria and NSW than elsewhere over this period. This growth was partly offset by AGL's acquisition of Australian Power & Gas in 2013.

Snowy Hydro, owned by the NSW, Victorian and Australian governments, has emerged as a clear fourth large energy retailer, with around 7 per cent market share in electricity and gas. In September 2014 it acquired Lumo Energy from Infratil Energy, adding to its existing Red Energy business.

Victoria has the highest penetration of small private retailers, which supplied 33 per cent of electricity customers and 24 per cent of gas customers at 30 June 2014. In South Australia, small retailers supplied 19 per cent of electricity customers and 10 per cent of gas customers.

Other than Snowy Hydro, 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 Aurora Energy supplies all small electricity customers. Before 1 July 2014 legislation prevented new entrants from supplying small customers using less than 50 MWh per year.
- In the Australian Capital Territory (ACT), ActewAGL (a joint venture between the ACT Government and AGL Energy) remains the dominant retailer, with 96 per cent of small customers.
- Momentum Energy (Tasmanian Government) operates in a number of jurisdictions.

³ Includes brands owned by these businesses, including Powerdirect (AGL Energy).

5.1.2 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 drain liquidity from contract markets, posing a 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:

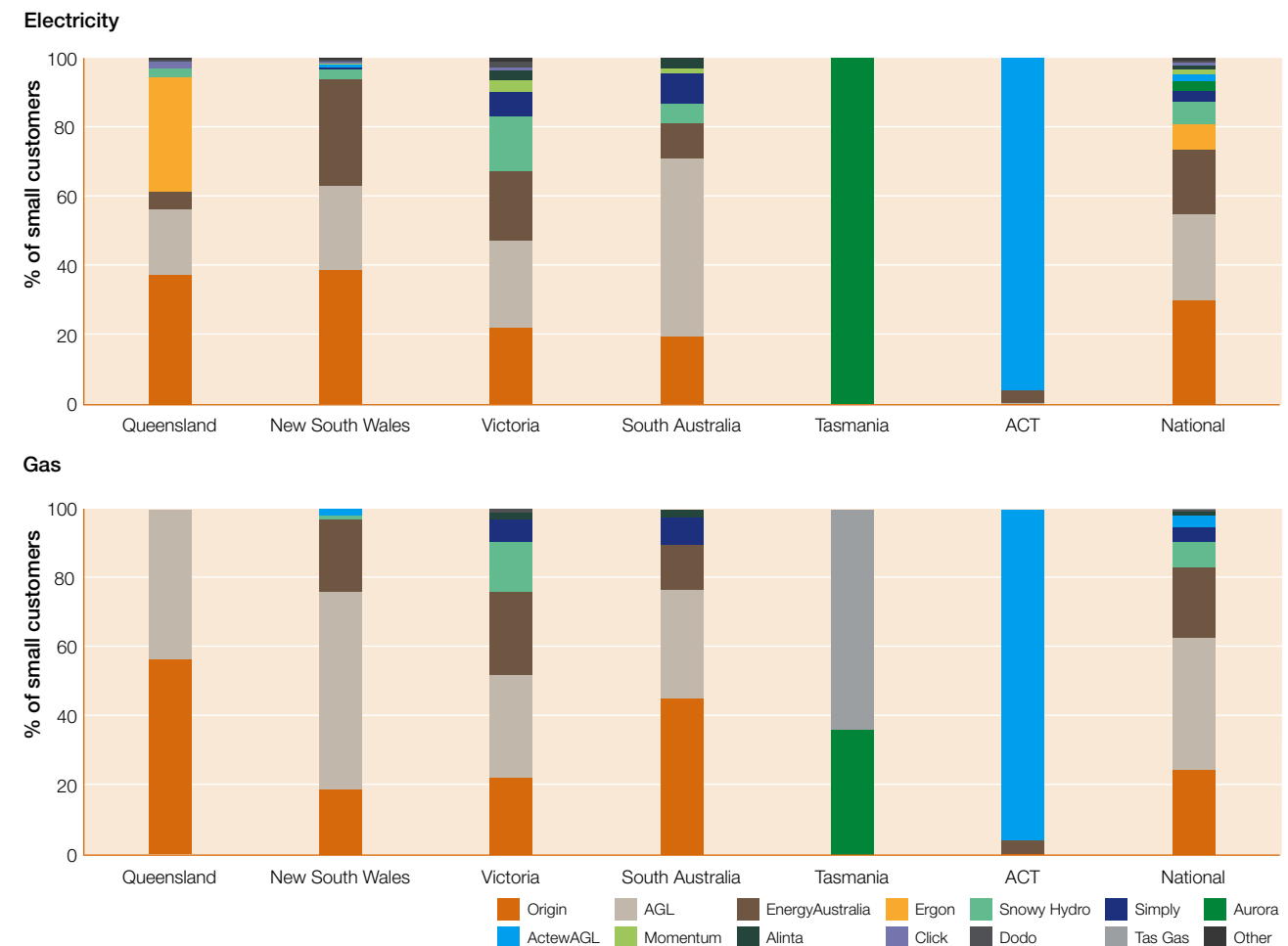
- control 46 per cent of generation capacity, up from 15 per cent in 2009. Over this period Origin Energy commissioned new power stations in Queensland and Victoria and, along with EnergyAustralia, it acquired former state owned generators in NSW. AGL Energy acquired full ownership of Loy Yang A in Victoria and, in September 2014, acquired Macquarie Generation from the NSW Government.
- control 57 per cent of new thermal and hydro generation capacity commissioned since 2009. Generation investment over this period by entities that do not also retail energy was negligible, except for wind generation.
- jointly supply over 75 per cent of energy retail customers. Origin Energy and EnergyAustralia acquired significant retail market share in NSW in 2010 following the privatisation of government owned retailers. AGL Energy acquired Australian Power & Gas (one of the largest independent retailers) in October 2013.

Vertical integration is common among other market participants too, with a number of former stand-alone generators having established retail arms. These businesses include GDF Suez (Simply Energy), Alinta, ERM Power, Pacific Hydro and Meridian Energy (Powershop). Government owned generators—Snowy Hydro (which owns the retailers Red Energy and Lumo Energy), and Hydro Tasmania (which owns Momentum Energy)—have engaged in similar behaviour.

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.

Figure 5.1 Retail market share (small customers), by jurisdiction, June 2014



Source: AER estimates.

- AGL Energy is a producer of coal seam gas in Queensland and NSW.
- EnergyAustralia has gas storage facilities in Victoria and holds gas reserves in the Gunnedah Basin (NSW).

In addition, the Queensland Government owns a joint distribution–retail businesses, and the ACT Government has ownership interests in both the dominant energy retailer and sole distributor. Ring fencing arrangements are in place for operational separation of the retail and network arms of these entities. The AER applies jurisdictional ring fencing guidelines to distribution businesses.

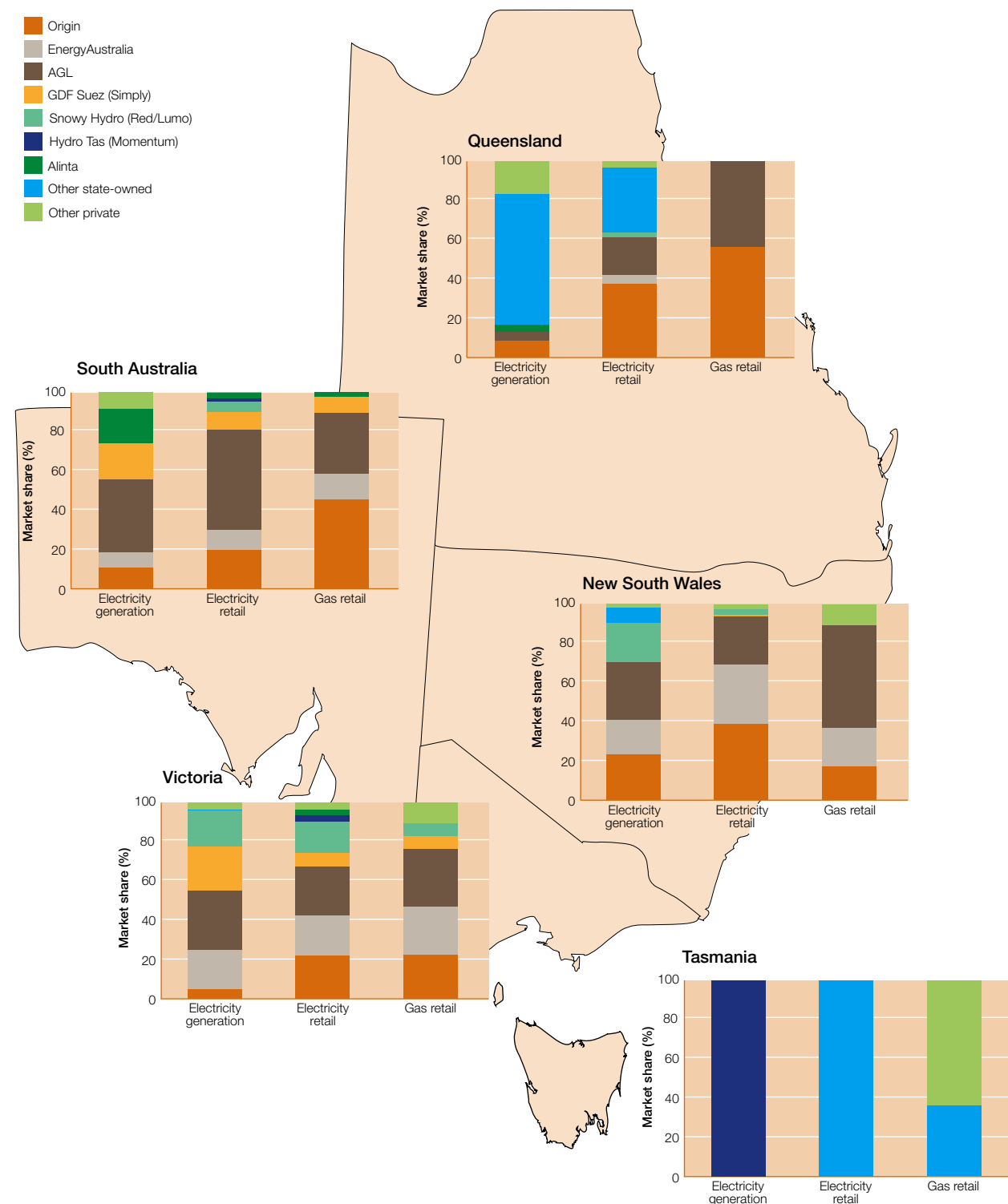
5.1.3 Market concentration and vertical integration, by jurisdiction

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

Queensland has a highly concentrated generation sector, with state owned corporations controlling 67 per cent of capacity either through direct ownership or power purchase agreements over privately owned plant. 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.

Despite a highly concentrated generation sector, vertical integration is less common with the retail sector than

Figure 5.2
Vertical integration in NEM jurisdictions, 2014



Note: Electricity generation market shares are based on summer availability for January 2014, except wind, which is adjusted by an average contribution factor. Import capacity from other regions via interconnectors is not accounted for. Electricity and gas retail market shares are based on small customer numbers at June 2014.

Source: AER estimates.

elsewhere. Origin Energy and (to a lesser extent) AGL Energy are the leading retailers, following privatisation in 2007. These entities also account for 13 per cent of statewide generation capacity (mainly in gas fired capacity). EnergyAustralia supplies around 5 per cent of Queensland's retail electricity customers, but has no local generation assets.

Origin Energy is also a leading gas producer in Queensland's Surat–Bowen Basin. AGL Energy too has a small interest in the basin, which will soon supply liquefied natural gas (LNG) projects as well as the domestic market.

The **NSW** electricity sector was dominated by government entities until 2011, when Origin Energy and EnergyAustralia acquired assets through a privatisation process. Those businesses now supply 69 per cent of retail electricity customers, and control 41 per cent of generation capacity. They also supply 40 per cent of gas retail customers.

AGL Energy acquired Macquarie Generation from the NSW Government in September 2014, giving it 30 per cent of statewide capacity. AGL Energy was the incumbent gas retailer, and it retains 57 per cent of customers. Its position in gas helped it develop market share in electricity (around 25 per cent of customers). AGL Energy also owns the state's only operating gas producer.

Following its acquisition of Colongra from Delta Electricity in December 2014, Snowy Hydro's market share in NSW generation rose from 15 to 20 per cent. Snowy Hydro also expanded its retail portfolio by acquiring Lumo Energy in September 2014, and now supplies 3 per cent of retail electricity customers.

Victoria's generation sector is disaggregated across 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. But, while having reasonable market depth, Victoria has significant vertical integration. The three major retailers control 55 per cent of generation capacity.

In addition, Victoria's other major generators—GDF Suez (23 per cent of capacity) and Snowy Hydro (18 per cent)—have strong positions in the electricity retail market (supplying 7 per cent and 16 per cent of customers respectively). These businesses also each supply 6–7 per cent of retail gas customers. Origin Energy too has 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 also controls 37 per cent of generation capacity. Origin Energy, EnergyAustralia, GDF Suez (Simply Energy) and Alinta are significant but minority players in both generation and retail. 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 most small retail customers, while Hydro Tasmania controls nearly all generation capacity. The Tasmanian Government in 2013–14 implemented reforms to encourage new retail entry.

5.2 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. It commenced in Tasmania (for electricity only) and the ACT on 1 July 2012, in South Australia on 1 February 2013, and in NSW on 1 July 2013. Queensland is expected to implement the Retail Law from 1 July 2015, while Victoria announced it will transition to the national framework by 31 December 2015.

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
- 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 NSW, South Australia, the ACT and Tasmania have access to all of the functions on the Energy Made Easy website. These functions include a price comparator tool that provides information on generally available retail market offers, a benchmarking tool for households to compare

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, 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. And it may have a fixed term duration, 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—83 per cent of electricity customers in South Australia, compared with 75 per cent in Victoria, 63 per cent in NSW, 46 per cent in Queensland (but 70 per cent in south east Queensland) and 18 per cent in the ACT. Proportions are similar for gas customers in each jurisdiction.

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, over which state and territory governments have jurisdiction.

5.3 Retail competition

All NEM jurisdictions have full retail contestability (FRC) in electricity and gas, allowing customers to enter a contract with their retailer of choice. Box 5.1 outlines the types of energy contract that a consumer may enter.

Tasmania was the most recent jurisdiction to introduce full retail contestability, with choice being extended to electricity customers using less than 50 MWh per year from 1 July 2014. At September 2014 no energy retailers had entered the residential electricity customer market to compete with the incumbent, Aurora Energy.

The Australian Energy Market Commission (AEMC) conducts annual reviews of the effectiveness of retail competition for small customers. Its August 2014 review found the level of competition in energy markets varies across the NEM, reflecting the different pace of reform across jurisdictions. Electricity markets in the ACT, Tasmania and regional Queensland did not yet demonstrate effective competition.⁴

The AEMC review also found competition was generally more effective in electricity than gas, due to differences in market scale and difficulties in sourcing gas and transport services in some regions. It found gas is a secondary consideration for most customers and a less attractive value proposition for some retailers.

Despite finding competition was effective in most regions, the review identified many customers found energy

contracts complex and struggle to compare available offers. Customer awareness of government price comparator websites was also very low. The AEMC recommended governments and regulators increase efforts to raise awareness of existing information and tools (such as independent comparator websites) and to make these tools user friendly.

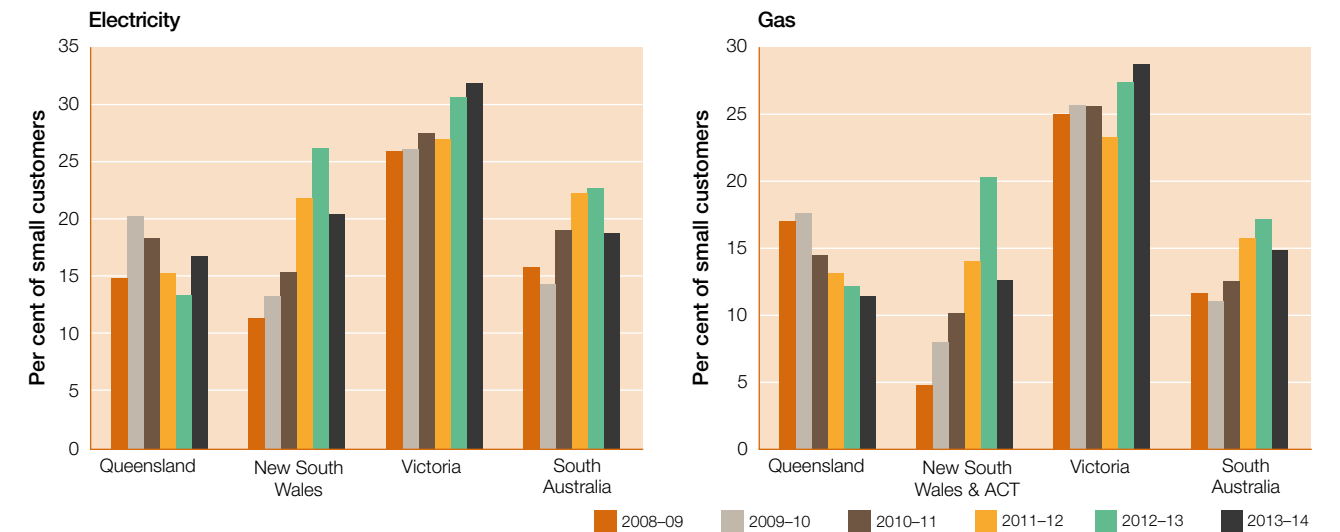
The Consumer Action Law Centre and the Consumer Utilities Advocacy Centre raised concerns in 2013 about the ability of retailers to raise prices under fixed term energy contracts with termination fees. They considered this arrangement unfairly shifts price risk onto consumers, which may erode confidence in the market and weaken competition. The parties submitted a rule change proposal to the AEMC on this matter.

The AEMC rejected the proposal in October 2014. It considered the key issue is that some consumers may enter contracts unaware that their prices may change. To address this issue, it introduced a rule requiring a retailer to clearly inform a consumer entering a contract whether prices can change and, if so, when it would notify the customer of the change.

The AER participated in the rule change process and is exploring ways to improve the quality of information available to consumers when choosing an energy retail contract. In 2014 it began revising the *Retail pricing information guideline* that sets out how retailers must present offers, including all information that must be provided. The AER also intends to roll out improvements to the Energy Made Easy price comparison website in 2015, making it easier for customers to see which offer would best suit their needs.

Lack of understanding among consumers increases the risk of their exploitation. Given this risk, the behaviour of energy retailers has become a compliance and enforcement priority for the AER and Australian Competition and Consumer Commission (ACCC) in recent years (section 5.3.2)

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



Sources: Customer switches: AEMO, MSATS transfer data to July 2014 and gas market reports, transfer history to July 2014; customer numbers: estimated from retail performance reports by the AER, the ESC (Victoria) and the QCA (Queensland).

5.3.1 Customer switching and awareness

The rate at which customers switch their supply arrangements is an indicator of market participation. 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 the data, which show switching rates remain lower in gas than electricity in all jurisdictions, reflecting a lower number of active participants in the gas market.

Victoria continues to have higher switching rates than those of other jurisdictions. While it recorded its highest ever rates in 2013–14 (31 per cent of electricity customers and 28 per cent for gas), the transfer of Australian Power & Gas customers to AGL Energy in April and May 2014 inflated electricity and gas switching rates by 3–5 per cent. This

transfer also inflated switching numbers in Queensland and NSW, but to a lesser extent.

Switching in NSW and South Australia rose over a number of years, reaching record rates in both electricity and gas in 2012–13. But switching rates eased in both states in 2013–14. This fall coincided with a number of retailers—including AGL Energy, EnergyAustralia and Origin Energy—ceasing door-to-door marketing.

Queensland's switching rates were once comparable with those in NSW and South Australia, but fell in recent years. Energy retailers reduced their marketing effort in Queensland over this period, reflecting concerns about how regulated electricity prices are set. Queensland's electricity switching rate in 2012–13 was its lowest since the introduction of FRC. The rate picked up in 2013–14—aided by a 'One big switch' campaign—but remained below the levels seen in other regions.

The AEMC's review of the effectiveness of competition found consumers had generally good awareness of their ability to choose a retailer. In those markets demonstrating effective competition, awareness ranged from 90 per cent of electricity customers (85 per cent for gas) in NSW to 95 per cent of electricity and gas customers in Victoria. However, consumers showed less awareness of tools available to effectively compare retail offers: over 60 per cent of respondents were not aware of, or unable to name, a price comparator website.

⁴ AEMC, 2014 retail competition review, final report, August 2014.

5.3.2 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 the inappropriate conduct of energy salespersons. The Australian Consumer Law, enforced by the 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.

Door-to-door marketing

Until recently, door-to-door marketing was the principal method of signing up new customers in the energy industry. However, it is sometimes criticised for the use of aggressive sales behaviour. In September 2011, the ACCC launched the *Knock! Knock! Who's there?* awareness campaign, which informed consumers about their rights and ability to refuse door-to-door sales. Further, it acted on several alleged breaches of the Australian Consumer Law relating to retailers' door-to-door marketing activities in 2012 and 2013. These breaches included:

- misleading and deceptive conduct, including false or misleading representations when calling on consumers to negotiate energy retail contracts
- unconscionable conduct, including dealings with a consumer from a non-English speaking background with very limited English skills
- sales agents' failure to immediately leave a premises at the request of the occupier, as indicated by a 'do not knock' sign on their door
- sales agents' failure to provide consumers with all required information
- breaches of the Unsolicited Consumer Agreement provisions, including sales agents' failure to clearly advise the consumer of the purpose of their visit.

The ACCC's focus on these issues, along with increased customer use of energy price comparison and switching websites to compare energy contracts, influenced the decision of the three largest retailers—AGL Energy, EnergyAustralia and Origin Energy—to cease door-to-door marketing in 2013.

Discounts off what?

In 2013 the ACCC shifted its focus to reviewing how businesses promote discounts and savings under their energy plans. This shift stemmed from concerns that

consumers were being misled about the extent of savings available, and the period over which discounts would be provided.

In December 2013 the ACCC instituted proceedings in the Federal Court against AGL Energy. It alleged the business had made false or misleading representations, and engaged in misleading and deceptive conduct, relating to statements to consumers on the level of discount under their energy plans. Changes to the rates charged over time under these contracts eroded the discounts, despite representations from AGL Energy that the discounts would continue.

The ACCC took similar action against Origin Energy in March 2014, for representations made to residential energy consumers in South Australia. It alleged Origin Energy misled consumers about the level of discount (on energy usage charges) that they could obtain under its Daily Saver energy plans. The discounted charges under the plans were higher than those under Origin Energy's standard retail contracts.

Other enforcement action

The AER in November 2014 instituted proceedings in the Federal Court against EnergyAustralia, and a telemarketing company acting on its behalf, for failing to obtain the explicit informed consent of customers in South Australia and the ACT before transferring them to new energy plans. The ACCC instituted proceedings against the businesses for similar behaviour in Queensland, NSW and Victoria under provisions in the Australian Consumer Law on misleading conduct or representations.

The ACCC has also taken action against energy retailers and energy switching sites for other activity, including misleading advertising by a price comparison service, and misleading and deceptive conduct by a telemarketer.

5.4 Retail prices

The energy bills paid by retail customers cover the costs of wholesale energy, transport through energy 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 NSW.

The composition of energy bills varies across jurisdictions. In electricity, the cost of using 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. Costs

Table 5.2 Indicative composition of residential electricity and gas bills, 2014

	PER CENT OF TYPICAL SMALL CUSTOMER BILL				
	WHOLESALE	RETAIL	TRANSMISSION	DISTRIBUTION	GREEN SCHEMES
ELECTRICITY					
Queensland	28		9	51	12
New South Wales	28		15	51	6
Victoria	45		6	43	7
South Australia	31		10	49	10
Tasmania	29	11	56		3
ACT	24	18	8	39	11
NEM	20	15	10	47	7
GAS					
New South Wales	49		51		0

Sources: AEMC, 2013 Residential electricity price trends, final report, 2013 (electricity); IPART determinations and factsheets (gas).

associated with schemes to develop renewable or low emission generation, or promote energy efficiency, make up the remaining 3–8 per cent of retail bills. The most significant of these costs relate to the renewable energy target (RET) (section 1.3.1) and feed-in tariffs for solar photovoltaic installations.

In gas, pipeline charges are the most significant component of retail gas prices, accounting for 49 per cent of those prices in NSW. 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.

5.4.1 Retail price regulation

Retail price regulation of energy services is being phased out as effective competition develops in energy markets. The AEMC assesses the effectiveness of retail competition in each jurisdiction, but state and territory governments make the final decisions on whether to remove price regulation. Victoria (2009), South Australia (2013) and NSW (July 2014) removed retail price regulation for electricity, following AEMC reviews. While those 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.

The ACT Government decided to retain price controls. It noted the AEMC's finding that removing price controls would increase the average cost of electricity, which would not benefit customers.⁵ Of the jurisdictions yet to remove retail price regulation, the AEMC's 2014 competition review found only south east Queensland exhibited effective competition.⁶ Following the review, the Queensland Government committed to removing electricity retail price regulation in south east Queensland from 1 July 2015. Regulated price setting will continue for the Ergon Energy distribution area, pending the development of a strategy to introduce retail competition in regional Queensland.

In gas, only NSW 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. Retailers are free in all NEM jurisdictions to offer market contracts with price terms different from the regulated rates.

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 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,

⁵ 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.

⁶ AEMC, 2014 Retail competition review, final report, August 2014.

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

JURISDICTION	REGULATOR	DISTRIBUTION NETWORK	AVERAGE PRICE INCREASE (PER CENT)					ESTIMATED ANNUAL COST (\$)
			2010	2011	2012	2013	2014	
ELECTRICITY								
Queensland	QCA	Energex and Ergon Energy	13.3	6.6	10.6	20.4	1.7	2149
New South Wales	Unregulated	AusGrid	10.0	17.9	20.6	3.9	-5.5	1991
		Endeavour Energy	7.0	15.5	11.8	1.6	-6.7	1908
		Essential Energy	13.0	18.1	19.7	-0.6	-6.9	2536
Victoria	Unregulated	Citipower	14.6	3.7	19.9	6.4	-9.0	1825
		Powercor	15.4	7.7	23.1	5.8	-6.8	2226
		AusNet Services	11.3	23.6	19.7	12.4	-3.9	2292
		Jemena	17.7	10.5	23.2	6.1	-5.8	2202
		United Energy	11.4	9.7	25.2	4.8	-6.2	2032
South Australia	Unregulated	ETSA Utilities	18.3	17.4	12.7	-1.8	2.2	2564
Tasmania	OTTER	Aurora Energy	15.3	11.0	10.6	1.8	-12.6	1927
ACT	ICRC	ActewAGL	2.3	6.5	17.7	3.5	-7.0	1466
GAS								
Queensland	Unregulated	Australian Gas Networks	6.8	1.4	13.4	8.4	2.1	1081
		Allgas Energy	6.4	7.4	13.4	5.1	3.4	1122
New South Wales	IPART	Jemena	5.2	4.0	14.8	9.6	12.0	1033
Victoria	Unregulated	AusNet Services	5.4	9.0	16.3	3.0	-1.2	661
		Multinet	7.5	3.5	20.0	2.0	-1.6	705
		Australian Gas Networks	11.3	7.3	18.4	9.1	-3.2	683
South Australia	Unregulated	Australian Gas Networks	3.1	13.8	17.7	11.6	9.3	1172
ACT	Unregulated	ActewAGL	3.2	7.0	10.3	5.7	8.7	957

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 2014.

Prices are based on regulated or standing offer prices of the local area retailer for each distribution network.

Sources: energymadeeasy.gov.au; switchon.vic.gov.au; yourchoice.vic.gov.au; comparator.qca.org.au; determinations, factsheets and media releases by IPART (NSW), the QCA (Queensland), ESCOSA (South Australia), OTTER (Tasmania) and the ICRC (ACT); Victorian Government gazette.

but some cost components are adjusted annually. Separate pass through provisions cover unexpected costs. Tasmania and Queensland use a building block 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 of best practice retail electricity price regulation. Its report for the for energy ministers sets out its preferred methods for estimating each cost component, based on wanting

regulated prices to reflect the efficient costs of providing retail services and facilitating competition.

5.4.2 Retail price trends

Table 5.3 (and figure 8 in the Market Overview) summarises recent movements in regulated and standing offer energy prices, and estimates annual customer bills under those arrangements. The data assume fixed electricity and gas use nationally and so, may not reflect a typical household in a particular jurisdiction. In practice, average use varies between (and within) jurisdictions for a range of reasons, including climate and the penetration of gas supply.

Box 5.2 Regulated retail energy prices, by jurisdiction—recent developments

Queensland's single-rate electricity tariff for residential customers rose by 5.1 per cent for 2014–15. Savings from the carbon pricing repeal reduced an average annual bill by 8.5 per cent. But, this reduction was offset by:

- a forecast rise in wholesale prices, driven by industrial demand associated with LNG exports and higher gas prices (increasing bills by 5.1 per cent)
- higher Solar Bonus Scheme costs, reflecting under-recovery of feed-in tariffs in earlier years (increasing bills by 3.8 per cent).
- a rise in network and retailer costs, adding 2.7 per cent and 1.6 per cent respectively to annual bills.

Retail price regulation ended in NSW on 1 July 2014, but retailers previously subject to regulation agreed to a transitional price for 2014–15, set at 1.5 per cent below the previous regulated rate. This price does not account for lower costs from the carbon pricing repeal; retailers passed on that cost saving separately, as they did for customers on market contracts.

The regulated electricity price in Tasmania fell by 7.8 per cent for 2014–15. The removal of carbon pricing was the main contributor, reducing charges by 9.4 per cent. Reduced energy losses also contributed to lower prices. These saving were partly offset by higher network charges (increasing bills by 2.7 per cent) and retail costs (increasing bills by 2.1 per cent).

ACT electricity prices fell on average by 7.3 per cent for 2014–15. The carbon pricing repeal reduced prices by 11.6 per cent. But, this reduction was partly offset by higher network charges that resulted from a rise in transmission costs, and from the introduction of a feed-in tariff scheme to support a commercial solar facility. Retail costs also rose, while costs associated with the RET and energy losses fell.

In gas, retail prices in NSW rose by an average of 11.2 per cent for 2014–15. Higher expected wholesale costs were the main contributor, driven by a redirection of gas reserves for export.

Standing offer prices vary across distribution networks in NSW, Victoria and Queensland (for gas only). 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 have risen significantly since 2008. Network costs were the key driver, although cost pressures in this area have lessened over the past two years in most regions. The carbon price also contributed, leading to price increases of 5–13 per cent in 2012–13, although the Australian Government's Household Assistance Package offset the impact on low and middle income residential customers.

The repeal of carbon pricing from 1 July 2014 led retail electricity prices to fall in regions other than Queensland and South Australia. In Queensland, carbon price reductions were offset by higher wholesale energy costs and feed-in-tariff payments for solar photovoltaic systems; in South Australia, they were offset by rising network costs (box 5.2).

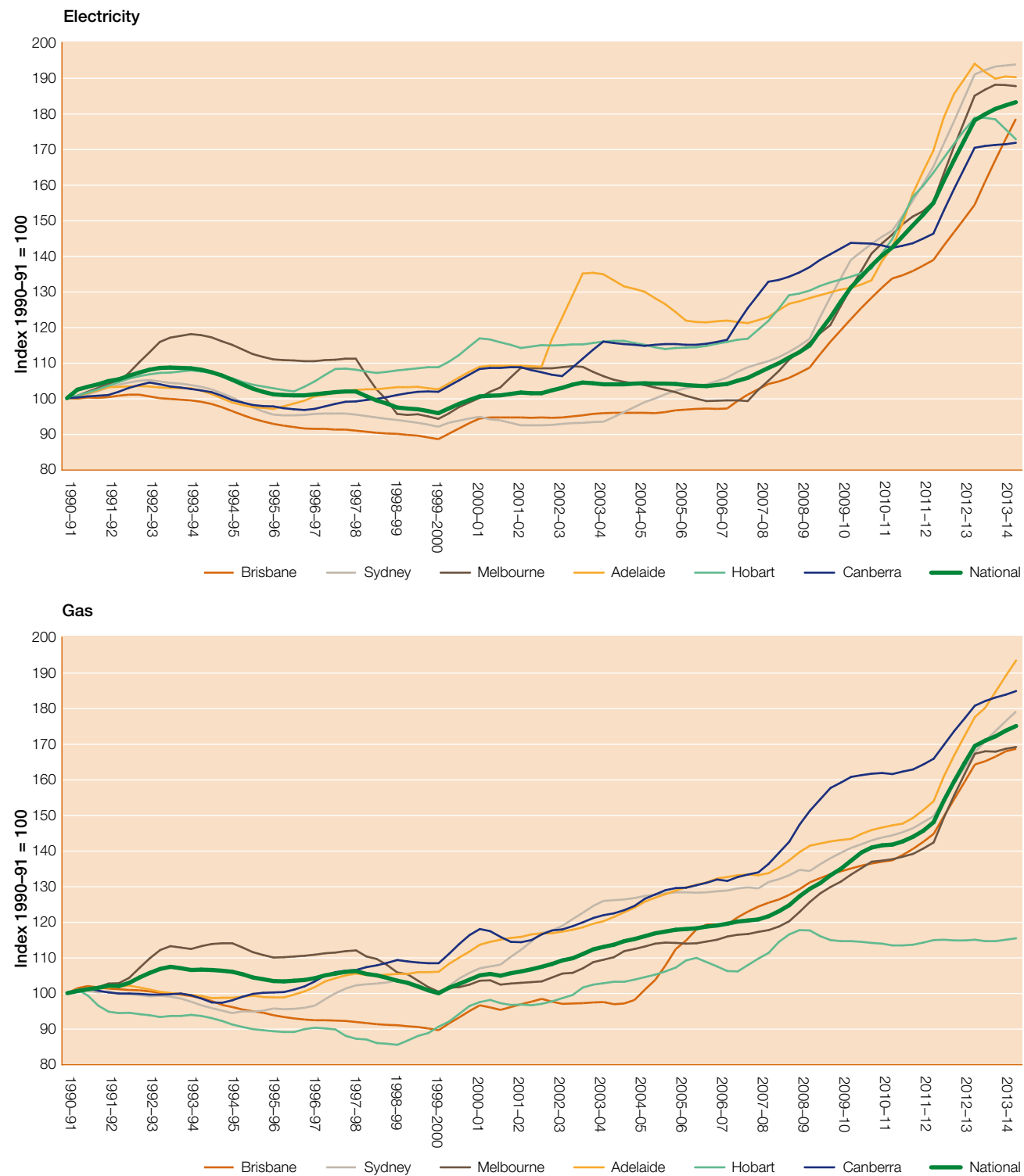
Gas prices have also risen significantly, mainly driven by rising pipeline charges. More recently, rising wholesale costs associated with the diversion of gas supplies to LNG export have put further pressure on retail prices.

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 Australian Bureau of Statistics (ABS) consumer price index. After adjusting for inflation, national electricity prices rose by around 10 per cent annually (13 per cent in nominal terms) over the five years to 2012–13. Real prices moderated in 2013–14, with falls recorded in Hobart and Adelaide—the first reductions in those regions since 2005–06. Brisbane was the only city to experience substantial rises, with real prices up by 15 per cent, following a delayed pass-through of network cost increases.

Gas prices rose by an average of 7 per cent per year in real terms over the five years to 2012–13 (10 per cent in nominal terms). Prices continued to rise in all regions in 2013–14, but at a slower rate. The largest price rises were in Adelaide (9 per cent in real terms) and Sydney (7 per cent).

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.

5.4.3 Price diversity

Retailers offer a range of contracts with different price and product 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 to customers in those jurisdictions that have implemented the Retail Law (at December 2014: NSW, 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.

Figure 5.5 draws on Energy Made Easy and state regulators' price comparison websites to list price offerings for residential customers in mainland NEM jurisdictions at September 2013 and September 2014.

Victoria exhibited the strongest price diversity for electricity, with annual charges under the cheapest contract being 40–45 per cent lower than those under the most expensive contract. In September 2014 the average discount in annual electricity bills under market contracts over standing contracts ranged from 5 per cent in Queensland to 16–19 per cent in Victoria. The average level of discounting was higher than for the previous year in all regions.

In September 2014 discounts in market offers over standing offers were typically higher in electricity than gas; the discount for gas was around 5 per cent in most jurisdictions, but 10 per cent in Victoria.

The annual bill spread in September 2014 (within a particular distribution network) varied among jurisdictions:

- In electricity, it ranged from \$200 in Queensland to over \$1000 in Victoria. The spread for most networks was greater in September 2014 than in September 2013, with the biggest increases recorded for the Endeavour and Essential (NSW) and ActewAGL (ACT) network areas.

- In gas, it was around \$200 for most networks. The spread was generally consistent with the previous year's spread. The Queensland network areas had a contraction in the range of offers, following AGL Energy's acquisition of Australian Power & Gas in 2013.

5.4.4 Retail prices and energy affordability

Energy affordability relates to customers' ability to pay their energy bills. While rising energy prices tend to increase 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 as a proportion of household disposable income in 2013–14 were higher than the levels recorded two years earlier, but were lower in Tasmania and Victoria than in 2012–13 (figure 5.6). For a benchmark low income household receiving 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 3.0–7.3 per cent in 2013–14
- gas costs accounted for 1.2–3.2 per cent of their disposable income in 2011–12, rising to 1.9–3.4 per cent in 2013–14.⁷

This analysis does not account for the impact on bills of changes to average domestic energy consumption. A fall in electricity consumption over the past few years, for example, would have offset some of the bill increases identified by the analysis.

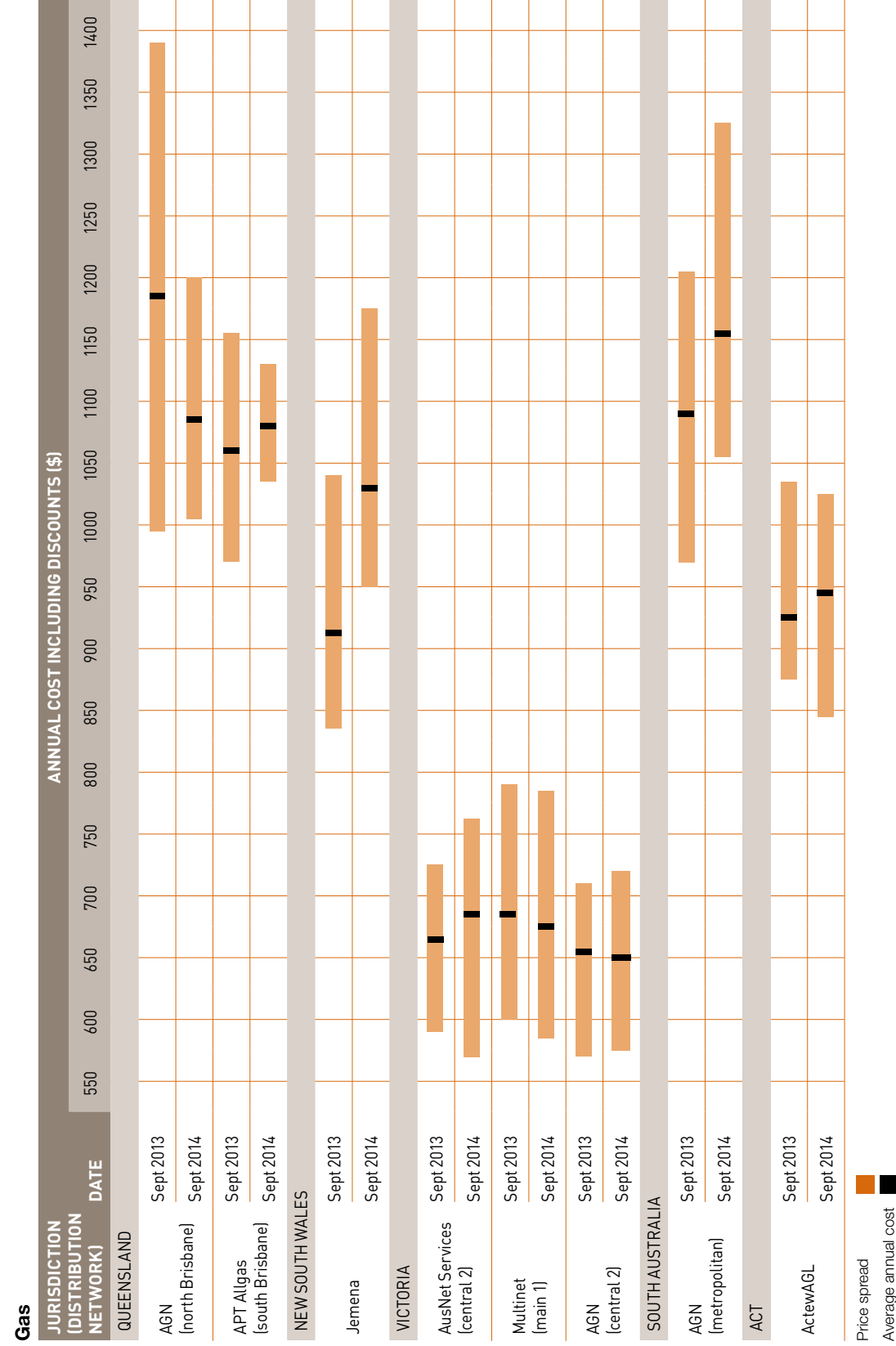
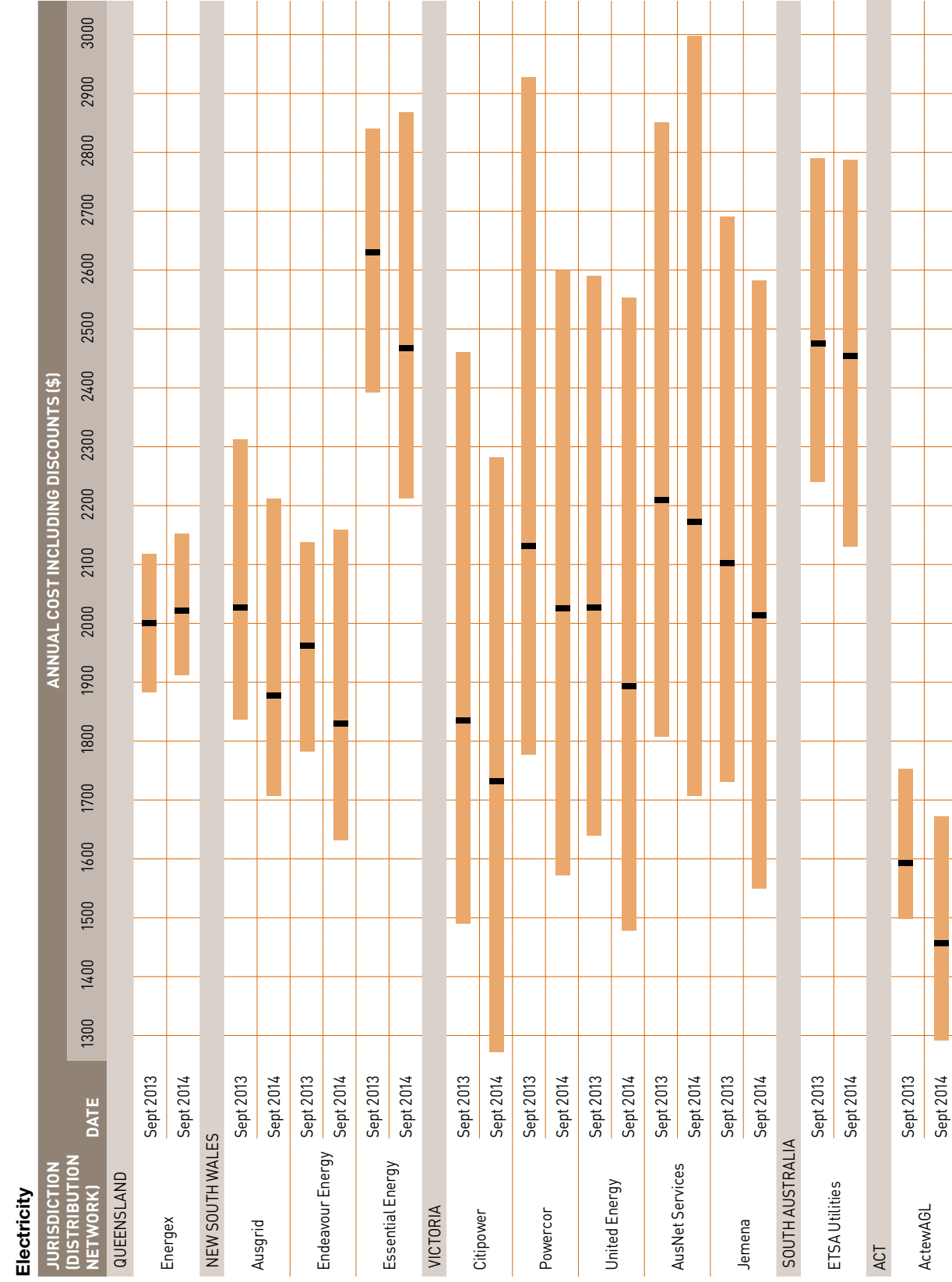
Electricity bills in 2013–14 were highest in Tasmania. While its unit charges were lower than in some jurisdictions, low income households used on average 8100 kilowatt hours (kWh) per year (compared with 4700 to 7000 kWh elsewhere). Annual electricity bills were lowest in the ACT. Despite high electricity consumption, that region's use charges are substantially lower than elsewhere.

Gas bills in 2013–14 were highest in the ACT and Victoria, where average use was 48 gigajoules and 63 gigajoules respectively (compared with 10–24 gigajoules elsewhere). Queensland had the lowest gas bills, with a relatively low average gas use of 10 gigajoules per year.

A key indicator of affordability and access is the rate of residential customer disconnections for failure to meet bill payments (figure 5.7). In 2013–14 the rate of electricity disconnections for non-payment reached their highest

⁷ AER, *Annual retail energy market performance report, 2013–14*, 2014.

Figure 5.5 Price diversity in retail product offers – September 2013 and September 2014



Sources: Price comparison websites operated by the AER (NSW, South Australia and the ACT), OCA (Queensland) and ESC (Victoria).



levels for the past six years in Queensland, NSW and Tasmania. Disconnection rates were also high in South Australia, although down from record levels in 2012–13. Over 40 per cent of disconnected electricity customers, and 24 per cent of disconnected gas customers, were reconnected within a week.

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 (through hardship programs, for example) before considering disconnection for non-payment of a bill.

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

- 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.

At 30 June 2014 the number of customers on hardship programs ranged from 0.4 per cent in Tasmania (electricity) and the ACT (electricity and gas), to 1.2 per cent in South Australia (electricity). Customers commonly enter a hardship program with less than \$500 of debt to the energy retailer (41 per cent of electricity customers and 57 per cent of gas customers entering a program), and most customers have an average debt of less than \$1500. However, almost 12 per cent of electricity customers and 4 per cent of gas customers had debts greater than \$2500 before joining a hardship program.

Of those customers exiting a hardship program in 2013–14, only 20 per cent successfully completed the program; a further 26 per cent changed retailers. The remaining customers were removed from hardship programs for failing to meet energy repayments.

5.5 Customer complaints

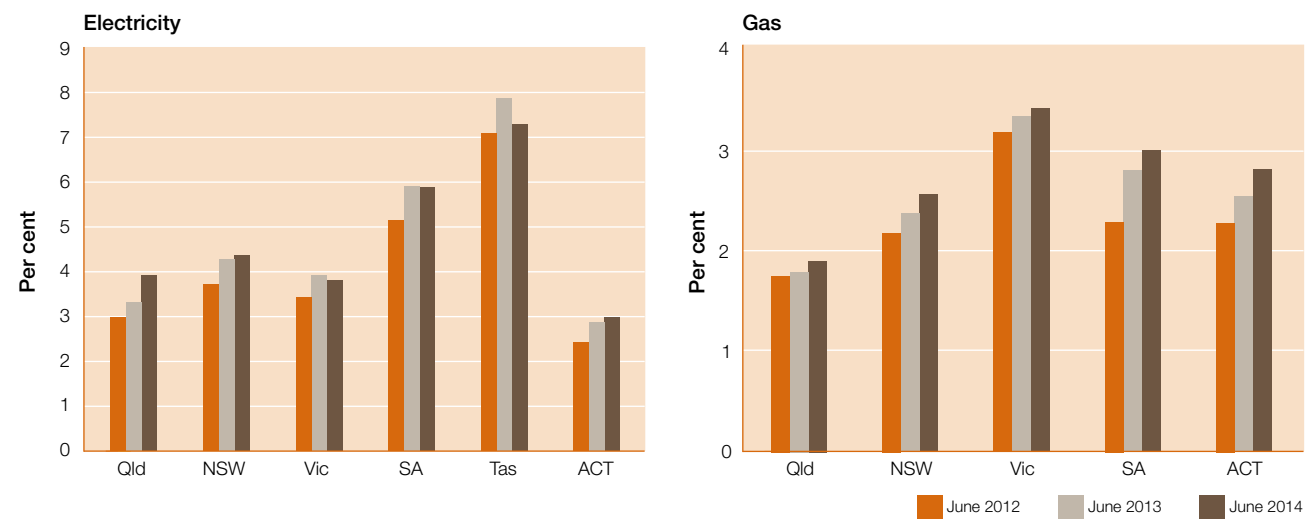
Energy retailers are required to have complaints handling and dispute resolution processes. Additionally, each jurisdiction has an energy ombudsman scheme offering a free and independent dispute resolution service for energy customers who have been unable to resolve a complaint with their retailer.

Figure 5.8 illustrates rates of customer complaints in electricity and gas to ombudsman schemes. The complaint rate varies across jurisdictions, from less than 0.5 per cent of customers in Queensland and Tasmania, to 2–2.5 per cent of customers in Victoria and South Australia. While the results may reflect retailers' performance and the effectiveness of their internal dispute resolution procedures, they should be interpreted with caution; the maturity of competition, market depth and customers' awareness of the schemes may also affect outcomes.

The total number of complaints across electricity and gas rose in 2013–14 in Queensland (up 4 per cent on the previous year's total), NSW (up 6 per cent) and Victoria (up 10 per cent). South Australia recorded a 14 per cent reduction in complaints.

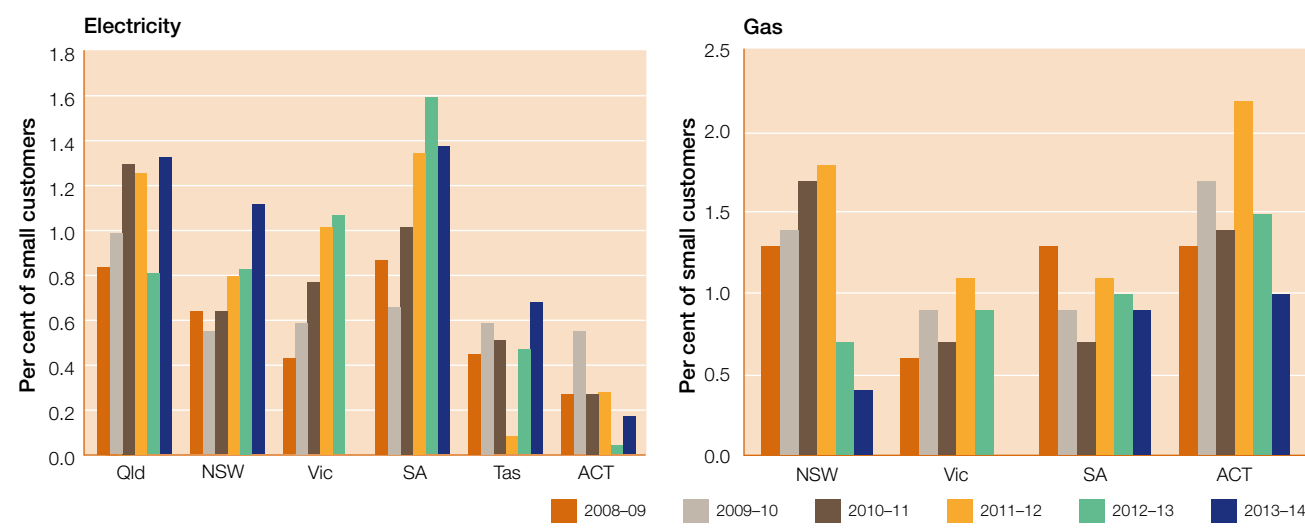
Billing issues accounted for almost half of all complaints in 2013–14. Credit issues—including processes for disconnection in the case of non-payment, and for the collection of outstanding charges—accounted for a further 20 per cent of complaints. Other prominent issues included unauthorised transfers of customers to a new retailer, disputes over network connections, and retailers' marketing behaviour.

Figure 5.6
Annual energy costs as a percentage of disposable income for a low income household



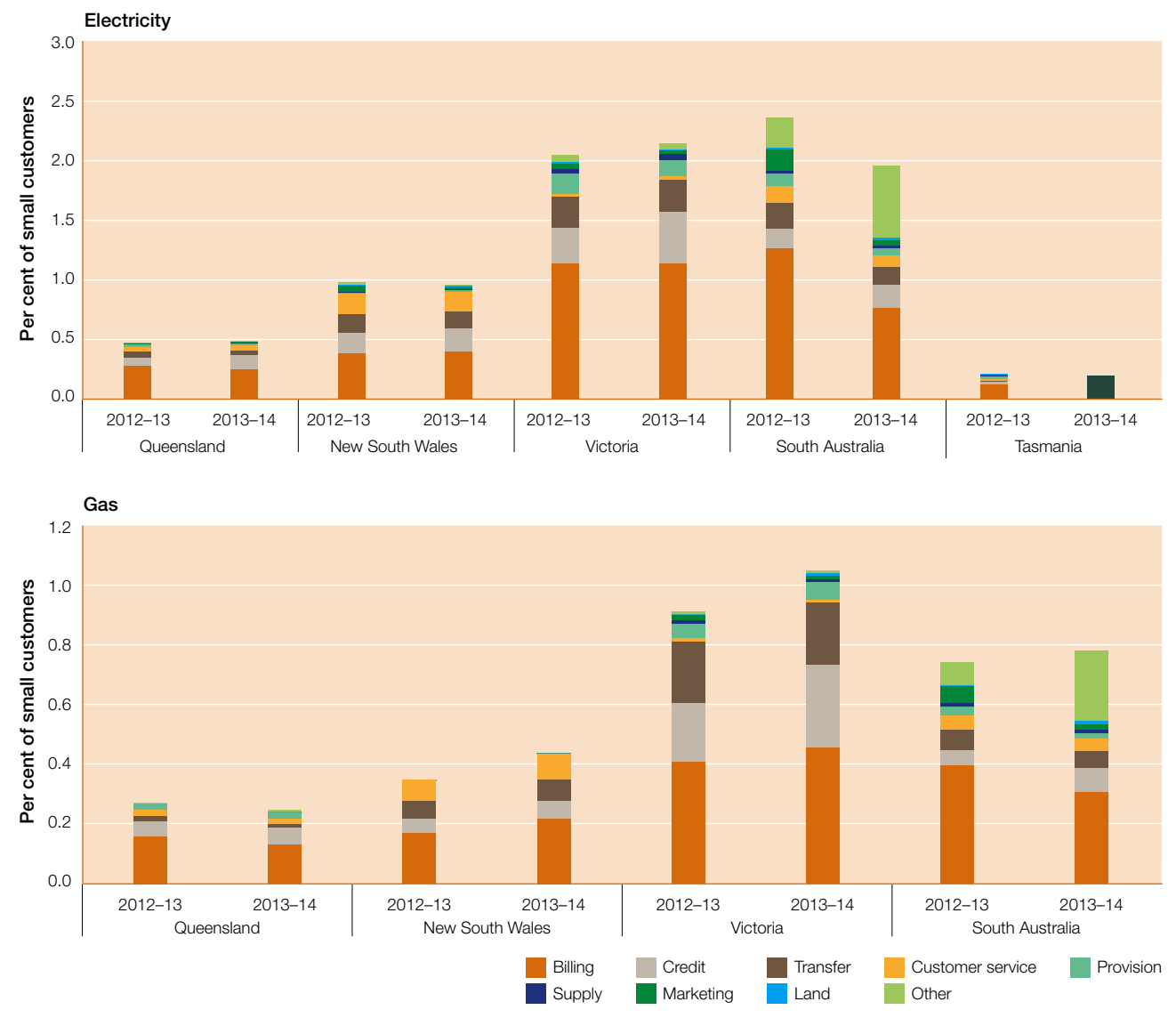
Notes:
 Energy consumption levels vary for each jurisdiction. Electricity consumption is the average for low income households. Gas consumption is the average for all households.
 Energy charges are based on the median market offer. Charges are adjusted for concessions available to low income households.
 Disposable income for a low income household is the average of the second and third income deciles.
 Sources: ABS; AER; Price comparator websites operated by jurisdictional regulators.

Figure 5.7
Residential disconnections for failure to pay amount due, as a percentage of customers



Note: 2013-14 disconnection data were not available for Victoria.
 Sources: Retail performance reports by the AER, IPART (NSW), the ESC (Victoria), ESCOSA (South Australia), OTTER (Tasmania), the QCA (Queensland) and the ICRC (ACT).

Figure 5.8
Complaints to ombudsman schemes, as a percentage of total customers



Note: Categorized data were not available for Tasmanian electricity complaints for 2013-14.
 Sources: Annual reports by the Energy and Water Ombudsman schemes in Queensland, NSW, Victoria and South Australia, and by the Energy Ombudsman of Tasmania.

ABBREVIATIONS

2P	proved plus probable (natural gas reserves)	MOS	market operator services
ABS	Australian Bureau of Statistics	MSATS	market settlement and transfer solutions
ACCC	Australian Competition and Consumer Commission	MW	megawatt
ACT	Australian Capital Territory	MWh	megawatt hour
AEMC	Australian Energy Market Commission	NCC	National Competition Council
AEMO	Australian Energy Market Operator	NEM	National Electricity Market
AER	Australian Energy Regulator	NSW	New South Wales
AFMA	Australian Financial Markets Association	OTC	over-the-counter
ASX	Australian Securities Exchange	OTTER	Office of the Tasmanian Economic Regulator
BREE	Bureau of Resources and Energy Economics	PJ	petajoule
Co2-e	carbon dioxide equivalent	PV	photovoltaic
CoAG	Council of Australian Governments	QCA	Queensland Competition Authority
CSG	coal seam gas	QCLNG	Queensland Curtis liquid natural gas project
EII	Energy Infrastructure Investments	QNI	Queensland—NSW Interconnector
Electricity Rules	National Electricity Rules	RAB	regulated asset base
ESC	Essential Services Commission	RERT	reliability and emergency reserve trader
ESCOSA	Essential Services Commission of South Australia	RET	renewable energy target
FRC	full retail contestability	Retail Law	National Energy Retail Law
GJ	gigajoule	RIN	regulatory information notice
GSL	Guaranteed Service Level	RIT-D	regulatory investment test—distribution
GW	gigawatt	RIT-T	regulatory investment test—transmission
GWh	gigawatt hour	RSI	residual supply index
HHI	Herfindahl–Hirschman index	SAIDI	system average interruption duration index
ICRC	Independent Competition and Regulatory Commission	SAIFI	system average interruption frequency index
IPART	Independent Pricing and Regulatory Tribunal	SCER	Standing Council on Energy and Resources
km	kilometre	TJ	terajoule
kW	kilowatt	TJ/d	terajoules per day
kWh	kilowatt hour	TW	terawatt
LNG	liquid natural gas	TWh	terawatt hour
		WACC	weighted average cost of capital

