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6

## RETAIL ENERGY MARKETS



## 6.1 Retail products and services

Most energy customers source their electricity and gas through a retailer that buys energy in wholesale markets and packages it with network services to sell as a bundled product. Retailers monitor and bill customers for the energy they use, and manage the risk of price volatility in wholesale markets.

But this traditional retail model is evolving as customers become active participants in the market and take greater control over their energy use (figure 6.1). Advances in technology (particularly in the electricity market), rising energy prices and environmental concerns are driving this change, which is opening markets for new types of energy services. Examples include:

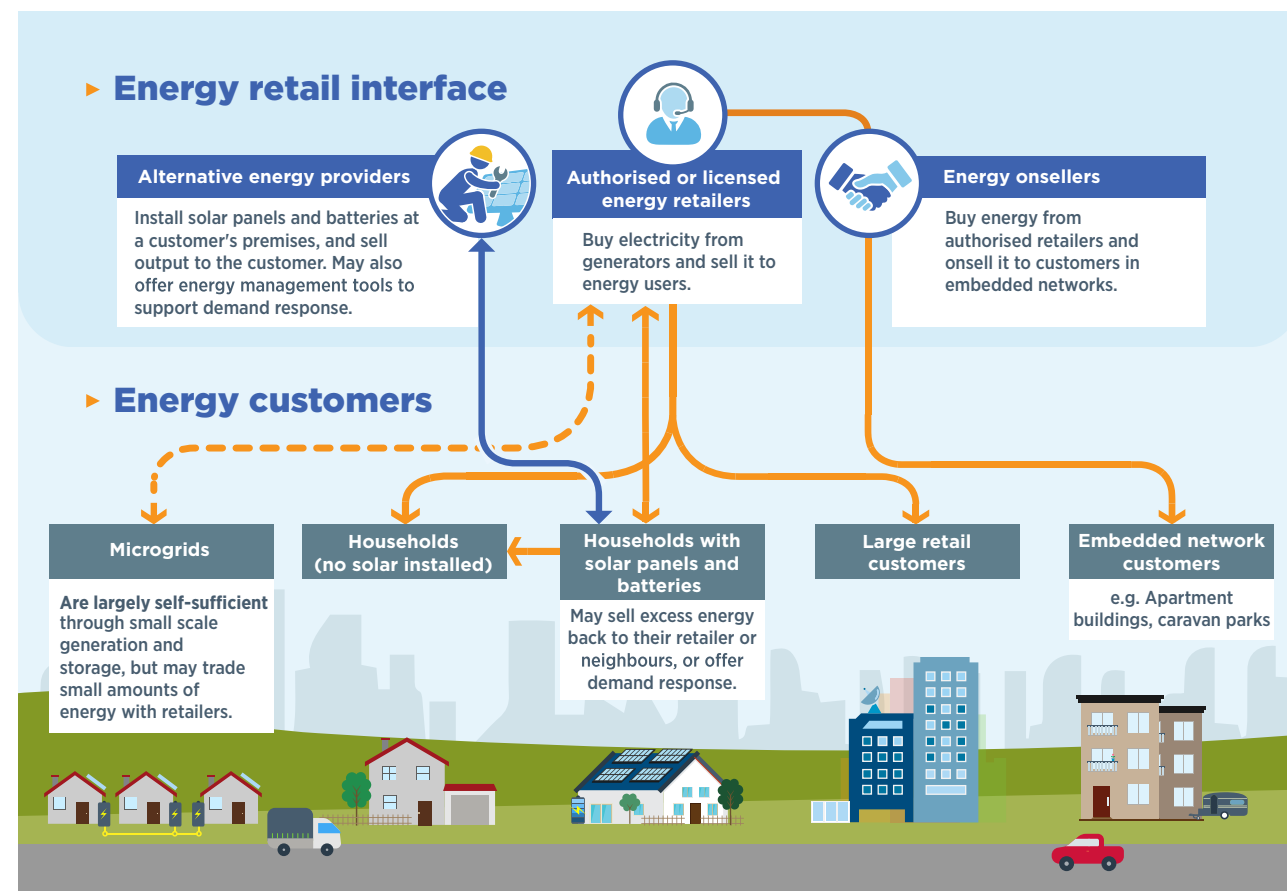
- *smart meters*, which provide information on energy use that gives retailers scope to offer more innovative products, and for new sellers to offer ‘add-on’ energy management services

- *rooftop solar photovoltaic (PV) systems*, which enable energy customers to self-generate electricity, and sell any excess back to their retailer or a third party
- *batteries, load control devices and similar technologies*, which allow customers greater control over their electricity use and the ability to engage in the market in new ways (for example, by storing electricity and entering demand response contracts).

Established energy retailers and new entrant businesses are driving market opportunities for new services.

A small but growing base of customers are also bypassing the traditional energy supply model, going ‘off grid’ through self-sufficient solar PV generation and battery storage, community based stand-alone systems, or microgrids.

**Figure 6.1**  
An evolving retail energy market



### Box 6.1 The AER's role in retail energy markets

The Australian Energy Regulator (AER) regulates retail energy markets so energy customers (particularly residential and small business customers) can participate confidently and effectively in those markets, and to protect those unable to safeguard their own interests. We undertake this work in Queensland, New South Wales (NSW), South Australia, Tasmania and the Australian Capital Territory (ACT).

We aim to empower customers to make informed decisions on their energy use, and protect them when problems arise. As part of this work, we:

- set a price cap on standing offers for electricity in south east Queensland, NSW and South Australia. This cap also acts as a reference price for market offers.
- maintain an energy price comparator website ([www.energymadeeasy.gov.au](http://www.energymadeeasy.gov.au)) to help residential and small business customers understand the range of offers in the market, make better choices about those offers, and be aware of their rights and responsibilities when dealing with energy providers
- monitor and enforce compliance (by retailers and distributors) with obligations in the National Energy Retail Law, Rules and Regulations
- oversee retail market entry and exit by assessing applications from businesses looking to become energy retailers, granting exemptions from the requirement to hold a retailer authorisation, and administering a national retailer of last resort scheme to protect consumers and the market if a retailer fails
- report on the performance of the market and energy businesses (including information on energy affordability)
- develop hardship guidelines and approve customer hardship policies that energy retailers offer to customers facing financial hardship and seeking help to manage their bills.

## 6.2 Energy market regulation

Five jurisdictions—Queensland, New South Wales (NSW), South Australia, Tasmania and the Australian Capital Territory (ACT)—apply a common national framework for regulating retail energy markets. The framework applies to electricity retailing in all five jurisdictions and to gas retailing in Queensland, NSW, South Australia, and the ACT. Victoria has not implemented the framework, but its regulatory arrangements are largely consistent with the national framework.<sup>1</sup>

The Australian Energy Market Commission (AEMC) sets the rules for the retail market, which are applied through the National Energy Retail Law (Retail Law). The law confers wide ranging regulatory responsibilities on the Australian Energy Regulator (AER) (box 6.1). This chapter focuses on the five jurisdictions where the AER has regulatory responsibilities, and also covers the Victorian market where possible. Western Australia and the Northern Territory apply separate regulatory arrangements and are not covered in this chapter.

<sup>1</sup> Recent changes to the Victorian framework, including recommendations adopted from the Thwaites *Independent review into the electricity & gas retail markets in Victoria* (August 2017), have seen greater divergence between the Victorian and national frameworks.

The Retail Law operates alongside the Australian Consumer Law to protect small energy customers in their electricity and gas supply arrangements. It sets out protections for residential customers and small businesses consuming fewer than 100 megawatt hours (MWh) of electricity or 1 terajoule (TJ) of gas per year.<sup>2</sup>

Small customers make up 98 per cent of electricity connections and over 99 per cent of gas connections, although they account for less than 50 per cent of energy sales by volume.

The Retail Law and equivalent arrangements in Victoria focus on customer protections related to the traditional retailer–customer relationship. Protections are generally stronger for customers supplied through an authorised retailer compared with, for example, customers in embedded networks or entering solar power purchase agreements.

State and territory governments regulate electricity prices in the ACT, Tasmania and regional Queensland. From 1 July 2019 the AER began partially regulating retail energy prices,

<sup>2</sup> For electricity, some jurisdictions have different consumption thresholds from that specified in the Retail Law. In South Australia, for example, small electricity customers are those consuming fewer than 160 MWh per year. In Tasmania, the threshold is 150 MWh per year.

by setting a cap on ‘standing offer’ prices<sup>3</sup> for electricity in jurisdictions without state based price regulation (section 6.5).

### 6.3 Energy retailers

Energy sellers include (1) those authorised as retailers under the Retail Law, (2) those holding exemptions from the requirement to be authorised,<sup>4</sup> and (3) those offering energy products and services beyond the scope of the Retail Law—such as energy management services, solar and storage products, and off-grid energy systems. Only customers of authorised retailers enjoy the full protections in the Retail Law.

#### 6.3.1 Authorised energy retailers

Authorised energy retailers must comply with consumer protection and other obligations under the Retail Law. An authorisation covers energy sales to all customers in participating jurisdictions.

In April 2020 89 businesses held authorisations to retail electricity and 35 businesses held authorisations to retail gas.<sup>5</sup> Sixteen new retailers were authorised to retail electricity, and six to retail gas, from the start of 2019.

The number of authorised retailers may differ from the number of brands a customer sees in the market. Not all authorised retailers are active in the market at any time. Some businesses hold multiple authorisations for commercial purposes despite operating under a single brand. In other cases, multiple brands may operate under one authorisation. Section 6.7 notes recent changes in retailers (brands) active in the market.

While many retailers offer energy services to all customers, some target specific market segments. A retailer may focus on offers to large commercial customers, for example, or those in embedded networks. Some retailers target users with certain characteristics, such as those with swimming pools or with flexibility in when they use energy.

<sup>3</sup> Standing offers are applied when a customer does not enter a market contract. The terms and conditions of standing offers are prescribed in the National Energy Retail Rules and include consumer protections not required in market retail contracts, such as access to paper billing, minimum periods before bill payment is due, a set period for reminder notices, and no more than one price change every six months.  
<sup>4</sup> In Victoria, where the Retail Law does not apply, retailers must hold a licence issued by the Essential Services Commission or seek an exemption from this requirement.  
<sup>5</sup> Details of all businesses that hold electricity or gas authorisations can be found in the public register of authorised retailers on the AER website.

In choosing which markets to enter, retailers consider factors such as price regulation (if it applies), market scale, competition, the ability to source hedging contracts to manage risk, and (in gas) whether wholesale contracts and pipeline access are available.

Over 40 retail brands currently sell energy to residential or small business customers in southern and eastern Australia (table 6.1). Eighteen of those brands offer both electricity and gas in at least one jurisdiction. Most other brands offer only electricity, but one retailer specialises in gas. A small number of authorised retailers (not listed in table 6.1) only offer electricity retail services to customers in embedded networks.

Only 22 retail brands offer energy products in all four of the largest markets—south east Queensland, NSW, Victoria and South Australia. NSW has the largest number of active electricity retailers (37), followed by Queensland (31), Victoria (30) and South Australia (27). Victoria has lower participation, despite it having the most active market on other measures. This outcome may reflect Victoria having its own licensing regime that requires a separate application for authorisation and imposes different regulatory obligations from other jurisdictions.

Victoria has significantly more brands (19) selling gas, however, than other regions (3–12). This contrast reflects the importance of gas as a fuel among Victorian households and businesses, and customer preferences for a single retailer across both fuels.

The ACT and Tasmania have limited competition in electricity and gas markets, reflecting the relatively small scale of their markets and greater price regulation.

#### 6.3.2 Exempt energy sellers

An energy seller may apply to the AER for an exemption from authorisation if it intends to supply energy services only (1) to a limited customer group (for example, at a specific site or incidentally through a relationship such as a body corporate) or (2) in addition to its customers’ primary energy connection.

At March 2020 over 3500 businesses held exemptions, typically to on-sell energy within an embedded network (that is, a small private network whose owner sells electricity to other parties connected to the network). Hospitals, retirement villages, caravan parks and apartment complexes are examples of entities that might run an embedded network. Solar power purchase agreement providers are also covered by the exemptions framework.

Table 6.1 Retailers offering energy contracts to small customers

RETAILER	OWNERSHIP	QUEENSLAND	NSW	VICTORIA	SOUTH AUSTRALIA	TASMANIA	ACT
1st Energy	1st Energy	●	●	●		●	
ActewAGL Retail	AGL Energy, ACT Government		●	●			●
AGL Energy	AGL Energy	●	●	●	●		●
Alinta Energy	Alinta Energy	●	●	●	●		
amaysim Energy	amaysim Energy	●	●	●	●		
Amber Electric	Energy Locals	●	●				●
Aurora Energy	Aurora Energy (Tasmanian Government)					●	
Blue NRG	Blue NRG	●	●	●	●		
Click Energy	amaysim Energy	●	●	●	●		
Commander Power & Gas	M2 Energy		●	●	●		
CovaU	TPC		●	●			
DC Power Co <sup>1</sup>	DCP Company	●	●	●			
Diamond Energy	Diamond Energy	●	●	●	●		
Discover Energy	Discover Energy	●	●	●	●		
Dodo Power and Gas	M2 Energy	●	●	●	●		
Elysian Energy	Elysian Energy	●	●	●	●		
Energy Locals	Energy Locals	●	●	●	●		●
EnergyAustralia	CLP Group	●	●	●	●		●
Enova Energy	Enova Community Energy		●				
Ergon Energy	Queensland Government	●					
ERM Power	Shell Energy	●	●	●	●	●	●
Future X Power	Future X Power	●	●				
Globird Energy	Globird Energy		●	●	●		
Kogan Energy <sup>1</sup>	Kogan	●	●	●	●		
Locality Planning Energy	Locality Planning Energy	●	●				
Lumo Energy	Snowy Hydro			●	●		
Mojo Power	Mojo Power	●	●				
Momentum Energy	Hydro Tasmania (Tasmanian Government)	●	●	●	●		
Nectr Energy	Hanwha Energy Retail		●				
Next Business Energy	Next Business Energy		●	●	●		●
Origin Energy	Origin Energy	●	●	●	●		●
OVO Energy	OVO Energy		●	●	●		
People Energy	People Energy	●	●	●	●		
Pooled Energy	Efficiency Filters		●				
Powerclub	Powerclub	●	●	●	●		
Powerdirect	AGL Energy	●	●	●	●		●
Powershop	Meridian Energy	●	●	●	●		
Qenergy	Qenergy	●	●	●	●		
ReAmped Energy	ReAmped Energy	●	●				
Red Energy	Snowy Hydro	●	●	●	●		●
Sanctuary Energy	Living Choice Australia / Sanctuary Energy	●	●		●		
Simply Energy	ENGIE	●	●	●	●		
Sumo Power	Sumo Power		●	●			
Tango Energy	State Power Investment Corporation			●	●		
Tas Gas Retail	Brookfield Infrastructure			●		●	
TOTAL	● Gas retailer ● Electricity retailer ● Host retailer (electricity and gas)	3 31	12 37	19 30	8 27	2 3	3 8

<sup>1</sup> DC Power and Kogan Energy offer energy contracts through partnerships with Powershop.

Note: Includes retailers with generally available offers or existing customers at March 2020. Retailers servicing only embedded customers are excluded. A host retailer has obligations to supply new customers in a region that do not take up a market offer.

Source: Energy Made Easy website ([www.energymadeeasy.gov.au](http://www.energymadeeasy.gov.au)); Victorian Energy Compare website ([compare.energy.vic.gov.au](http://compare.energy.vic.gov.au)).

The AEMC cited stakeholder estimates of up to 500 000 customers purchasing energy through embedded networks.<sup>6</sup> Those customers do not enjoy the full set of protections in the Retail Law, and have more limited avenues for dispute resolution.<sup>7</sup> But energy ombudsman schemes are being widened to allow customers of exempt sellers to lodge complaints (section 6.10).

## 6.4 Components of energy bills

Retail customers' energy bills cover the costs of producing and transporting energy, costs related to environmental schemes, and retailers' costs and profit margins.

### 6.4.1 Electricity bills

A typical residential electricity retail bill in southern and eastern Australia in 2018–19 comprised:

- retailers' wholesale costs of buying electricity in spot and hedge markets—33 per cent of a bill
- network costs for transporting electricity through transmission and distribution networks, and metering—43 per cent of a bill
- the costs of environmental schemes for promoting renewable generation and energy efficiency, and reducing carbon emissions—8 per cent of a bill
- the retail costs of servicing customers (including meeting regulatory obligations), and acquiring and retaining customers—11 per cent of a bill
- the retailer's margin (profit)—4 per cent of a bill.<sup>8</sup>

The contribution of each component varies by region (figure 6.2).

#### Wholesale costs

Retailers purchase energy in wholesale markets for sale to customers. Prices in wholesale market can be volatile, while the prices that retailers charge their customers are generally fixed. Retailers can manage the risk of wholesale price volatility by entering hedge contracts that lock in prices for their future wholesale purchases (section 2.7). Alternatively, they might own generation assets, or enter demand response contracts to manage these risks (discussed in sections 6.7.2 and 6.8.3).

<sup>6</sup> AEMC, *Updating the regulatory frameworks for embedded networks, Information sheet*, June 2019, p. 1.

<sup>7</sup> The AER's exemption guideline sets out the classes of exemption. The AER sets customer protections under each class. Details of all businesses that hold a registered or individual exemption can be found in the public register of exemptions on the AER website.

<sup>8</sup> Based on earnings before interest, taxes, depreciation and amortisation.

Wholesale costs rose significantly in all regions from 2015, and were at or near record levels in 2018–19 (section 2.6). Costs are typically highest in South Australia, reflecting the state's significant reliance on relatively expensive gas powered generation, relatively concentrated generator ownership, peaky demand and limited interconnection with other regions. But increased renewable generation and flat demand eased price pressure in South Australia in 2019–20.

#### Network costs

The AER regulates network charges, which cover the efficient costs of building and operating electricity networks, and provide a commercial return to the network's financiers. Network costs in 2018–19 accounted for around 45 per cent of retail bills, but were lower in Victoria (38 per cent) and the ACT (30 per cent).

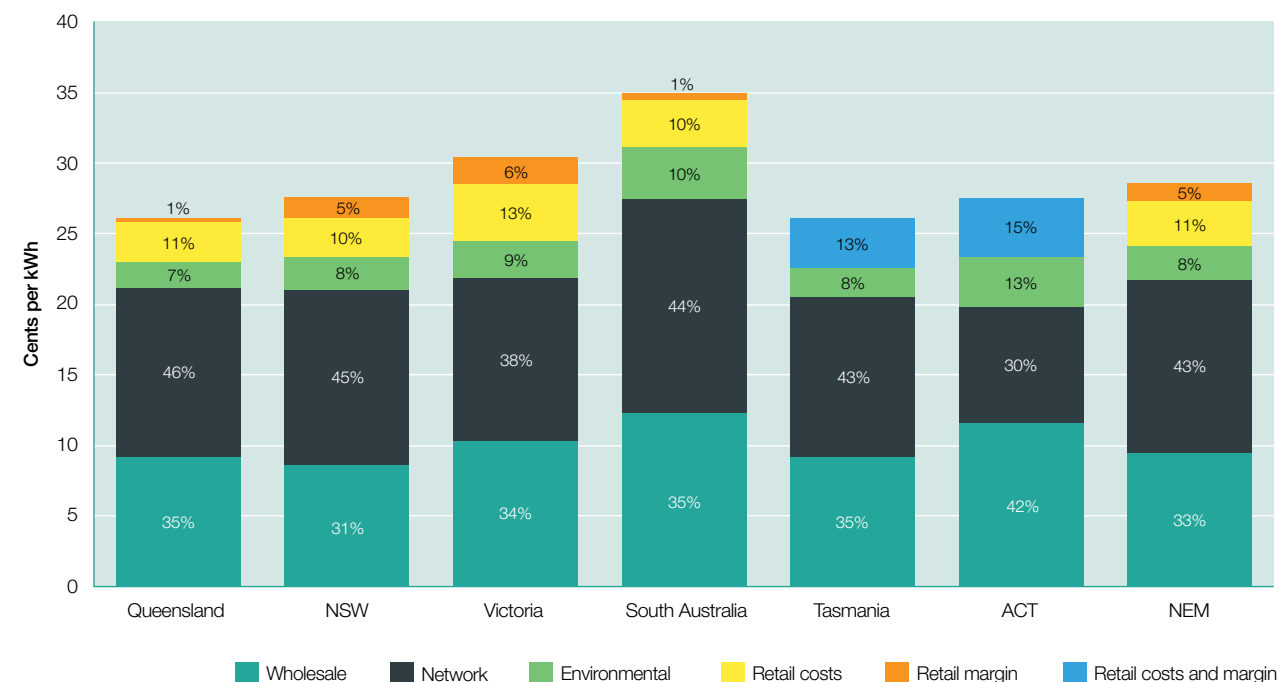
Customer type (central business district (CBD), urban or rural) and density affect network costs. Tasmania and Queensland have significantly lower proportions of CBD or urban customers (44 per cent and 58 per cent respectively) than other regions (an average 66 per cent). Network productivity levels partly explain cost differences across regions. Productivity was historically lower for government owned or recently privatised networks in Queensland, NSW, Tasmania and the ACT than in Victorian and South Australian networks, although this difference has narrowed in recent years (section 3.13).

#### Environmental costs

Environmental costs include payments to fund renewable energy targets, feed-in tariffs for solar PV installations, and state government operated energy efficiency schemes. Costs associated with the Australian Government's renewable energy target (box 1.1) account for over 75 per cent of environmental costs nationally (comprising both large scale and small scale components of the scheme). State government premium feed-in tariff schemes are the next largest contributor to environmental costs in Victoria, South Australia and the ACT. While these schemes are closed to new entrants, eligible households continue to receive payments under the schemes.

ACT and South Australian customers faced the highest environmental costs (on a per unit of electricity basis) at 13 per cent and 10 per cent respectively. ACT costs largely related to the government's feed-in tariff scheme for large scale solar developments. South Australian costs flow from the state's premium feed-in tariff scheme, given the high uptake of rooftop solar PV while that scheme was open.

**Figure 6.2**  
Composition of a residential electricity bill



kWh, kilowatt hour.

Note: Data are estimates for 2018–19. Average residential customer prices excluding GST (real \$2018–19). Retail costs and margin are combined for the ACT and Tasmania due to data availability. NEM average is based on data for Queensland, NSW, Victoria and South Australia. Percentages may not add to 100 per cent due to rounding.

Source: ACCC, *Inquiry into the National Electricity Market, November 2019 report*, December 2019, p. 40; ACT and Tasmanian data from AEMC, *2019 residential electricity price trends, Final report*, December 2019, p. 9.

Environmental costs were lowest in Queensland, following a state government decision in 2017 to recover premium feed-in tariff costs through the tax base rather than electricity charges. Additionally, Queensland does not operate an energy efficiency scheme targeted at small electricity customers.

#### Retail costs and margin

Retail costs fall into two main categories. Costs of servicing customers include managing billing systems and debt, handling customer enquiries, and complying with regulatory obligations. These costs do not vary significantly across regions.

Customer acquisition and retention costs relate to marketing and other activities to gain or retain customers. These costs tend to be higher in jurisdictions with high rates of customer switching, with Victoria recording the highest costs in 2018–19. This outcome highlights a risk that competition

may increase energy bills for customers if the costs of competing outweigh any competition benefits from efficiency and innovation.

Retail costs per customer tend to be lower for larger retailers, reflecting potential economies of scale in this area. But retailers' profit margins in Victoria and NSW more than doubled those in South Australia and south east Queensland in 2018–19 (on a dollar per customer basis).

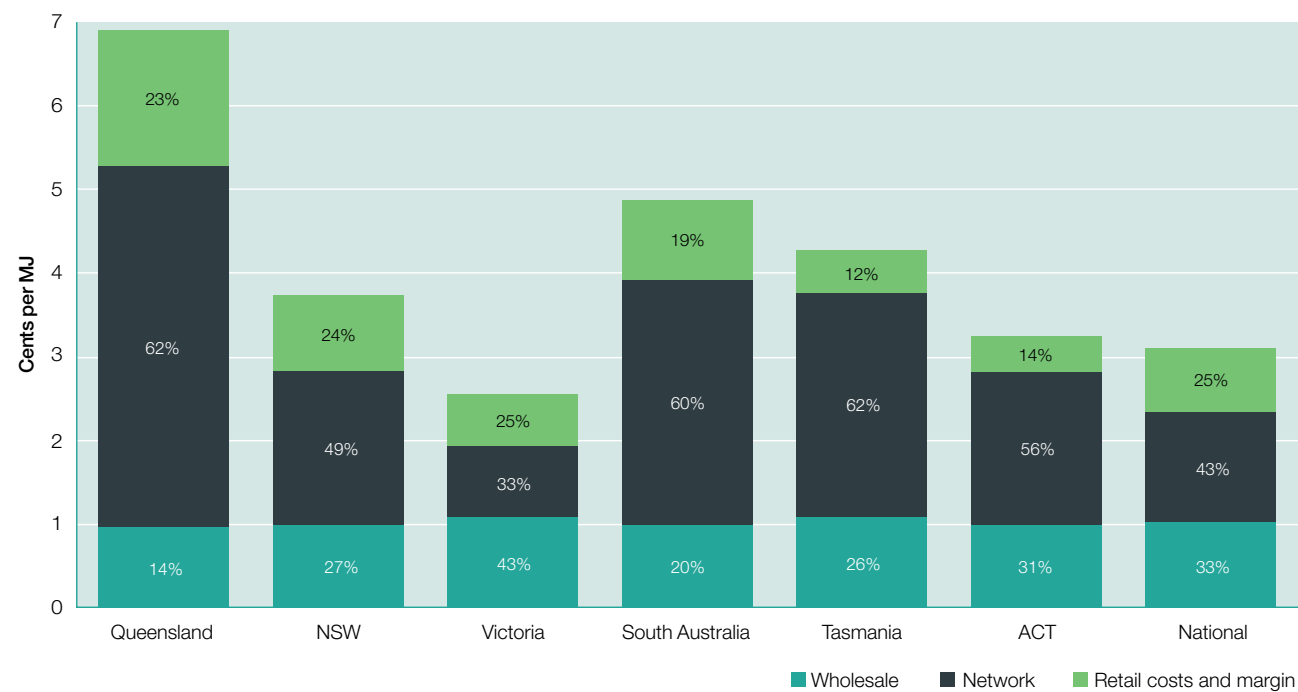
### 6.4.2 Gas bills

The composition of retail bills is less transparent in gas than electricity. There is no systematic annual reporting of gas bill data.

Figure 6.3 shows estimates from the most recent comprehensive data published in 2017. On average, gas pipeline (transportation) charges made up over 40 per cent of a gas bill in that year. Distribution charges represented



**Figure 6.3**  
**Composition of a residential gas bill**



MJ, megajoule.

Note: Data are estimates at 2017. Average residential customer prices excluding GST (real \$2018–19). Percentages may not add to 100 per cent due to rounding.

Source: Oakley Greenwood, *Gas price trends review 2017*, March 2018.

the bulk of this proportion, comprising around 35 per cent of a gas bill.<sup>9</sup> Wholesale gas costs, which accounted for around one third of a typical gas bill, rose sharply from 2015 (chapter 4). Retail costs and margin accounted for the remaining 25 per cent of retail gas bills.

Victoria had the cheapest residential gas prices on a unit basis—largely because the state had lower network costs (33 per cent of gas bills) due to a high level of gas use per customer and high connection penetration. In Tasmania and Queensland, where gas use is less widespread, network costs accounted for over 60 per cent of gas bills.

Retail costs also varied across regions. Queensland retail costs almost doubled those elsewhere on a unit basis, which may reflect the absence of economies of scale from a relatively small customer base. Retail margins were highest in Victoria and NSW.<sup>10</sup>

An independent review found retail costs in Victoria were higher than in an efficient or regulated market.<sup>11</sup> Gas retailers likely face similar customer acquisition and retention costs to those of electricity retailers.

The Australian Competition and Consumer Commission (ACCC) conducted analysis of the costs of AGL Energy, EnergyAustralia and Origin Energy in supplying gas to customers across the east coast, as part of its gas inquiry.<sup>12</sup> The findings were broadly similar to previous analysis, with distribution and transmission costs comprising almost 40 per cent of the delivered price of gas in 2018. However, the wholesale cost faced by these retailers was lower, at 25 per cent of total costs. Gas costs for the three retailers analysed are lower than those of other retailers in part due to low cost gas obtained under long term legacy contracts. But this advantage may be temporary as the retailers enter new contracts at higher market prices to replace expiring

<sup>11</sup> Thwaites, T, Faulkner, P, and Mulder, T, *Independent review into the electricity & gas retail markets in Victoria*, August 2017, p. 23.

<sup>12</sup> ACCC, *Gas inquiry 2017–2025, Interim report, January 2020*, 18 February 2020.

<sup>9</sup> Oakley Greenwood, *Gas price trends review 2017*, March 2018, p. 158.  
<sup>10</sup> Oakley Greenwood, *Gas price trends review 2017*, March 2018, p. 225.

contracts. Lower gas costs have allowed these retailers to earn higher margins—retail costs and margins accounted for 36 per cent of the delivered price of gas in 2018, more than half of which was margins.<sup>13</sup>

## 6.5 How retail prices are set

Energy retailers in southern and eastern Australia are free to set prices for energy market offers. Alongside this market pricing, government agencies regulate prices for electricity standing offers.

Victoria (2009), South Australia (2013), NSW (2014) and south east Queensland (2016) removed retail price regulation for electricity after the AEMC found markets in those states were effectively competitive. But governments reintroduced forms of price control in July 2019.

The Australian Government in 2019 provided for the AER to set a default market offer as a cap on standing offer electricity prices in south east Queensland, NSW and South Australia, following an ACCC recommendation for such a scheme.<sup>14</sup> The default offer is not intended to mirror the lowest price in the market, to avoid impeding competition among retailers and incentivising consumers to disengage from the market (box 6.2). Any advertised discounts promoted by electricity retailers must be based on a reference bill informed by this default offer, providing consumers with meaningful information to compare offers.

The Victorian Government also introduced price controls from 1 July 2019. The Essential Services Commission (ESC) sets the price of standing offers to reflect the efficient costs of a retailer in a contestable market, including an allowance for customer acquisition and retention costs.

The ACT, Tasmania and regional Queensland already had state based arrangements in place to regulate retail electricity prices for small customers in 2019. Price regulation in these regions is based on a ‘building block’ approach, reflecting the costs of an efficient retailer supplying electricity to its customers. The approach to estimating costs differs across regions, as does the extent to which the standing offer allows for the recovery of customer acquisition and retention costs (such as advertising).

Gas price deregulation occurred along similar timeframes to those of electricity price deregulation. In July 2017 NSW

<sup>13</sup> ACCC, *Gas inquiry 2017–2025, Interim report, January 2020*, 18 February 2020, pp. 118–19.

<sup>14</sup> ACCC, *Restoring electricity affordability and Australia’s competitive advantage, Retail Electricity Pricing Inquiry—final report*, June 2018, p. 252.

became the last jurisdiction to deregulate retail gas prices for small customers. Recent moves to reintroduce electricity price controls have not been applied in gas.

### 6.5.1 Price structures

Retailers offers a variety of tariff structures on both market and standing offers. Most customers pay a daily (fixed) supply charge plus a simple usage charge. These single-rate or ‘flat’ tariffs apply the same charge for all electricity that a customer uses, regardless of how and when they use it.

Power of Choice reforms introduced in 2017 require electricity distributors to move customers onto network tariffs that more closely reflect the efficient costs of providing the services they use. The reforms reduce network charges at times of low demand, and raise them at times of peak demand when the networks are under strain. Networks levy the new tariff structures on retailers, which then have discretion to set their charges to customers as they see fit. Retailers may offer incentives for customers to minimise energy use at times of high system cost. As these reforms progress, more customers will pay prices reflecting this approach.

The new pricing structures include:

- *time-of-use tariffs*, which apply different pricing to electricity use at peak and off-peak times. Higher prices in peak times encourage customers to minimise their use at those times. Customers can reduce their energy costs by reducing use, or by shifting use to off-peak times.
- *demand tariffs*, which charge a customer based on their maximum point-in-time demand at peak times. Customers can reduce their energy costs by shifting demand to off-peak periods. But even one day of high use at peak times will lead to higher charges for the whole billing period.
- *critical peak tariffs*, which factor in a low electricity usage charge for most of the year but much higher tariffs during a few short ‘critical peaks’ each year. These tariffs are currently available for some larger customers, but not residential customers or small businesses.

Each tariff structure reflects a trade-off between cost reflectivity and simplicity. Balancing these elements ensures customers face appropriate incentives around their energy use, but can understand how the incentives work.

Most retailers offer time-of-use tariffs across all regions. Demand tariffs are available from an increasing number of retailers, but take-up of these tariffs remains low.

### Box 6.2 Default market offer

The Australian Government's default market offer (DMO) scheme, effective from 1 July 2019, sets a cap on what retailers can charge electricity customers on standing offer contracts.

The scheme was introduced following concerns raised by the Australian Competition and Consumer Commission (ACCC) that standing offer contracts:

- were no longer working as a safety net, as originally intended
- were unjustifiably expensive, with retailers having incentives to increase standing offer prices as a basis to advertise artificially high discounts
- penalised customers who had not taken up a market offer, making them a form of 'loyalty tax'.

The ACCC's recommendation for a DMO scheme was implemented through the Competition and Consumer (Industry Code—Electricity Retail) Regulations 2019 under the *Competition and Consumer Act 2010*.

The scheme applies in distribution network areas covered by the Retail Law that are not otherwise subject to retail price regulation—NSW (Endeavour, Essential Energy and Ausgrid), south east Queensland (Energex) and South Australia (SA Power Networks). Victoria operates a separate but similar scheme across all its distribution network areas.

The AER determines DMO prices each year for residential and small business customers in each of the five covered distribution areas. We set prices at a level where standing offer customers will see price reductions, but retailers still have incentives to compete on price, invest and innovate with their market offers.

While the scheme caps what retailers can charge in their standing offers, it does not cap customers' bills. Bills will vary depending on how much electricity customers use and their retailer's specific charges.

The default prices also act as a reference against which retailers must compare their market offers in advertising, on their websites, and elsewhere. This requirement aims to make it easier for customers to compare energy offers across different providers.

The DMO scheme provides a fallback for those who do not engage in the market, rather than providing a low priced alternative to a market offer. It aims to reduce unjustifiably high standing offer prices, while allowing retailers to recover their costs in servicing customers, and providing customers and retailers with incentives to participate in the market.

We set default prices for 2019–20 at the mid-point (50th percentile) between the median standing offer and median market offer in each distribution zone at October 2018.<sup>a</sup> We also used these prices as the base for default prices in 2020–21, but adjusted for:

- forecast changes in environmental, wholesale and network costs
- changes in consumer price index (CPI) for residual costs (which includes retail costs).

Our price setting process also includes a 'step change framework' to account for changes in retail costs arising from factors outside the businesses' control, such as regulatory requirements.<sup>b</sup>

<sup>a</sup> AER, *Final determination, Default market offer prices*, April 2019.

<sup>b</sup> AER, *Draft determination, Default market offer prices 2020–21*, February 2020.

At February 2020 around 35 per cent of customers in the National Electricity Market (NEM) had metering capable of supporting cost-reflective tariffs (including smart meters and manually readable interval meters). Installation rates vary across regions. Most Victorian customers have advanced metering, with NSW having the next highest penetration at around 21 per cent of customers. Installation levels in other regions ranged from 10–15 per cent of customers.

Around 20 per cent of customers with advanced metering in regions regulated by the AER have moved to cost-reflective retail tariffs. Tasmania and NSW have seen the greatest take-up of these tariffs (at 50 per cent and 35 per cent of customers respectively), but less than 5 per cent of customers have adopted these tariffs in Queensland and South Australia.

Some retailers are trialing other price structures. Subscription tariffs, where customers pay a (yearly or monthly) fee based on their typical electricity use, focus on simplicity rather than cost-reflectiveness. Some retailers suggest these tariffs work to gain customers' trust following evidence of low consumer confidence in the energy market.

At the other end of the pricing spectrum, wholesale market spot price pass-through tariffs allow customers to dynamically interact with the wholesale market. These tariffs are best suited to customers with battery storage that can adjust their use of grid supplied electricity during high price periods.

## 6.6 Customer bills

Customers' energy bills depend on their energy use and the terms of their retail contract. Hundreds of retail offers may be available to customers at any time. Advertised offers frequently change, as do the charges attached to an offer over time. Customers who regularly change their energy contract usually pay lower prices, reflecting that many market offers have terms that see customers revert to a higher price after an initial 'benefit period'. Customers on legacy market offers may pay prices closer to those in standing offers (table 6.2).

Energy bills are typically higher for customers in regional and remote areas (where network costs tend to be higher and can be recovered from fewer customers), than for urban customers. They also tend to be higher in regions with higher average energy use.

### 6.6.1 Headline price movements

Since 2018 electricity retail prices plateaued or fell in most regions, after significant rises in preceding years. This change was due to factors including new price and advertising regulations, relatively stable wholesale costs, and reductions in network costs.

Table 6.2 summarises recent movements in market and standing offer energy prices for residential customers, and estimated annual customer bills for generally available flat rate offers. In the seven months to January 2020, standing offer prices for residential customers fell in all regions that introduced price caps on these offers in July 2019. Prices fell by 14–19 per cent in Victoria, 11–13 per cent in NSW, 12 per cent in South Australia, and 10 per cent in south east Queensland.

Market offers did not mirror this fall in standing offer prices. In Victoria, market offer prices rose 4–11 per cent, reflecting

higher network charges from January 2020 and ongoing wholesale price uncertainty. Higher network charges were partly driven by rising land taxes and more power traveling from interstate (the closure of Hazelwood power station in 2017 resulted in Victoria becoming a net importer of electricity).<sup>15</sup>

In NSW, Queensland and South Australia, market offer prices were relatively steady. Prices fell by up to 2 per cent in parts of NSW and Queensland, but rose by up to 1 per cent in South Australia and regional NSW. These variations primarily reflected changes in network tariffs.

In Tasmania, the government caps wholesale electricity charges factored into standing offer prices (and will do so until 2021). Retail prices under both standing and market offers rose by almost 3 per cent to January 2020, reflecting increased metering and wholesale electricity costs but partly offset by lower network and environmental costs.

In the ACT, market and standing offer prices increased by 7 per cent and 1 per cent respectively. These price increases reflected increases in network costs and the cost of the ACT Government's large scale feed in-tariff, although wholesale costs moderated following increases over the past two years.

In gas, retail prices fell by 6 per cent in the east of Victoria, but rose up to 3 per cent in the west of the state over the seven months to January 2020. In NSW, prices in market offers rose by 5 per cent, while standing offer prices were stable. The reverse was true in South Australia, where standing offer prices rose by 6 per cent. Prices in other regions were generally stable.

### Energy wholesale costs

Rising energy wholesale costs were the main driver of increased retail prices from 2015 to 2018. Those costs have since moderated in most regions, and are tracking lower in 2019–20 (section 2.6).

In electricity, retirement of large coal fired generators in South Australia (Northern, May 2016) and Victoria (Hazelwood, March 2017) tightened the supply–demand balance in generation. Higher gas and coal fuel prices also contributed to high wholesale electricity prices. Additionally, liquidity in electricity financial markets tightened after coal generators left the market, putting upward pressure on hedging costs. These factors combined resulted in wholesale electricity prices setting new records in several regions in 2017 and early 2019.

<sup>15</sup> AER, 'AER approves Victorian electricity network charges for 2020', Media release, 11 November 2019.

**Table 6.2 Movement in energy bills for customers on market and standing offers**

JURISDICTION	WHO SETS STANDING OFFER PRICES?	DISTRIBUTION NETWORK AREA	CHANGE IN MEDIAN OFFER (%)				ESTIMATED ANNUAL CUSTOMER BILL, 2020 (\$)	
			JUN 2018 – JUN 2019 MARKET	JUN 2018 – JUN 2019 STANDING	JUN 2019 – JAN 2020 MARKET	JUN 2019 – JAN 2020 STANDING	MARKET	STANDING
<b>ELECTRICITY</b>								
Queensland	Retailers (capped at DMO from 1 July 2019)	Energex	-6.7	0.0	-1.3	-9.9	1637	1844
	QCA	Ergon Energy		-5.9		0.1		1846
NSW	Retailers (capped at DMO from 1 July 2019)	Ausgrid	-1.4	4.8	-2.4	-13.4	1785	2028
		Endeavour Energy	-1.9	1.4	-1.5	-11.1	1749	1996
		Essential Energy	-0.8	5.1	1.0	-11.3	2059	2334
Victoria	Retailers (to 30 June 2019); ESC (from 1 July 2019)	Citipower	1.8	0.4	6.9	-14.4	1474	1568
		Powercor	1.2	3.2	3.7	-18.9	1572	1672
		AusNet Services	3.5	0.6	6.2	-16.4	1726	1836
		Jemena	-0.5	-1.7	8.2	-15.8	1560	1660
		United Energy	1.2	2.4	11.1	-13.6	1580	1680
South Australia	Retailers (capped at DMO from 1 July 2019)	SA Power Networks	-3.5	2.4	1.1	-12.5	2044	2234
Tasmania	OTTER	Aurora Energy	-2.1	1.2	2.6	2.8	2414	2502
ACT	ICRC	Evoenergy	-0.1	9.2	6.6	0.8	1822	2047
<b>GAS</b>								
Queensland	Retailers	AGN	-2.4	1.7	1.2	2.0	650	703
		Allgas Energy	-0.3	0.2	-0.6	1.9	690	753
NSW	Retailers	Jemena	-1.9	2.5	4.6	-0.2	907	1023
Victoria	Retailers	AusNet Services	1.0	2.7	0.5	3.4	1476	1880
		Multinet	4.5	6.3	-1.0	2.4	1488	1888
		AGN	8.5	9.1	-6.0	-5.1	1514	1897
South Australia	Retailers	AGN	0.0	0.1	0.9	5.9	932	1064
ACT	Retailers	Evoenergy	-2.7	3.7	0.1	-0.2	1548	1733

AGN, Australian Gas Networks; DMO, default market offer; ESC, Essential Services Commission; ICRC, Independent Competition and Regulatory Commission; kWh, kilowatt hour; MJ, megajoule; OTTER, Office of the Tasmanian Economic Regulator.

Note: AER estimates are based on generally available offers for residential customers on a 'single rate' tariff structure. Annual bills and price changes are based on median market and standing offers at June 2018, June 2019 and January 2020, using average consumption in each jurisdiction: NSW 5881 kWh (electricity), 22 855 MJ (gas); Queensland 5699 kWh, 7873 MJ; Victoria 4589 kWh, 57 064 MJ; South Australia 4752 kWh, 17 501 MJ; ACT 6545 kWh, 42 078 MJ. Market offer prices include all conditional discounts.

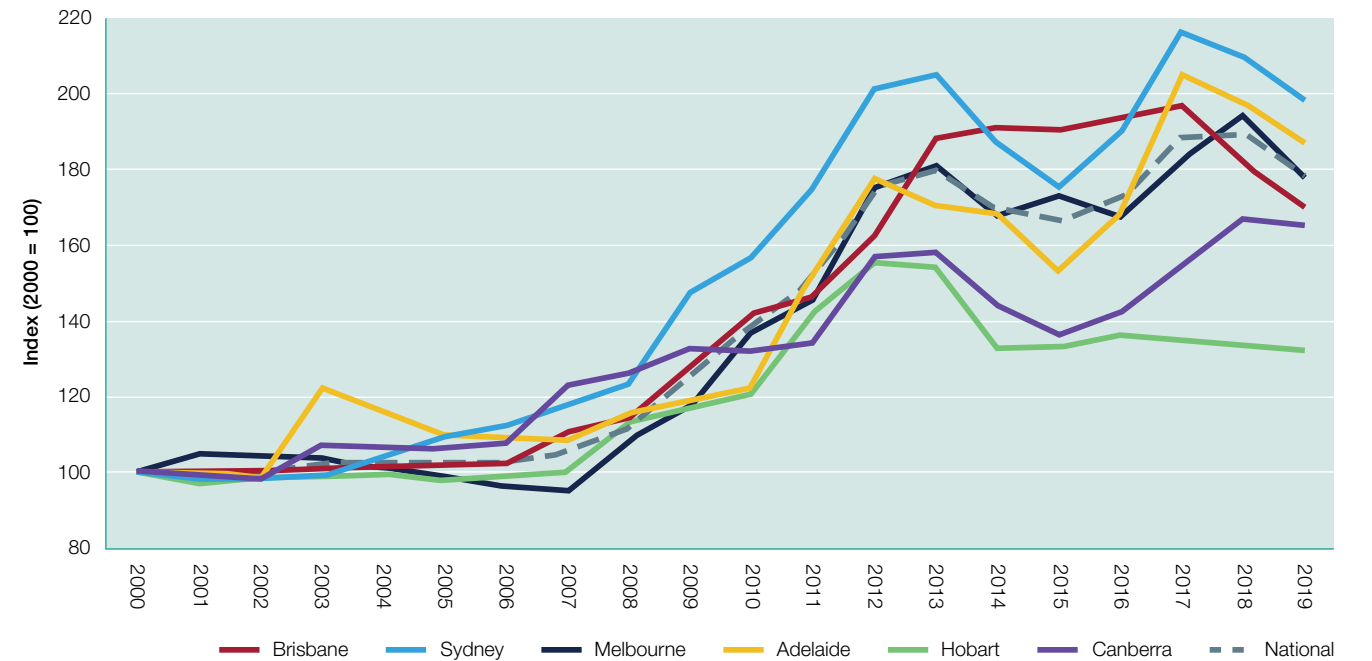
Source: Energy Made Easy website ([www.energymadeeasy.gov.au](http://www.energymadeeasy.gov.au)); Victorian Energy Compare website ([compare.energy.vic.gov.au](http://compare.energy.vic.gov.au)).

More recently, commissioning of a large number of lower cost renewable generators has eased supply conditions. Along with lower fuel costs, this easing saw a fall in average wholesale prices in 2019. Supply conditions are volatile, however, including significant generator outages during periods of peak demand.

The moderation in wholesale prices was not fully reflected in reduced retail prices at January 2020. Retailers typically lock in a portion of their wholesale costs up to several years in advance in hedge contract markets, which means it can take time for retail prices to reflect wholesale cost changes.

In gas, wholesale costs more than doubled in all regions—and tripled in Queensland—from 2015 to 2017. This increase was largely due to Queensland's liquefied natural gas (LNG) projects—which link domestic gas prices to international oil prices—and a tighter supply-demand balance. Diversion of gas supplies from the domestic market to LNG projects, moratoriums on onshore gas exploration in some states, and declining production in some established gas basins contributed to this tighter supply-demand balance.

**Figure 6.4 Electricity retail price index (inflation adjusted)**



Note: Consumer price index electricity series for each region, deflated by the consumer price index for all groups. Data at December quarter each year. Source: ABS, *Consumer price index*, cat. no. 6401.0, various years.

Gas wholesale costs stabilised over 2018 and have eased significantly since early 2019 (chapter 4). As in electricity, this cost reduction may take time to flow through to retail prices as longer term contract positions are adjusted, and may not be reflected in prices at January 2020.

### 6.6.2 Longer term price trends

The Australian Bureau of Statistics (ABS) tracks movements in energy prices for metropolitan households as an input to the consumer price index. Retail electricity prices rose by 46 per cent in real terms for customers in eastern and southern Australia over the decade to December 2019 (figure 6.4). Retail gas prices rose by 37 per cent over the decade (figure 6.6).

#### Electricity

Electricity prices began to track significantly higher in real terms from around 2007 (figure 6.4). Prices increased by an average 11 per cent per year over the five years to 2012, driven by network costs—when network businesses invested heavily in new assets, and financial market instability raised debt costs. In Victoria, the costs of the

government led smart meter rollout and new bushfire safety obligations also contributed to cost increases. Prices peaked nationally in 2013, when escalating network charges combined with higher wholesale costs following the introduction of carbon pricing.

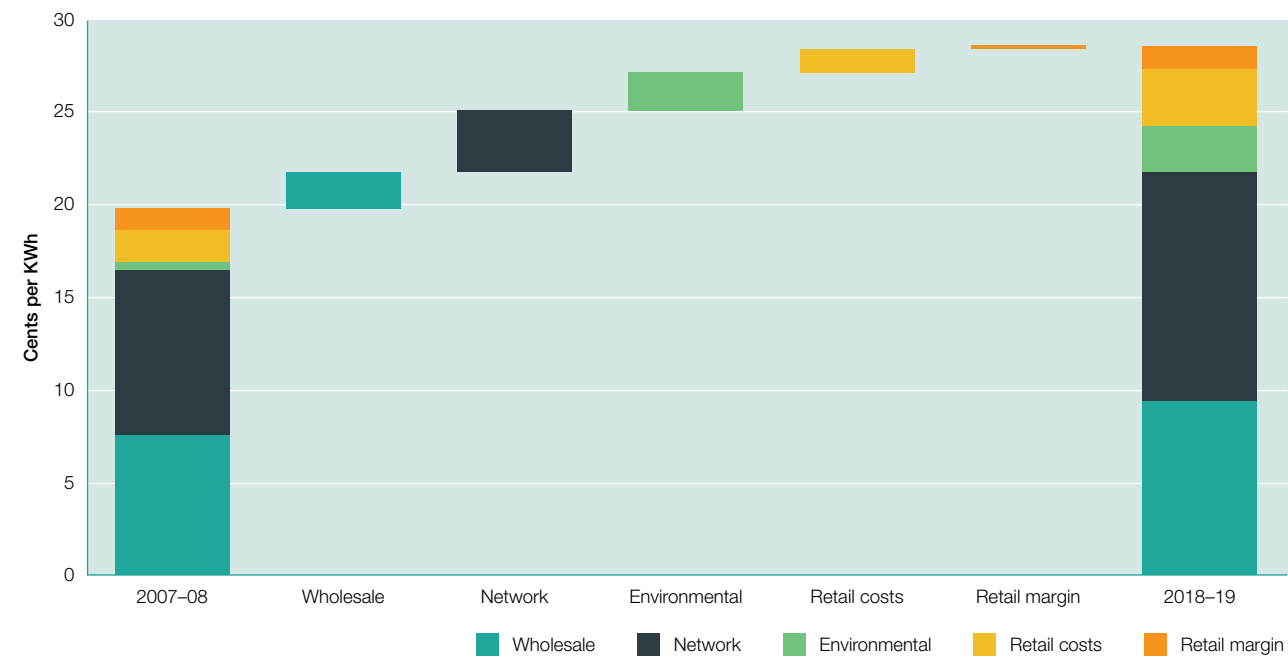
Prices eased from 2013–2015, by around 8 per cent nationally in real terms. This easing reflected lower network costs, the removal of carbon pricing, and an oversupply of generation capacity depressing wholesale prices.

The easing of real prices reversed in 2016, when high electricity wholesale prices began to flow through into retail prices in most cities (section 6.6.1). New price peaks were then recorded in 2017 and 2018. Prices fell in all cities during 2019, but they remained significantly above historical levels.

Figure 6.5 illustrates the net drivers of retail electricity prices over the 11 years to 2019 in southern and eastern Australia. Network costs accounted for 38 per cent of the rise in retail electricity prices over this period. Wholesale costs (including hedging against spot market volatility) accounted for 22 per cent of price rises, with most of this rise occurring since 2016.



**Figure 6.5**  
Drivers of change in average residential electricity customer prices in the NEM



kWh, kilowatt hour.

Note: Based on effective unit charges paid by residential customers. Data are inflation adjusted, in 2018-19 dollars, and exclude GST.

Source: ACCC, *Inquiry into the National Electricity Market, November 2019 report*, December 2019, p. 6.

Environmental costs accounted for 22 per cent of the increase in retail electricity prices over the decade, for reasons including:

- increases in the price of certificates needed to meet obligations under the large scale renewable energy target
- the introduction of state based energy efficiency schemes
- the rapid growth in rooftop solar PV, which increased the number of certificates that retailers must acquire under the small scale renewable energy scheme, and the extent of payments under premium feed-in tariff schemes.

Retail costs and margins contributed 16 per cent and 2 per cent to the increase in retail prices respectively. Both are high by world standards, raising questions about whether retail competition is delivering price benefits for consumers. Costs to serve, and acquire and retain, customers made similar contributions to the increase in retail costs.

### Gas

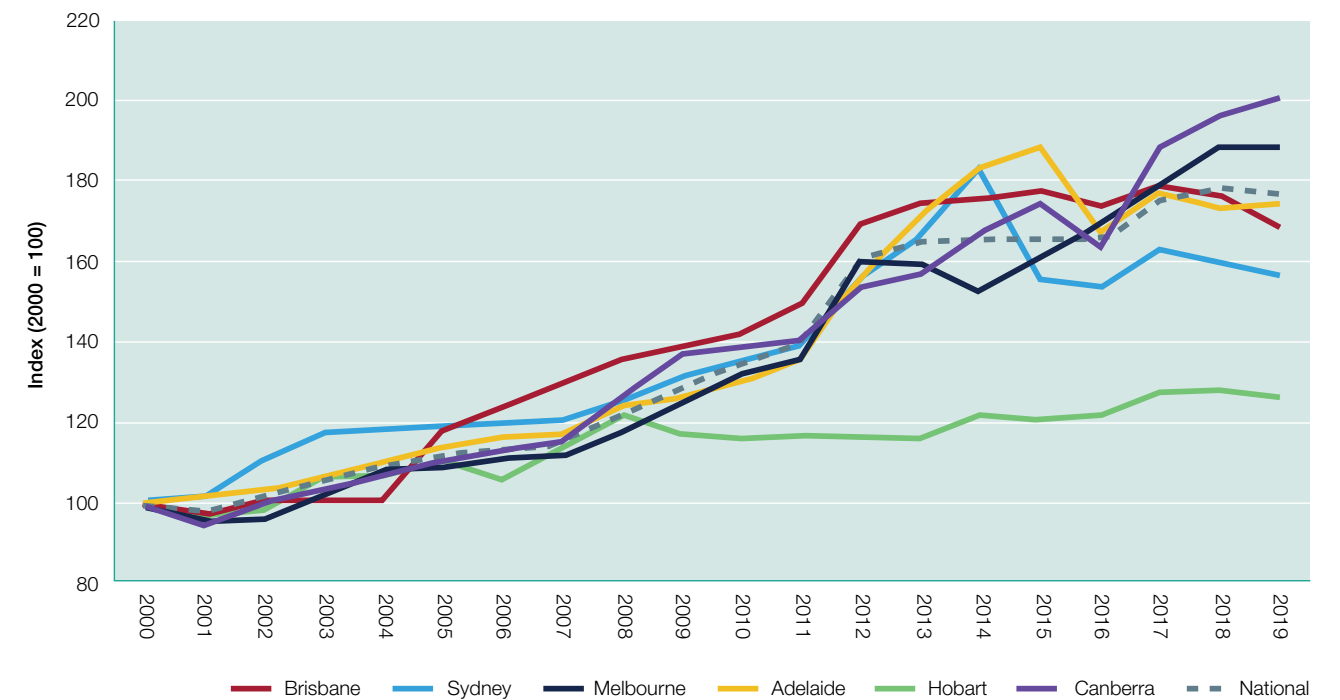
Retail gas prices rose on average by 7 per cent per year in real terms over the five years to 2012 (figure 6.6).

Prices continued to rise strongly in Sydney, Adelaide and Canberra until new access arrangements lowered gas pipeline charges (2014-15 in Sydney and 2015-16 in the other cities). A period of relative price stability followed, before prices began to rise again from 2016 due to tight wholesale supply and constrained access to gas pipelines. Prices reached new record levels in 2018 and 2019.

Rising wholesale costs contributed around 57 per cent of retail gas price increases from 2007 to 2017. Much of the rise in wholesale costs occurred since 2015. Retail costs (including margins) were the next largest contributor to price rises, accounting for around 23 per cent of the national average gas price increase. Increases in these costs are likely to reflect similar drivers to those in the retail electricity market.

Distribution costs accounted for around 19 per cent of the increase in retail gas prices, with most of this impact occurring early in the decade in response to high financing costs brought on by global financial market instability. Pipeline investment increased over this same period to replace aging assets and meet forecasts of rising energy

**Figure 6.6**  
Gas retail price index (inflation adjusted)



Note: Consumer price index gas series for each region, deflated by the consumer price index for all groups. Data at December quarter each year.

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

demand (chapter 5). Distribution charges have since eased in most regions as financial market conditions have improved.

### 6.6.3 Energy use

While energy prices are significantly higher than a decade ago, changes in customer behaviour have moderated the impact on customer bills (particularly electricity bills). While electricity prices rose by 45 per cent over the past 11 years, for example, electricity bills rose by only 20 per cent, with a 17 per cent decrease in average electricity use from the grid over this period.

Changes in customer behaviour include switching to energy efficient appliances and reducing their discretionary energy use. But the biggest contributor has been customers meeting some of their energy needs from rooftop solar PV systems. This change raises potential equity issues, because those without access to rooftop solar PV are shouldering a larger proportion of the rise in electricity prices.

There is little systematic reporting of gas consumption data in Australia. Oakley Greenwood estimated a reduction in average household gas use across all regions in the decade to 2016 (ranging from a 4 per cent fall in NSW to a 36 per cent fall in South Australia).<sup>16</sup> This reduction likely reflects a move to more efficient appliances, along with some switching from gas to electricity.

### 6.6.4 Electricity price forecasts

The AEMC publishes forecasts of electricity retail prices each year, based on current expectations, policy and legislation. In December 2019 it forecast electricity prices for a 'representative customer' would fall in all NEM regions over the three years to June 2022. The largest forecast reduction is for Queensland customers (20 per cent), and the smallest is for South Australian customers (2 per cent).<sup>17</sup>

<sup>16</sup> Oakley Greenwood, *Gas price trends review 2017*, March 2018.

<sup>17</sup> AEMC, *2019 residential electricity price trends, Final report*, December 2019.



Forecasts of lower wholesale energy costs are the primary driver of these expectations, as new renewable plants come online and ease prices. Environmental costs are also expected to fall across all regions, driven by a decrease in costs for certificates to meet renewable energy target obligations. Network prices are expected to fall in Queensland and NSW, but to rise elsewhere.

## 6.7 Competition in retail energy markets

The AEMC assessed that electricity markets in south east Queensland, NSW, Victoria and South Australia have characteristics consistent with competitive markets, including high levels of offers, marketing, and customer switching. Barriers to entry were considered low, as evidenced by regular new entry (although contract market issues in South Australia mean barriers are higher in that market).<sup>18</sup>

It assessed competition as less effective in electricity retail markets in the ACT, Tasmania and regional Queensland. The scale of these markets and continued price regulation may have deterred entry by new retailers. In regional Queensland, a subsidy paid to Ergon Energy through the Queensland Government's Uniform Tariff Policy (which other retailers are not able to access) also deters new entry.

The AEMC generally assessed gas markets as being less competitive than electricity markets, given their smaller scale, and difficulties in sourcing gas and pipeline services in some regions. Gas markets in all regions are more concentrated than electricity markets.

Despite those findings, the AEMC found 'competition in the retail energy market ... is currently not delivering the expected benefits to consumers'.<sup>19</sup> The ACCC also found retail energy markets were not delivering the expected benefits for consumers. It reported in July 2018 that 'the retail market has developed in a manner that is not conducive to consumers being able to make efficient and effective decisions about the range of available offers in the market'.<sup>20</sup>

A range of regulatory reforms targeting these concerns were progressed in 2018 and 2019, aimed at encouraging customers to engage in the market, and making it easier for them to compare retail offers (sections 6.7.4 and 6.7.7).

18 AEMC, *2019 retail energy competition review, Final report*, June 2019.  
19 AEMC, *2018 retail energy competition review, Final report*, June 2018, p. i.  
20 ACCC, *Restoring electricity affordability and Australia's competitive advantage, Retail Electricity Pricing Inquiry—final report*, June 2018, p. 134.

While it is too early to assess how the reforms affect customer outcomes, customer satisfaction with competition in national energy retail markets improved slightly in 2019.

Consumer trust, or confidence that the market is working in consumers' interests, rose to 33 per cent in December 2019, up from 31 per cent in December 2018.<sup>21</sup> Likewise, consumer satisfaction with the level of competition in energy markets rose across all markets except south east Queensland. On average across the NEM, the proportion of consumers satisfied with competition in their area rose from 47 per cent in December 2018 to 52 per cent in December 2019.

In its 2019 review, the AEMC identified outcomes that highlight how competition is improving. These include:

- decreasing market concentration, with smaller retailers growing their customer base in established markets, and expanding into new markets
- retailers moving away from discounting practices, and a rise in simpler and more stable pricing products
- retailers offering a wider range of products and services, including leveraging off greater uptake of solar PV and battery technology.

While these findings are broadly positive, the AEMC noted some customer segments may be missing out on the benefits of competition. Embedded network customers, for example, often lack retail choice and cannot switch away from suppliers that do not meet their needs. In June 2019 the AEMC proposed a new regulatory framework that would elevate embedded electricity networks into the national regulatory regime, improving protections and access to retail market competition for their customers.<sup>22</sup>

### 6.7.1 Market concentration

More than 40 retail brands supply small energy customers in southern and eastern Australia (table 6.1). But the retail brands of three businesses—AGL Energy, Origin Energy and EnergyAustralia (the 'big three')—supply 63 per cent of small electricity customers and 75 per cent of small gas customers (figures 6.7 and 6.8). Those businesses own at least two of the three largest retailers in every region except Tasmania. But the market share of these businesses has gradually declined.

21 ECA, *Energy consumer sentiment survey, December 2019*, January 2020, p. 31.  
22 AEMC, *Updating the regulatory frameworks for embedded networks, Final report*, June 2019.

Figure 6.7  
Electricity retail market share (small customers)

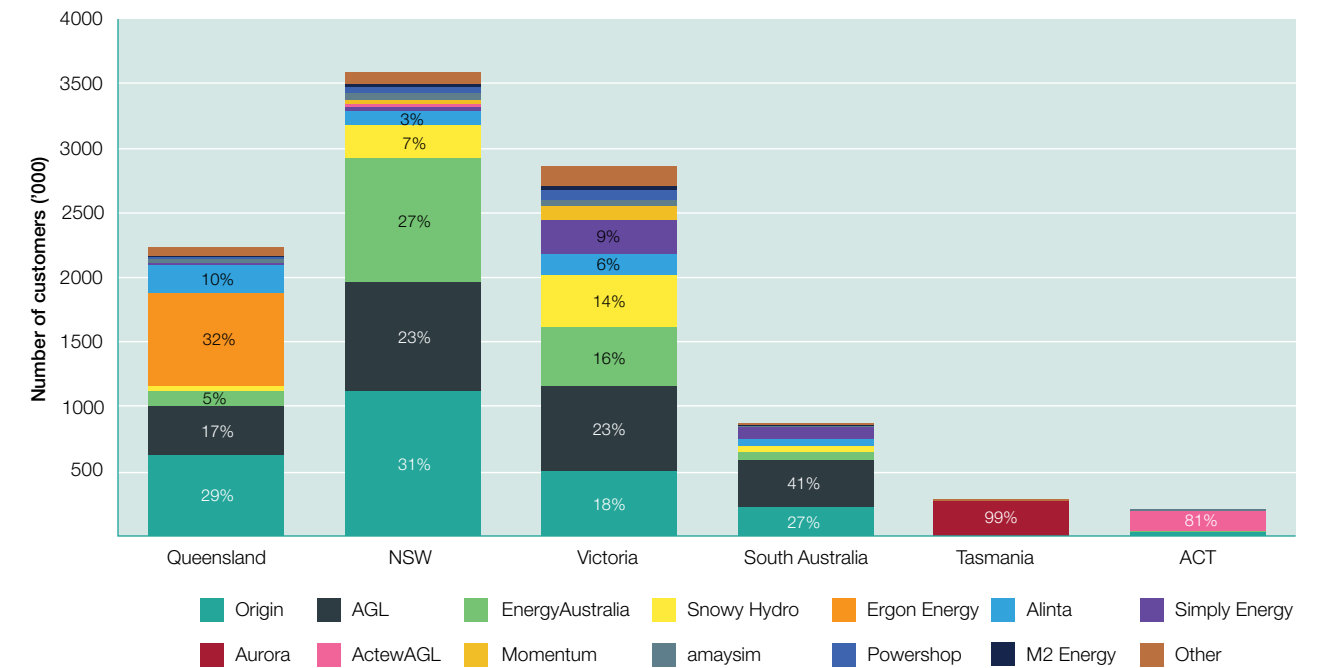
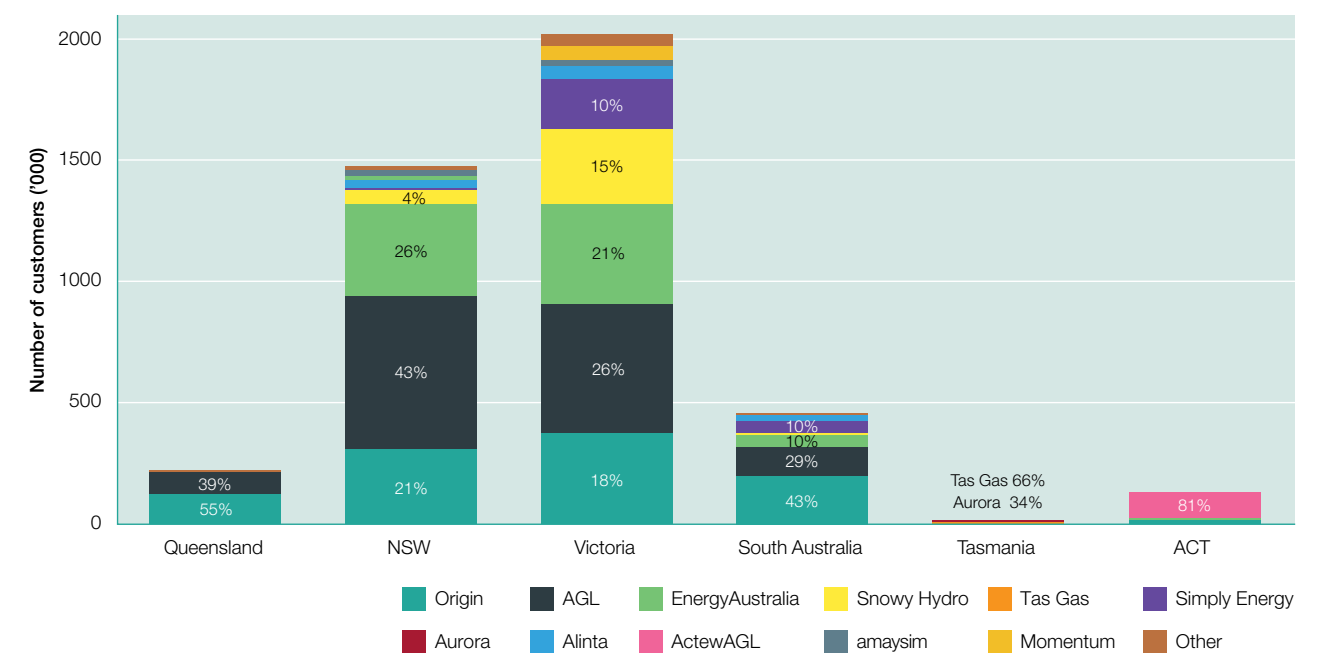


Figure 6.8  
Gas retail market share (small customers)



Note (figures 6.7 and 6.8): Includes residential and small business customers. All data at December 2019, except Victoria (electricity and gas, June 2019) and Tasmania (gas, June 2019).  
Source (figures 6.7 and 6.8): AER, *Retail markets quarterly, Q2 2019–20*, March 2020; ESC, *Victorian energy market report 2018–19*, November 2019; Office of the Tasmanian Economic Regulator, *Energy in Tasmania report 2018–19*, February 2020.

Three ‘second tier’ retailers have built significant market share in some regions:

- Snowy Hydro (owned by the Australian Government and trading as Red Energy and Lumo Energy) supplies around 8 per cent of electricity customers and 9 per cent of gas customers—its market share is highest in Victoria, supplying 14 per cent of electricity customers and 15 per cent of gas customers.
- Alinta Energy (owned by Hong Kong based Chow Tai Fook Enterprises) supplies 5 per cent of electricity customers and 3 per cent of gas customers—its market share is highest in Queensland (10 per cent of electricity customers) and South Australia (7 per cent of electricity customers and 6 per cent of gas customers).
- Simply Energy (owned by French multinational Engie) supplies 4 per cent of electricity customers and 6 per cent of gas customers, including 9–10 per cent of customers in Victoria and South Australia.

Smaller retailers also gained market share, increasing from 5 per cent of small customers in 2016 to 8 per cent in 2019. In gas, smaller retailers accounted for 4.4 per cent of small customers in 2019. Smaller retailers have had more success in Victoria than elsewhere, supplying almost 15 per cent of small electricity customers and almost 7 per cent of small gas customers. This outcome may reflect Victoria’s relatively mature market, with prices for gas and electricity deregulated in 2009—earlier than in other regions.

NSW is the most concentrated of the major electricity markets. The ‘big three’ account for 82 per cent of NSW electricity customers. Snowy Hydro accounts for another 7 per cent of customers. The other 36 retailers in NSW share 11 per cent of the market.

Retail markets tend to be more concentrated in gas than electricity, in part because the markets are smaller in scale. In NSW, for example, the ‘big three’ account for 89 per cent of retail gas customers. In Queensland, Origin Energy and AGL Energy account for 94 per cent of retail gas customers.

The ACT and Tasmania—jurisdictions that have always had price regulation—are even more concentrated. The dominant retailers in these regions are typically government owned (or part owned) businesses with limited operation outside their home region. ActewAGL (a joint venture between the ACT Government and AGL Energy) supplies almost 81 per cent of ACT electricity and gas customers. However, this market acquired more depth in 2019, when Origin Energy increased its market share to 15 per cent—an increase of 6 per cent from 2018. In Tasmania, Aurora Energy (Tasmanian Government owned) was until recently the only retailer offering electricity to households.

1st Energy entered the Tasmanian electricity market in 2019, but has yet to build a material customer base. Small businesses in Tasmania can also choose ERM Power Retail.

Ergon Energy (Queensland Government owned) supplies electricity to most small customers in rural and regional Queensland.

### 6.7.2 Vertical integration

Governments structurally separated the energy supply industry into separate wholesale, network and retail businesses in the 1990s. In electricity, however, many generators and retailers have since integrated to become ‘gentailers’. Vertical integration has also occurred in gas, but to a lesser extent.

Vertical integration allows retailers and energy producers to manage price volatility in wholesale markets, with less need to hedge their positions in futures (derivatives) markets. This strategy may be efficient for the business, but can reduce liquidity in derivatives markets, posing a barrier to entry or expansion for retailers that are not vertically integrated.

The ‘big three’ retailers—AGL Energy, Origin Energy and EnergyAustralia—each have significant market share in generation across NSW, Victoria and South Australia (figure 6.9). They also have interests in upstream gas production or storage, complementing their interests in gas fired electricity generation.

Outside the ‘big three’, most retailers with a significant retail customer base are aligned with an electricity generation business—Snowy Hydro (Red Energy and Lumo Energy), Engie (Simply Energy), Alinta Energy, Hydro Tasmania (Momentum Energy), ERM Power, Meridian Energy (Powershop) and Pacific Hydro (Tango).

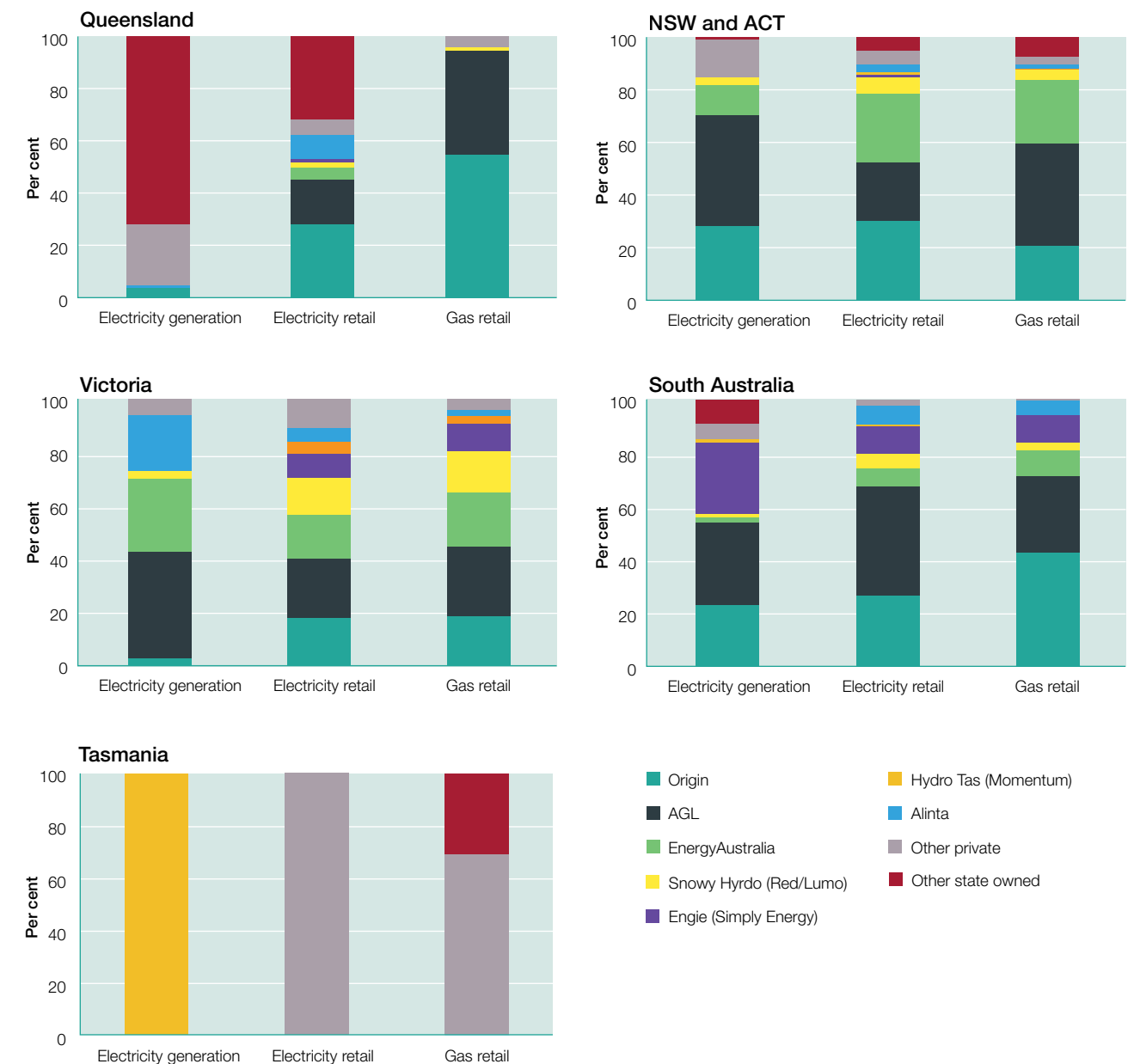
The largest stand-alone electricity retailers in the NEM are amaysim (trading under its own name and as Click Energy) and M2 Energy (trading as Dodo Power and Gas, and Commander Power & Gas) with 1.4 and 1.0 per cent of small customers across the NEM respectively.

### 6.7.3 Customers with market contracts

Most energy consumers can enter a market contract with their retailer of choice.<sup>23</sup> Market contracts allow retailers to tailor their energy offers, subject to meeting regulated requirements. A contract may be widely available or only

<sup>23</sup> While full retail contestability applies in all regions, not all customers can access offers from a retailer other than their host retailer. Further, many customers within embedded networks are still limited to energy supply through their embedded network operator.

Figure 6.9 Vertical integration in NEM jurisdictions



Note: Electricity generation market shares are based on generation capacity owned or controlled at January 2020. Retail market shares are based on number of small customers at December 2019, except Victoria (electricity and gas, June 2019) and Tasmania (gas, June 2019).

Source: AER analysis of retail, electricity generation and trading rights data. Retail: AER, *Retail markets quarterly*, Q2 2019–20, March 2020; ESC, *Victorian energy market report 2018–19*, November 2019; Office of the Tasmanian Economic Regulator, *Energy in Tasmania report 2018–19*, February 2020. Electricity generation: AEMO. Trading rights: AEMO; company announcements.



offered to specific customers. Retailers can shape their contracts by offering different tariff structures, discounted prices, non-price incentives, billing options, fixed or variable terms, and other features. Contracts may be subject to fees and charges, such as establishment or exit fees. They may also include renewable energy offers. Retailers must obtain a customer's explicit informed consent before entering a market contract with them.

Customers without a market contract are placed on a standing offer with the retailer that most recently supplied energy at their premises (or, for new connections, with the retailer designated for that geographic area). A standing offer is a basic contract with prescribed terms and conditions that the retailer cannot change. It provides a full suite of customer protections and has no fixed term. Standing offer tariffs are generally higher than those offered under market retail contracts, and can be changed no more than once every six months. Since 1 July 2019 standing offer electricity prices are set or capped by an independent regulator in all jurisdictions (section 6.5). Retailers are free to set their own standing offer gas prices, which are not regulated.

Victoria—the first state to fully deregulate its energy market—has the highest proportion of energy customers on market contracts, at around 93 per cent (figure 6.10). South Australia has 92 per cent of customers on market offers, which may reflect customers searching for cheaper deals, given the relatively high price of electricity in the state.

NSW and south east Queensland recorded a shift towards market contracts after electricity prices were deregulated in those regions in 2014 and 2016 respectively. The rate of customers shifting to market contracts has since slowed. At January 2020 around 87 per cent of customers were on market contracts in NSW, and 83 per cent in south east Queensland. Nearly all customers in regional Queensland were on standing offers.

In January 2020 there were 57 per cent of customers in the ACT on market contracts, compared with 38 per cent in 2018. The recent increase follows strong participation by Origin Energy in the market. In Tasmania, 1st Energy became the state's first new entrant retailer to residential customers in early 2019. Despite the new retailer, the proportion of customers on market contracts dropped significantly over 2019, after the Tasmanian Government set standing offer prices that attracted a majority of Aurora's market customers to switch back to the standing offer. At January 2020 only 2 per cent of Tasmanian electricity customers were on a market offer.

While customers on market contracts pay less on average than those on standing offers, market customers do not

necessarily receive the best price available. Contracts with expired benefits may be priced close to the standing offer. No data are currently published on the prices that customers pay under market contracts.

### 6.7.4 Customer awareness and engagement

Retail competition can drive innovation to bring a wider range of products and services to satisfy different customer preferences and demands. But competition can also increase complexity. Customers have found it difficult, for example, to compare retail offers, sometimes causing them to disengage from the market. Retailers have added to this complexity by adopting marketing strategies that make it difficult for customers to compare offers. Customer surveys have regularly found customers find the energy market difficult to navigate. These difficulties impose transaction costs (including time) that customers may face when comparing offers, which reinforces poor customer trust, and contributes to low levels of customer engagement with the market.

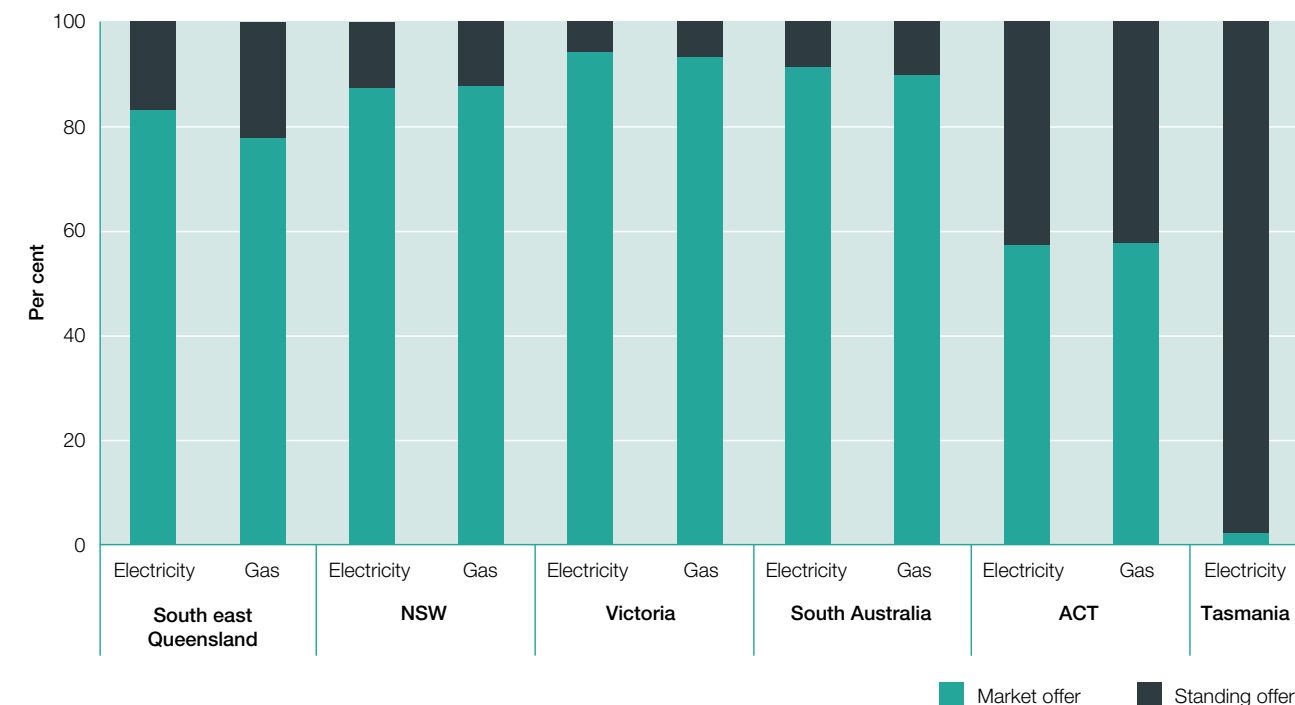
Some of the reforms introduced in the Electricity Retail Code in July 2019 sought to make it easier for customers to compare offers by simplifying and standardising how offers are presented. The reforms require marketed discounts to be quoted against a 'reference bill', being the default market offer set by the AER (section 6.5). Some retailers also introduced simpler pricing structures. These changes followed reforms in 2018 aimed at increasing customer engagement in the market. The 2018 reforms require retailers to notify small customers before any change in their benefits, alert customers to expired benefits, and provide at least five business days advanced notice of any price change under an existing contract.<sup>24</sup>

In Victoria, retailers must also prominently display their 'best offer' on customers' bills (every three months for electricity, and every four months for gas), along with advice on how to access it. The rules—introduced alongside the Victorian default offer in 2019—also require retailers to provide standardised fact sheets for their energy plans, which must include: estimates of how much the plan costs for a small, medium and large household; terms and conditions; discounts and vouchers; and other details specific to the plan.

While these reforms should improve customer engagement, barriers remain for some customers, including: language barriers; cultural issues; disabilities; low levels of literacy in

<sup>24</sup> AEMC, 'Final rule making retailers warn customers before their energy price change', Media release, 27 September 2018.

Figure 6.10  
Small customers on market and standing contracts



Note: Standing and market offer shares are based on the number of small customers at January 2020, except Victoria (June 2019). Queensland electricity numbers exclude customers in regional Queensland, who largely remain on standing offers.

Source: AER, *Retail markets quarterly*, Q2 2019–20, March 2020; ESC, *Victorian energy market report 2018–19*, November 2019.

energy markets, concepts and terms; and status quo bias for consumers to stay with their default retailer or plan.

#### Customer understanding of the market

Customer confidence in their ability to navigate the energy retail market increased over 2019 in all regions except Tasmania. Energy Consumers Australia reported residential customers' confidence in their ability to make good choices in retail energy markets rose from 63 per cent in 2018 to 69 per cent in 2019. Customer confidence in the availability of easily understood information also rose, from 54 per cent to 60 per cent of households, and from 54 per cent to 63 per cent of small businesses.<sup>25</sup> These improvements may be partly due to recent reforms to help customers make informed decisions.

Market developments—including the rollout of smart metering and cost-reflective tariffs—will potentially add another layer of complexity to the market, making it harder for consumers to confidently engage in the market. But this

<sup>25</sup> ECA, *Energy consumer sentiment survey*, December 2019, January 2020, p. 12.

added complexity will be offset by better tools for comparing offers. Customers are more widely using price comparator websites to reduce bill shock and manage market complexity, for example.

Despite these developments, awareness of independent government comparator websites Energy Made Easy and Victorian Energy Compare remains low. Enhancements to Energy Made Easy made in early 2020 aim to simplify the user experience and increase the site's capability to compare innovative offers. These enhancements coincided with increased promotion of the site.

Commercial switching websites and services have also emerged as a way for customers to access better offers with minimal engagement. But there are risks to consumers in relying on commercial services to navigate energy retail markets (section 6.7.8).

In May 2018 the Australian Government announced it would implement a national consumer data right, which when authorised will allow consumers' data to be shared with trusted third parties. The ACCC is developing arrangements for the energy sector, with the expectation that increasing

the availability of and access to electricity data (such as a household's current energy deal and consumption patterns) will support customer decision making by enabling more personalised and precise comparison of offers.<sup>26</sup>

### Customer satisfaction

Customers' satisfaction with retail energy markets depends on factors including price, value for money, reliability, the customer service of their retailers, confidence in engaging with the market, technology uptake, and ability to switch.

Around 74 per cent of residential customers were satisfied with their energy supply arrangements in NEM jurisdictions in 2019 (compared with 70 per cent in 2018), but the rate was slightly lower in Queensland and the ACT.<sup>27</sup> Satisfaction with value for money in electricity rose in all regions (to around 52 per cent of customers), with significant increases in the ACT (up 22 per cent) and Tasmania (up 13 per cent). Satisfaction rates tended to be higher for gas than electricity supply (averaging 65 per cent of customers).

Satisfaction with retail competition also rose in most regions, and was highest in NSW and Victoria (both at 60 per cent). Satisfaction elsewhere ranged from 58 per cent in South Australia to 26 per cent in Tasmania.<sup>28</sup> Yet, only one in three households was confident the market is working in their long term interests.<sup>29</sup>

While satisfaction rates were below those in industries such as phone, internet, insurance, water and banking, they were an improvement on recent years. Higher energy prices in 2017 and 2018 negatively affected customer perceptions, which closely tie to views on value for money.

### Customer switching

The rate at which customers switch retailers can indicate their level of engagement in the market. But these statistics should be interpreted with care—switching may be low in a competitive market if retailers deliver good quality, low priced service that gives customers no reason to change, for example. Switching data fails to capture customer movements to new contracts with the same retailer, so understates customer activity in the market. Conversely, switching data captures when a customer moves house

and signs a new contract, even if it is with the same retailer (thus overstating customer activity).

Reforms introduced in December 2019 aim to make it easier for customers to switch retailer by allowing them to transfer within two days of a cooling off period expiring.<sup>30</sup> This new process will limit retailer 'save' activity (retailers contacting customers who try to switch retailer, with a better offer to encourage them to stay) and allow customers faster access to prices and products they want.

Small customer switching decreased in 2019 in most regions for both electricity and gas customers (figures 6.11 and 6.12). Switching decreased despite reforms to marketing rules and customer notification requirements that aim to make it easier for customers to compare offers and explore whether better offers are available. The reduction follows increased switching activity in 2018, when greater effort to encourage customer engagement began, and coincides with relatively stable energy prices over 2019. Retailers also maintained their focus on retaining existing customers—of customers who considered switching in 2019, 16–24 per cent were offered a special deal to stay with their current retailer.<sup>31</sup>

Residential customers in NSW, Victoria and South Australia were most likely to switch retailer because they were dissatisfied with value for money. Residential customers in Queensland and the ACT typically switched because they searched for a better plan on a price comparison website.<sup>32</sup> Finding a better plan on a price comparator website was also the leading factor that drove switching for business customers.<sup>33</sup>

While overall switching activity was strong, over a third of customers had never switched retailer.<sup>34</sup> These customers may lack confidence in making decisions—nearly half of consumers were still not confident that they have access to easily understood information, for example.<sup>35</sup> Alternatively, these customers may be satisfied with their current supplier or unaware they can switch.

Victoria had the smallest proportion of customers who had never switched energy company or plan (27 per cent),

<sup>30</sup> AEMO, *NEM customer switching, Draft report and determination*, December 2019.

<sup>31</sup> AECA, *Energy consumer sentiment survey, December 2019*, January 2020, pp. 71, 86, 102, 117.

<sup>32</sup> ECA, *Energy consumer sentiment survey, December 2019*, January 2020, pp. 71, 86, 102, 117.

<sup>33</sup> ECA, *Energy consumer sentiment survey, December 2019*, January 2020, p. 56.

<sup>34</sup> ECA, *Energy consumer sentiment survey, December 2019*, January 2020, p. 55.

<sup>35</sup> AEMC, *2019 retail energy competition review, Final report*, June 2019, p. 99.

<sup>26</sup> ACCC, 'Next step for consumer data right in energy', Media release, 29 August 2019.

<sup>27</sup> ECA, *Energy consumer sentiment survey December 2019*, January 2020, p. 14.

<sup>28</sup> ECA, *Energy consumer sentiment survey December 2019*, January 2020, p. 18.

<sup>29</sup> AEMC, *2019 retail energy competition review, Final report*, June 2019, p. 91.

Figure 6.11  
Small electricity customer switching activity

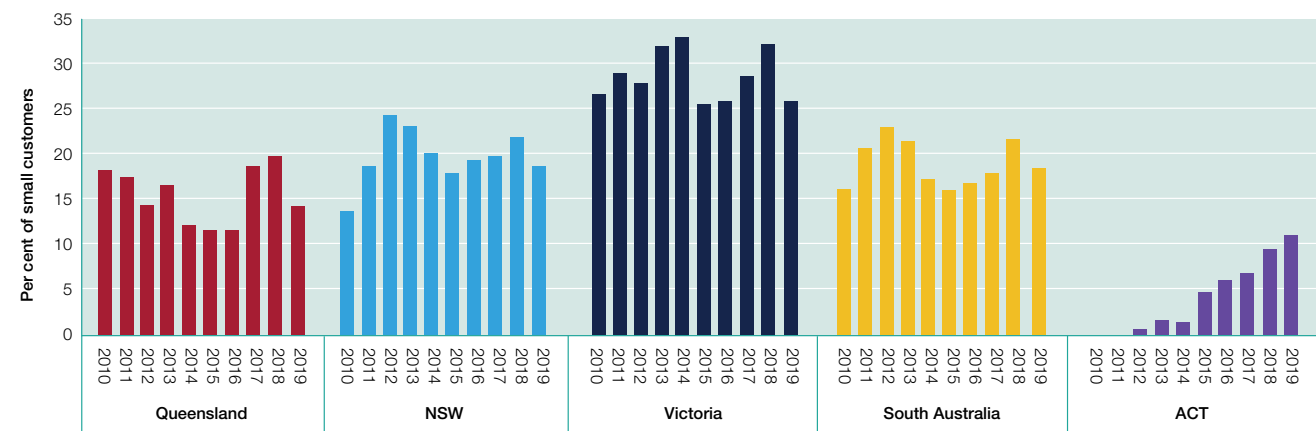
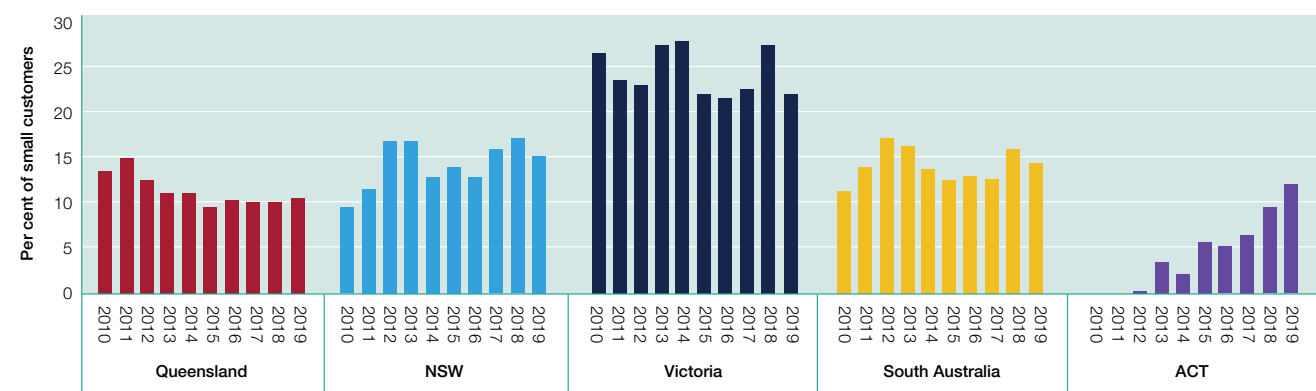


Figure 6.12  
Small gas customer switching activity



Note (figures 6.11 and 6.12): Total annual customer switches in a year divided by average customer numbers.

Source (figures 6.11 and 6.12): Customer switches: AEMO, *NEM monthly retail transfer Statistics*, December 2019; AEMO, *Gas retail market monthly statistics*, December 2019. Customer numbers: estimates from AER, *Annual retail markets report 2018–19*, November 2019; ESC, *Victorian energy market update*, March 2020.

followed by South Australia (29 per cent) and NSW (32 per cent). South east Queensland and the ACT had the most customers who had never switched (38 per cent and 40 per cent respectively).<sup>36</sup> These outcomes are consistent with other measures of customer engagement.

In other markets, engagement by even a limited number of customers can drive lower prices and product improvements that benefit all consumers. This outcome is less true for energy markets, where retailers can easily

identify and price discriminate against inactive customers. Many market offers include benefits that expire after one or two years, and customers who do not switch regularly may find themselves paying higher prices than necessary.

Reforms to the energy rules introduced in 2017 and 2018 require retailers to notify small electricity and gas customers before any change in their benefits, and provide advance notice of any price change.<sup>37</sup>

<sup>36</sup> ECA, *Energy consumer sentiment survey, December 2019*, January 2020, pp. 70, 85, 100, 116, 144. Data are not available for regional Queensland or Tasmania.

<sup>37</sup> AEMC, *Rule determination: National Energy Retail Amendment (Notification of the End of a Fixed Benefit Period) Rule 2017*, November 2017; AEMC, *Rule determination: National Energy Retail Amendment (Advance Notice of Price Changes) Rule*, September 2018.



These rules add to existing requirements for retailers to inform customers in writing about their options at the end of a fixed term contract, such as setting up a new contract or moving to another retailer. Importantly, retailers must ensure consumers are aware that they will be put onto a standing offer if they choose not to enter a new market contract with their current retailer.

### Electricity switching

Following an uptick in electricity switching in 2018 (24 per cent of small customers across the NEM), switching in 2019 eased to around 20 per cent—similar to average levels since 2015. Victoria remains the most active region, with 25 per cent of customers switching in 2019. Price spreads in energy offers tend to be higher in Victoria than elsewhere, meaning the potential savings from switching tend to be greater. Switching activity in Victoria eased in 2019, despite the Victorian Government extending its initiative of a \$50 payment to households for visiting the government comparator website, Victorian Energy Compare.<sup>38</sup>

Elsewhere, switching eased significantly in south east Queensland. This easing may reflect a return to more normal market conditions after a boost in activity in 2017 and 2018 following Alinta Energy's entry into the market. The ACT continues to have the lowest switching rates, due to the market's lack of competition, its small scale, continued price regulation, and the dominance of the incumbent retailer ActewAGL. But switching activity in the ACT continues to rise, with record switching rates of 11 per cent of customers in 2019.

### Gas switching

Switching rates in gas eased across the market in 2019, with an average 18 per cent of small customers changing retailer (down from 21 per cent in 2018). But switching rates rose in the ACT and were stable in Queensland. Lower switching activity in gas relative to electricity may reflect fewer retailers participating in gas, meaning less choice and fewer potential customer savings. Gas, as a secondary fuel, is also typically a lower cost for customers, so may not receive the same attention.

The AEMC found in 2019 that small business switching was down across electricity and gas, and generally small business customers tended to switch retailers more than they switched plans.<sup>39</sup>

38 The Hon. Daniel Andrews MP (Premier of Victoria), 'Busting energy bills with new \$50 power savings bonus', Media release, 1 July 2018.

39 AEMC, *2019 retail energy competition review, Final report*, June 2019, p. 114.

### 6.7.5 Retailer activity

Changes in retailer marketing activity can affect the level of customer switching. Consumer approaches by retailers appear to have been relatively steady over the past three years, with around 20 per cent of customers indicating an approach from a retailer prompted their most recent engagement in the energy market.<sup>40</sup> A peak of 53 per cent of residential customers were directly approached by a retailer in 2014. Enforcement around door-to-door selling by larger retailers has since reduced this activity.<sup>41</sup> But the use of digital acquisition channels, including retailers' websites and price comparison websites, is growing (section 6.7.8).

Retailers have also been less active in approaching businesses, with 64 per cent of businesses approached by a retailer offering to sell electricity or gas in 2019, down from 79 per cent in 2018.<sup>42</sup> Most contacts were in the form of a phone call by the retailer. Businesses report that retailers' marketing practices have become less aggressive.

While most retailers operate across multiple regions, only around one third of electricity retailers operating in south east Queensland, NSW, Victoria and South Australia operate in all four regions. The gas market is even more segregated, with most retailers concentrating on the NSW and Victorian markets.

Following new entry by two retailers in 2018, seven new retail brands entered the small customer electricity market in 2019:

- Amber Electric
- Elysian Energy
- Future X Power
- Nectr Energy
- OVO Energy
- Discover Energy
- Powerclub.

Additionally, five existing retailers began competing for customers in new jurisdictions:

- Powershop entered the South Australian market.
- 1st Energy entered the Tasmanian market.
- Red Energy entered the ACT market.
- Sumo Power entered the NSW market.
- Energy Locals entered the ACT and South Australian markets.

40 ECA, *Energy consumer sentiment survey, December 2019*, January 2020.

41 AEMC, *2018 retail energy competition review, Final report*, June 2017, p. 89.

42 AEMC, *2019 retail energy competition review, Final report*, June 2019, p. 111.

Minimal retailer activity in some markets may reflect perceived barriers to entry or expansion. Retailers cited the recent introduction of standing offer price caps (section 6.5) as a barrier to activity. Limited access to competitive risk management contracts was also cited as a significant barrier to entry or expansion in South Australia. The duplication of regulatory frameworks—notably in Victoria, which has its own Energy Retail Code—was another barrier due to the additional compliance costs it imposes.<sup>43</sup> Retailers also cited the practice of 'saves and win backs' as barriers to entry in some jurisdictions. 'Saves' refer to a retailer recontracting a customer who has indicated an intention to switch. 'Win backs' refer to retailers enticing a customer back shortly after they have switched to another retailer.

In gas, retailers identified access to reasonably priced gas and pipeline capacity as barriers to entry and expansion, especially in Victoria. Reforms in 2018 and 2019 sought to reduce these barriers by increasing transparency in the gas market and improving access to unused pipeline capacity through a day-ahead auction (chapter 4).

### 6.7.6 Product differentiation

In a competitive market, retailers offer a range of products and services to attract and retain customers. Energy retailers compete primarily on price, but with the introduction of standing offer price caps (section 6.5) and new restrictions around discounting (section 6.7.7), retailers are looking to differentiate their products in other ways.

Retailers can differentiate products by varying contract terms (length and fixed price periods) and offering other incentives (such as sign-up discounts, subscriptions and rewards). Some retailers have begun offering other products alongside electricity and gas (such as phone and internet) as a marketing and acquisition tool. These economies of scope may reduce the cost of customer acquisition and retention.<sup>44</sup>

In recent years, new retailers have offered products aimed at electricity customers with specific needs or preferences—including customers that desire simplicity or transparency, have environmental concerns, or have adopted new technology to regulate their electricity use.

There has been an increase in simple offers that provide a high level of bill certainty, such as fixed price contracts (where the customer pays a fixed amount regardless of how much energy they use) or subscription offers (where

43 AEMC, *2019 retail energy competition review, Final report*, June 2019, pp. 40, 41, 42.

44 AEMC, *2019 retail energy competition review, Final report*, June 2019, p. 44.

a customer pays a set amount each period to cover their expected electricity use).

There has also been an increase in offers with complex tariff structures that reward customers who have flexibility in when and how they use electricity. These structures include pool pass-through arrangements, where the customer takes on the risk of wholesale market volatility. Often these prices and products are accessible to only customers with specific technologies (for example, battery storage). These products may also come with 'add-on' services, such as systems to allow customers to track and control their energy use (section 6.8).

New waves of products and offers may emerge as battery storage systems become more affordable, and as accessibility to consumer energy data improves. But retailers noted the reintroduction of a regulated cap on standing offers may limit product innovation.<sup>45</sup>

### 6.7.7 Price differentiation

Price competition between retailers tends to play out through 'headline' discounts. In 2018 around two thirds of offers included discounts that were conditional on the customer meeting terms such as paying on time, e-billing, or paying by direct debit. Most discounts offered at least 10 per cent off the original bill, with some offering up to 40 per cent off (figure 6.13). However, the size of a discount was often deceiving, as retailers measured and applied discounts off different price bases.

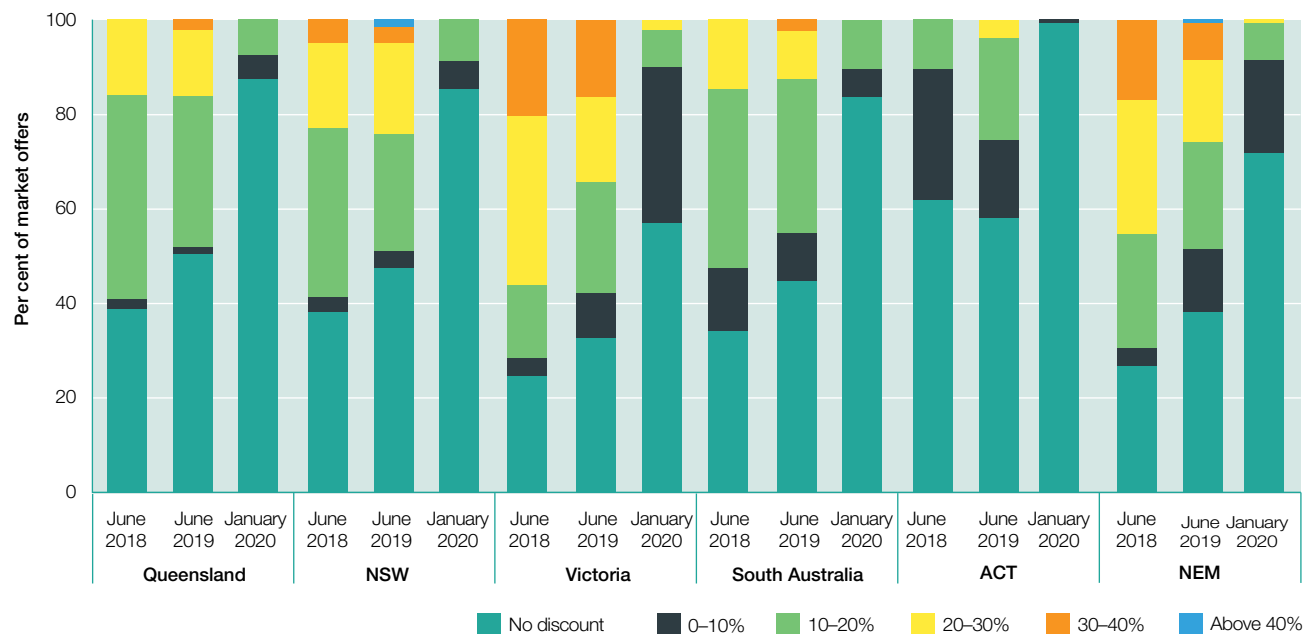
Advertising based on conditional discounts is problematic, because customers can be exposed to a much higher price if the conditions are not met. In 2018 over a quarter of residential customers (and over half of hardship customers) on offers with conditional discounts did not meet the conditions required to receive the discounted price.<sup>46</sup> The total number of missed conditional discounts was lower in 2019, but it is unclear if this outcome reflected higher rates of customers achieving discount conditions, or fewer customers on contracts with conditional discounts.

Reforms introduced in 2019 saw the practice of conditional discounting in electricity offers (and the size of discounts) significantly decline across all regions. From 1 July 2019 the Electricity Retail Code covered retailers in South Australia, NSW and south east Queensland.

45 AEMC, *2019 retail energy competition review, Final report*, June 2019, p. ii.

46 ACCC, *Restoring electricity affordability and Australia's competitive advantage, Retail Electricity Pricing Inquiry—final report*, June 2018, p. 29.

**Figure 6.13**  
**Conditional discounts for residential electricity market offers**



Note: Discounts are advertised conditional discounts in generally available market offers.

Source: Energy Made Easy website ([www.energymadeeasy.gov.au](http://www.energymadeeasy.gov.au)); Victorian Energy Compare website ([compare.energy.vic.gov.au](http://compare.energy.vic.gov.au)).

The code:

- prohibits retailers from charging customers on standing offers more than the default market offer (section 6.5)
- requires retailers to base any discount advertising off the default price
- prohibits retailers from including conditional discounts in their most prominent advertised price for market offers.

The Victorian Government is progressing similar reforms to retailer advertising.

Following the reforms, the proportion of electricity offers with guaranteed prices (no conditional discounts) rose significantly and by January 2020 accounted for over 80 per cent of offers in Queensland, NSW, South Australia and the ACT. In Victoria, they comprised almost 60 per cent of offers.

Although most reforms apply to only electricity, discounting practices in gas follow similar trends. In 2018 almost 80 per cent of gas offers had a conditional discount attached, but that share fell to around 35 per cent in January 2020.

Among energy offers with conditional discounts at January 2020, the majority advertised no more than 10 per cent off the base price. The size of discounts may reduce further following a rule change in February 2020 that limits

conditional discounts for both gas and electricity retail offers.<sup>47</sup> The new rule requires offered discounts to be no higher than the reasonable cost savings that a retailer can expect if a consumer satisfies the conditions attached to the discount.

#### Recent changes in market offers

The implementation of the Electricity Retail Code reduced prices in standing offers, but the impact on market offers was less clear. Higher priced market offers tended to be lower in price, reflecting that these offers often tie to a retailer's equivalent standing offer. But some of the lowest priced offers were also removed in some regions, leading to a significant narrowing of the price range of available offers from July 2019 to early 2020. Figures 6.14 and 6.15 compare prices under market and standing offers for residential electricity and gas customers at June 2018, June 2019 and January 2020.

The gap between market and standing offers for electricity narrowed in all jurisdictions between July 2019 and January 2020. In Victoria, the median standing offer fell 14–19 per cent over this period across the state's five distribution zones. By January 2020 the median Victorian standing offer

<sup>47</sup> AEMC, *Rule determination: National Energy Retail Amendment (Regulating Conditional Discounting) Rule*, 27 February 2020.

was around 6 per cent higher than the median market offer in each zone, compared with a 28 per cent difference in June 2019.

These price movements were mirrored elsewhere. In NSW, south east Queensland and South Australia, median standing offers fell 10–13 per cent between June 2019 and January 2020. By January 2020 the median standing offer averaged 9–14 per cent higher than market offers (narrowing from a 23–29 per cent difference in June 2019). In the ACT, the median market offer in January 2020 was 11 per cent lower than the median standing offer, narrowing from 16 per cent in June 2019.

While prices in standing offers and higher priced market offers have declined, customers who engage in the market can still benefit by switching regularly. A customer switching from the median electricity standing offer to the best market offer in their distribution zone could save up to 20 per cent (\$300–400 in annual savings) in January 2020.

Customers already on market offers could also save, with the lowest priced market offers averaging 7–8 per cent lower than median market offers (and with a 12–18 per cent saving in Victoria)—an annual saving of around \$100–200.

In gas, the gap between market and standing offers has remained stable, with median market offers in January remaining 8–21 per cent lower than median standing offers.

#### 6.7.8 Price comparison websites and switching services

The variety of product structures, discounts and other inducements makes direct price comparisons between retail offers difficult. Some customers use comparator websites to manage the complexity and large volume of different offers in the market.

The AER operates an online price comparator—Energy Made Easy—to help small customers compare retail offerings. The website shows all generally available offers, and has a benchmarking tool allowing customers to compare their electricity use with similar sized households in their area. The website is available to customers in jurisdictions that have implemented the Retail Law (Queensland, NSW, South Australia, Tasmania and the ACT).

The Victorian Government operates a similar website allowing Victorian customers to compare market offers—Victorian Energy Compare. In 2018 the NSW Government launched a switching service, Energy Switch, that provides a comparison of offers, helps arrange a switch and provides a reminder when it is time to review a plan.

Various private entities also offer online price comparison services. The AEMC identified 19 separate comparison websites in 2018.<sup>48</sup> Brokers are also active in the market for larger customers.

While comparison websites and brokers can provide customers with a quick and easy way of engaging in the market, some services may not provide customers with the best outcomes. Commercial comparator websites may only show offers of retailers affiliated with the site, for example. Comparison websites also typically require retailers to pay a commission per customer acquired or a subscription fee to have their offers shown. These arrangements are opaque to the customer. Commissions may vary across listed retailers, creating incentives for websites to promote offers that will most benefit the comparator business, rather than the cheapest offer for the customer.

In 2019 the ACCC initiated enforcement action against commercial price comparison site iSelect for allegedly misleading consumers. The ACCC claimed iSelect represented to consumers that it would compare all of the plans available from its partner retailers and would recommend the most suitable plan.<sup>49</sup> In practice, recommendations were allegedly influenced by commercial relationships, and did not involve a comparison of all available plans, and the recommended plans were not necessarily the most competitive.

To address these issues, the ACCC and the AEMC recommended the government prescribe a mandatory code of conduct to ensure price comparator and broker services act in the best interests of consumers.<sup>50</sup> The code would require the disclosure of commissions from retailers, show results from cheapest to most expensive, disclose the number of retailers and offers considered, and provide a link to government comparator websites.

Government operated comparison sites avoid bias by listing all generally available offers in the market. However, knowledge about independent government comparator sites remains low. In 2019 small business awareness of Energy Made Easy decreased by 5 per cent to 24 per cent, for example.<sup>51</sup> In contrast, Victorian business awareness of the state equivalent, Victorian Energy Compare, rose to 55 per cent. This increase is likely due to the Victorian

<sup>48</sup> AEMC, *2019 retail energy competition review, Final report*, June 2019, p. 102.

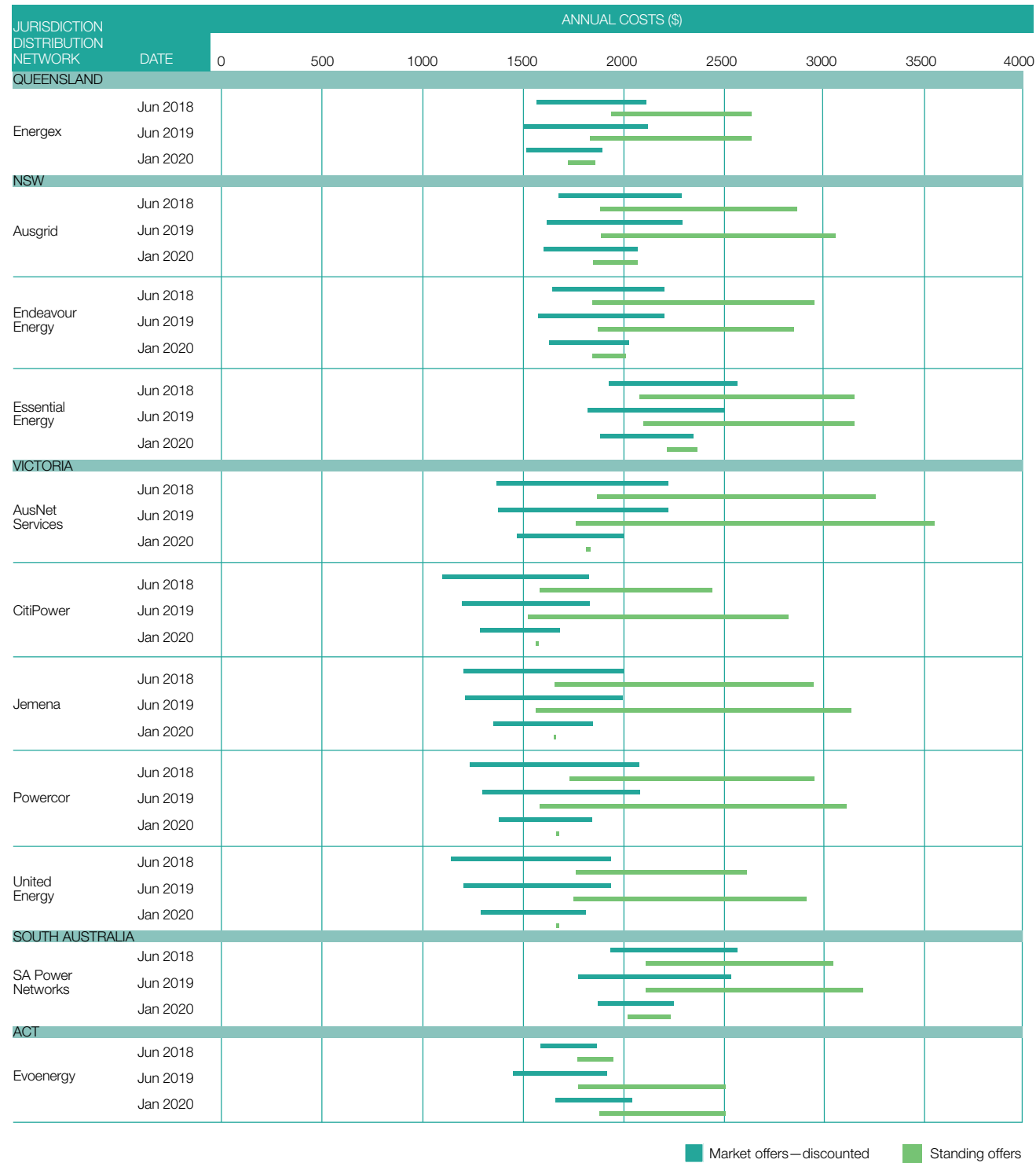
<sup>49</sup> ACCC, 'iSelect in court for alleged misleading conduct and claims about energy plan comparison', Media release, 12 April 2019.

<sup>50</sup> ACCC, *Restoring electricity affordability and Australia's competitive advantage, Retail Electricity Pricing Inquiry—final report*, June 2018, p. 282; AEMC, *2019 retail energy competition review, Final report*, June 2019, p. 282.

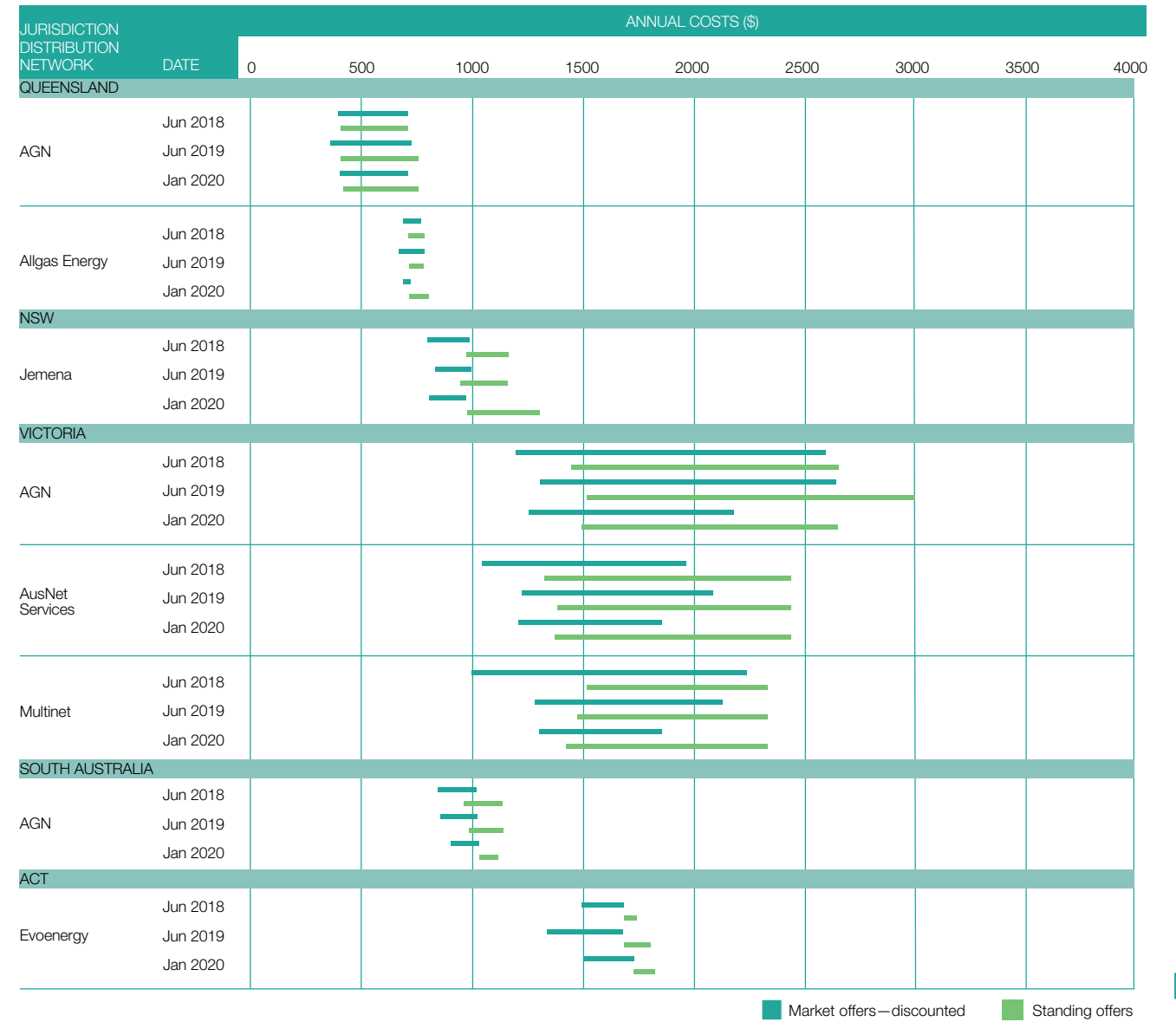
<sup>51</sup> AEMC, *2019 retail energy competition review, Final report*, June 2019, p. 106.



**Figure 6.14**  
Price diversity—electricity offers



**Figure 6.15**  
Price diversity—gas offers



Note (figures 6.14 and 6.15): Data include all generally available offers for residential customers using a single-rate tariff structure at June 2018, June 2019 and January 2020. Annual bills are based on average consumption in each jurisdiction (table 6.2). Market offer prices include all conditional discounts. Source (figures 6.14 and 6.15): Energy Made Easy website ([www.energymadeeasy.gov.au](http://www.energymadeeasy.gov.au)); Victorian Energy Compare website ([compare.energy.vic.gov.au](http://compare.energy.vic.gov.au)).

Government's \$50 bonus for each household or business that uses the website until 30 June 2020.

## 6.8 The evolving electricity market

Advances in metering and electricity generation, management and storage technologies are changing how the retail market works. Power of Choice reforms aim to provide customers with opportunities to benefit from these changes. Reforms include a market led rollout of smart meters, introducing cost-reflective network pricing, making it easier for consumers to compare and switch retailers, and enabling wider use of demand response.

Industry bodies developed a code of practice on standards of consumer protection when businesses offer new energy products and services.<sup>52</sup> The code covers all aspects of supply, including marketing, finance, installation, operation, customer service, warranties and complaints handling. The ACCC authorised the code in December 2019, subject to conditions on the offering of 'buy now pay later' finance arrangements. The authorisation decision was under review by the Australian Competition Tribunal in early 2020.<sup>53</sup>

### 6.8.1 Smart meters

Smart meters measure electricity use in half hour blocks, and allow remote reading and connection/disconnection. The information about a customer's energy use throughout the day from smart meters provides scope for more innovative offers from retailers, and for new energy management services from third parties.

Victoria was the first region to progress metering reforms, with its electricity distribution businesses rolling out smart meters to around 98 per cent of customers across 2009–14. Elsewhere, the rollout has occurred on a market led basis. Responsibility for metering outside of Victoria transferred from network businesses to retailers in December 2017. All new and replacement meters for residential and small businesses consumers must now be smart meters. Outside Victoria, around 12 per cent of

customers had a smart meter at February 2020.<sup>54</sup> Another 5 per cent of customers (mostly in NSW) had access to an interval meter providing half hourly consumption readings but without remote reading and connection capabilities.

The transition to retailer responsibility for metering coincided with large delays in meter installations in some regions. Retailers attributed the delays to: poor coordination and data provision among network businesses, retailers and metering coordinators; inadequate retailer systems, processes and controls; and poor resourcing.

Since February 2019 new rules require retailers to provide customers with electricity meters within six business days after a property has been connected to the network, or replacement meters within 15 days.<sup>55</sup>

### 6.8.2 Rooftop solar PV and batteries

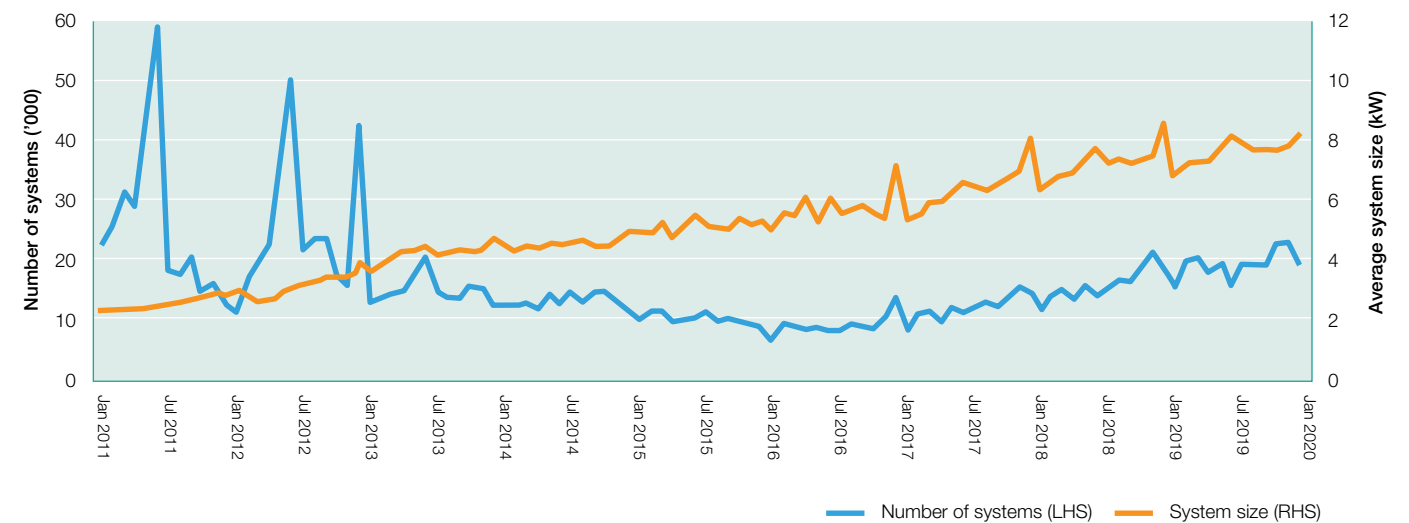
Many customers now partly meet their electricity needs through rooftop solar PV, and sell excess electricity back into the grid. At January 2020 over 2 million households and businesses in the NEM (32 per cent of customers) had installed rooftop solar PV systems.

New installations of solar PV systems peaked in 2011 (figure 6.16) due to attractive premium feed-in tariffs offered by state governments. Those schemes have closed, but ongoing subsidies provided by the Australian and some state governments, combined with falling costs of solar PV systems, sustained growth in new installations. The average size of solar PV systems has also grown. Total solar capacity installed in 2019 (1760 MW) was more than double the capacity installed in 2011 (750 MW), despite 25 per cent fewer systems being installed.

When installed with solar PV systems, battery storage and smart appliances allow customers to better match their electricity requirements over time, reducing the amount of power they need to withdraw from the network. Of the 590 000 solar PV systems installed in the NEM since 2017, 3 per cent have had an attached battery system.<sup>56</sup> The uptake of batteries has remained stable over the past three years, despite declining battery costs.

Solar PV systems can be purchased outright by customers, or installed under a power purchase agreement. Under these agreements, an energy provider installs, owns, operates and maintains a solar PV system at a customer's

**Figure 6.16**  
Growth of solar PV installations



kW, kilowatts.

Note: Data at January 2020.

Source: Clean Energy Regulator, Postcode data for small scale installations, Small generation units—solar.

home, and sells the generated energy to that customer. In return, the customer pays for the electricity produced by the system, typically at a cheaper rate than an energy retailer would charge for supplying electricity through the grid. Some agreements transfer ownership of the solar PV system to the customer at the end of a contract.

Excess electricity produced by solar PV systems is typically sold back to the customer's retailer. However, some retailers offer customers the ability to on-sell excess electricity to other customers.

Increasing rates of rooftop solar PV generation pose significant challenges for the traditional retail model. Households with solar PV systems typically do not produce enough energy to meet all their requirements, and buy the balance from a retailer. But the lower volumes they buy make these customers less profitable for the retailer. Battery storage may further reduce energy purchases by these users.

### 6.8.3 Demand response

Smart meters provide customers with opportunities to participate in demand response programs run by retailers, distribution network businesses or third party energy providers.

The simplest demand response programs offer customers financial incentives to reduce their electricity use after

receiving an alert from their retailer or network business. More sophisticated programs include technologies that optimise solar PV and storage systems, and automated load control devices that reduce power consumption from appliances such as air conditioning, hot water systems or pool pumps when required. Automating customer participation is likely to see greater uptake of these programs.

The Australian Renewable Energy Agency (ARENA) is funding a range of 'virtual power plant' trials that coordinate output from small scale solar and battery systems to provide services equivalent to large scale generation plant (section 1.2.2).

These opportunities provide a new source of competition across the supply chain. Demand response can be deployed in the wholesale market to manage or limit price spikes, and can also be used by networks to manage system constraints, for example.

### 6.8.4 Customers in embedded networks

Many customers are supplied energy through embedded networks (where a group of customers are located behind a single connection point to the main distribution network). Energy is supplied on a similar basis to customers directly connected to a distribution network. The customer

<sup>52</sup> ACCC, *Determination: Application for authorisation AA1000439 lodged by Australian Energy Council (AEC), Clean Energy Council (CEC), Smart Energy Council (SEC) and Energy Consumers Australia (ECA) (together the Applicants) in respect of the New Energy Tech Consumer Code*, December 2019.

<sup>53</sup> Flexigroup Limited, a provider of finance products for new energy products and services, sought removal of the ACCC imposed conditions on the provision of buy now pay later finance by signatories of the code (see [www.competitiontribunal.gov.au/current-matters/act-1-of-2019](http://www.competitiontribunal.gov.au/current-matters/act-1-of-2019)).

<sup>54</sup> AEMO data (unpublished).

<sup>55</sup> AEMC, *Rule determination: National Energy Retail Amendment (Metering Installation Timeframes) Rule 2018*, December 2018.

<sup>56</sup> Clean Energy Regulator, *Solar PV systems with concurrent battery storage capacity by year and state/territory*. Data at 31 January 2020.



experience in embedded networks, however, can be significantly different. Many customers cannot buy energy from a provider other than their network operator, or can only do so at significant cost.

Embedded network customers have less access to the competitive market than customers supplied through a distribution network, despite reforms implemented in December 2017. Gaps in consumer protection occur in areas such as connection services, disconnection and reconnection obligations, and life support arrangements. Most customers in embedded networks also have limited avenues for dispute resolution.

In June 2019 the AEMC recommended a new regulatory framework for embedded electricity networks to address these issues.<sup>57</sup> A Council of Australian Governments (CoAG) Energy Council working group was progressing an implementation framework in 2020.<sup>58</sup>

## 6.9 Energy affordability

Energy affordability relates to customers' ability to pay their energy bills. A customer's energy consumption, their energy contract and prices, their income, and other living costs affect affordability.

A customer's energy use varies with how many people they live with, housing and appliance quality, heating and cooling needs, and lifestyle. Energy prices depend on where a customer lives, the network services required to supply their energy, competition between retailers in their area, the customer's ability to identify an appropriate energy plan, and whether the customer is eligible for a concession or rebate to help manage their energy costs.

Low income customers face heightened affordability risks, but may be familiar with available support services. Middle income households overwhelmed by financial and family commitments, and out of touch with how to access support services such as concessions and payment plans, are also at risk of poor energy affordability outcomes.<sup>59</sup>

To better understand issues facing customers in vulnerable circumstances, the AER in 2020 published research (by the Consumer Policy Research Centre) on the opportunities

and benefits of different regulatory approaches to address consumer vulnerability in regulated markets.<sup>60</sup> The report will inform the AER's approach in this vital area.

The AER reports annually on energy affordability, with a focus on low income households.<sup>61</sup> In 2018–19 electricity affordability improved for low income households in all jurisdictions, and especially in South Australia, Queensland and NSW (figure 6.17). Gas affordability for low income households continued to deteriorate in Victoria but improved elsewhere.<sup>62</sup> These outcomes were largely driven by lower retail prices for gas and electricity. However, while affordability has improved, energy costs remain high in historic terms.

Supporting the finding of improved energy affordability, a *Choice* survey in November 2019 found electricity was no longer the expenditure item of most concern to households. While 78 per cent of households said electricity costs were a worry, this response is down from 84 per cent two years ago.<sup>63</sup>

For a typical low income household receiving energy bill concessions, at July 2019:

- electricity costs accounted from 4.8–9.9 per cent of disposable income for low income households (down from 5.2–10.6 per cent in 2018).
- gas costs accounted from 2.6–6.8 per cent of disposable income for low income households (compared with 2.7–6.4 per cent in 2018).<sup>64</sup>

Tasmanian customers had the highest electricity bill to income ratio in low income households. This outcome in part reflects Tasmania having the highest average use of electricity—due to a cold climate creating a high demand for heating, and the state's low gas penetration. High concessions and relatively low electricity charges partly offset this factor. South Australian customers also experienced relatively high electricity bill to income ratio in low income households. While the state has the second lowest electricity use in the NEM, electricity prices are high.

Despite above average electricity use, the ACT had the most affordable electricity bills as a percentage of disposable income—a result of relatively low electricity prices and high incomes.

57 AEMC, *Updating the regulatory frameworks for embedded networks*, Final report, June 2019

58 CoAG Energy Council, *CoAG Energy Council response, Australian Energy Markets Commission review of the regulatory frameworks for distributor-led stand-alone power systems—priority 1*, Final report, 2 December 2019.

59 Newgate Research, *AEMC 2016 retail competition review: understanding vulnerable customer experiences and needs*, Consumer research report, June 2016.

60 CPRC, *Exploring regulatory approaches to consumer vulnerability*, A report for the Australian Energy Regulator, November 2019.

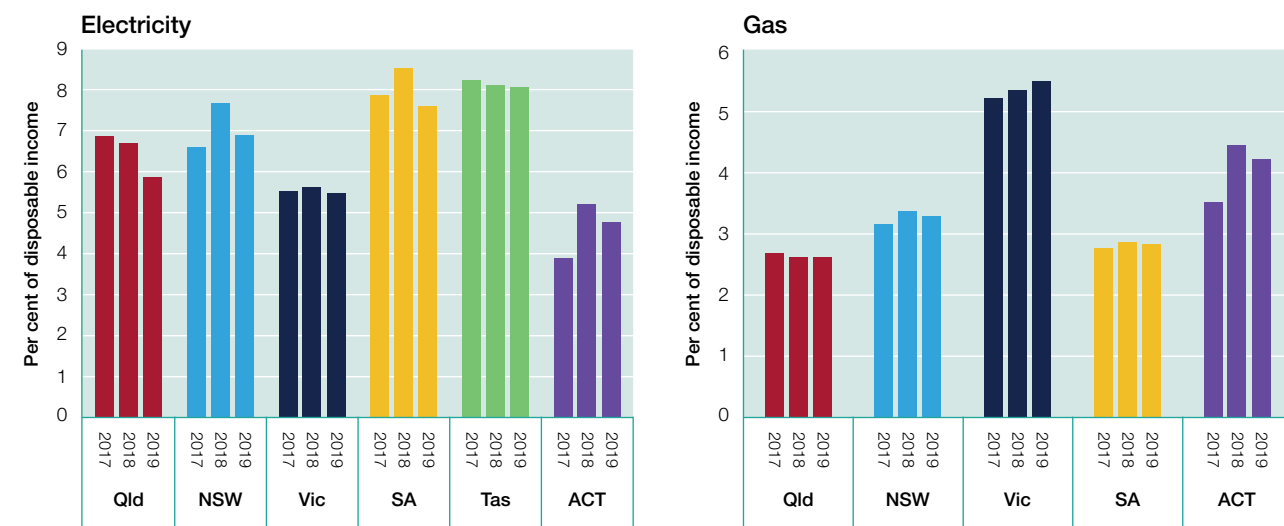
61 AER, *Affordability in retail energy markets*, September 2019.

62 Based on the percentage of household disposable income spent on the median retail offer.

63 Kollmorgen, A. 'Two in three Australian households are feeling the pinch', *Choice*, 6 November 2019.

64 AER, *Affordability in retail energy markets*, September 2019.

Figure 6.17  
Energy bill burden on low income households



Note: Based on average household consumption data for each state. Energy costs based on the median of generally available single-rate offers (inclusive of discounts) at June each year. The data account for available concessions and rebates. Income data are equivalised disposable income (adjusted lowest income quintile) as reported by the Australian Bureau of Statistics in 2015–16 and 2017–18, adjusted for other years using the consumer price index.

Source: AER, *Affordability in retail energy markets*, September 2019.

In gas, the high use jurisdictions of Victoria and ACT had the highest bills (across market and standing median offers) as a percentage of disposable income.

Low income households in all jurisdictions often paid more than double (as a share of income) what households on higher incomes paid for their energy. State and territory governments offer energy concessions to eligible low income households, which can significantly improve affordability. Most jurisdictions also offer emergency bill support. The potential savings vary by jurisdiction and depend on how the concession is applied, but can be several hundred dollars per year for each fuel.

Recent policy recommendations have focused on concessions to help manage rising bill burdens on energy consumers. Most jurisdictions offer concessions as a fixed annual dollar amount (ranging from \$73 for gas customers in Queensland to \$560 for electricity customers in Tasmania). Victoria applies the concession as a percentage of a customer's energy bill (17.5 per cent in 2019).

The ACCC found the way concessions are applied can affect their helpfulness.<sup>65</sup> In South Australia, for example, a customer must reapply for a new concession every

65 ACCC, *Restoring electricity affordability and Australia's competitive advantage*, Retail Electricity Pricing Inquiry—final report, June 2018, pp. 297–303.

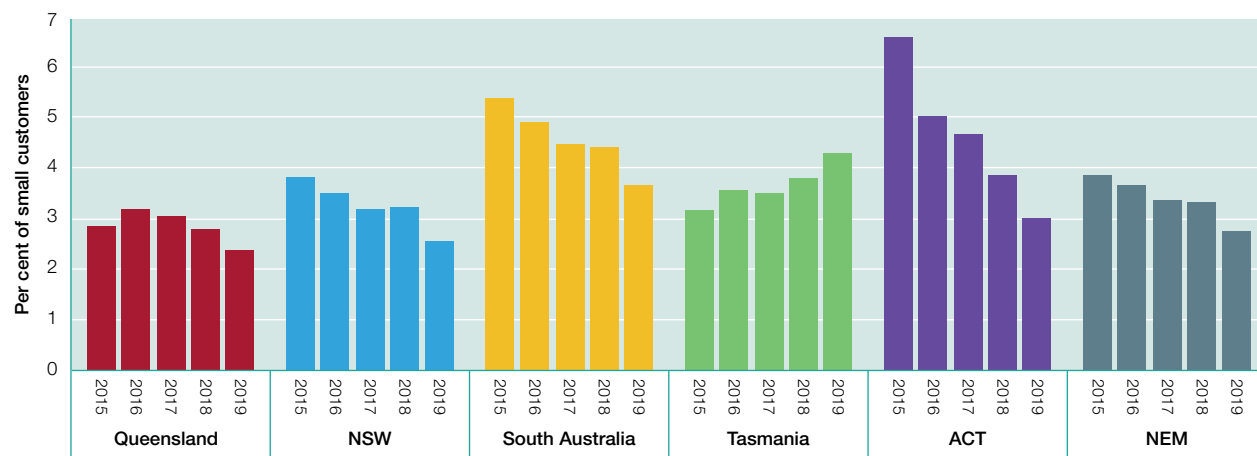
time they change retailer—which may discourage them from switching to cheaper offers. Emergency bill support varies across states by amount, eligibility requirements and administration, but usually cannot be accessed more than once every one to three years.<sup>66</sup>

While concessions represent an important saving for eligible households, many households can achieve significant savings simply by switching to a cheaper offer. State governments have implemented initiatives to move low income households onto lower cost offers, or help them improve their energy efficiency:

- South Australia's Concessions Energy Discount Offer, offered through Origin Energy, allows concession customers to receive up to 20 per cent off their electricity bill, and 11 per cent off their gas bill, as part of the offer.
- Victoria's Energy Brokerage Pilot, delivered in partnership with Brotherhood of St Laurence, connected low income households with energy brokers to help them find better energy offers.
- Tasmania's Power\$mart Homes helps low income households save money on their bills by providing upgrades such as LED light bulbs, draught sealing and expert energy efficiency advice.

66 Information on these schemes is available from state government departments and ombudsmen websites.

**Figure 6.18**  
**Small customers in energy debt**



Note: Based on customers with an amount owing to a retailer that has been outstanding for 90 days or more, at 30 December 2019.  
Source: AER, *Retail markets quarterly*, Q2 2019–20, March 2020.

- The ACT’s Energy Efficiency Improvement Scheme includes a target for electricity retailers to achieve energy savings for low income households through efficiency measures.

Energy debt in some jurisdictions is seasonal, particularly for gas customers. In the ACT, for example, gas debt often grows larger in the December and March quarters because customers may have difficulty in paying off larger winter heating bills.

### 6.9.1 COVID-19 issues

In 2020 the COVID-19 pandemic has posed serious financial risks for many energy customers. Retailers, networks and governments have responded with a variety of support programs for customers in vulnerable circumstances (box 6.3).

### 6.9.2 Assisting customers in debt

Energy affordability issues can lead customers into debt that, if not managed, may result in disconnections. A household’s energy debt refers to amounts owing for 90 days or more to a retailer. The number of residential electricity and gas customers in debt fell in most regions in 2019, continuing the trend over the past four years.

Tasmania had the highest percentage of residential energy customers in debt at December 2019, at 4.3 per cent of customers (figure 6.18). NSW and Queensland had the lowest rate of customers in debt, at around 2.5 per cent. The average value of debt was highest in South Australia and Tasmania at \$955 and \$893 respectively, and lowest in Queensland at \$607.

A retailer’s approach to managing customer debt can have a significant impact on whether a customer can successfully navigate a period of financial difficulty. In 2019 the AER highlighted a concerning practice of retailers referring customers for collection activity for debt that is often less than \$500.<sup>67</sup> In December 2019 around half of all customers referred for collection activity received a credit default as a result of their unpaid energy debt. A credit default can have a significant negative impact on a customer, including limiting their ability to obtain a credit card or mortgage, or access low cost energy market contracts.

#### Payment plans

Payment plans allow settlement of overdue amounts in periodic instalments, and are typically the first assistance offered to customers showing signs of payment difficulties. The AER’s Sustainable Payment Plans Framework guides retailers on negotiating affordable payment plans with customers needing assistance to manage debt.<sup>68</sup>

<sup>67</sup> AER, *Annual retail markets report 2018–19*, November 2019.

<sup>68</sup> AER, *Sustainable payment plans, A good practice framework for assessing customers’ capacity to pay, Version 1*, July 2016.

### Box 6.3 Responses to COVID-19

In March 2020 the Australian Energy Regulator (AER) released a statement of expectations on how energy businesses should respond to the COVID-19 pandemic. This statement reiterated energy is an essential service, and the market has an important role in protecting and supporting businesses and the community through the COVID-19 pandemic and recovery. We expect energy retailers to:

- offer payment plans or hardship arrangements to all residential and small business customers who indicate they may be in financial stress, regardless of whether the customer meets the ‘usual’ criteria for assistance
- not disconnect any residential or small business customers who may be in financial stress (without their agreement) before 31 July 2020 and potentially beyond
- defer referrals of customers to debt collection agencies for recovery actions, or credit default listing until at least 31 July 2020
- waive disconnection, reconnection and/or contract break fees for small businesses that cease operation, along with daily supply charges during periods of disconnection until at least 31 July 2020.

Most retailers, including members of the Australian Energy Council, have committed to similar measures to support customers facing financial distress, including:

- providing support through measures such as payment plans
- helping customers to access available grants and concessions
- ensuring there are no barriers to entering hardship programs
- not disconnecting affected customers who receive hardship assistance if they are unable to afford their energy bills
- pausing any external debt collection and bankruptcy proceedings for customers in the hardship program, and not applying late fees if these customers cannot pay on time.

Together with the Essential Services Commission, we have requested that energy retailers report more frequently on customer outcomes over this period. Data on call centre performance, customer debt levels, credit collection, payment plans and hardship programs will be collected on a weekly or monthly (rather than quarterly or annual) basis.

Due to COVID-19 restrictions and staff shortages, many retailers’ call centres have been significantly impacted. As a result, response times have been delayed and/or contact hours limited. However, most retailers have encouraged other means of forms of communication, including through their website, apps, email or online chat.

Energy networks in NSW, Victoria and South Australia have announced measures to support customers enduring hardship as a result of the COVID-19 pandemic. These measures apply to small business and residential customers:

- Network charges will not be applied for small business customers experiencing financial stress and who are mothballing as a result of COVID-19.
- Network charge support will be offered to residential customers who go into default as a result of COVID-19. For customers of small retailers, network charges will be rebated. For customers of larger retailers, network charges will be deferred.
- Support will be offered to retailers to not disconnect residential and small business customers who may be in financial stress.

These measures will apply to network charges for April to June 2020, with rebates to affected customers by September 2020.

The AER recognises the current heightened risks and costs facing energy businesses. For this reason, it is working with stakeholders to appropriately balance the risks and costs across the sector, and to ensure energy businesses



receive any assistance they may need to remain viable. The AER in May 2020 proposed an urgent change to the National Electricity Rules to support electricity retailers as they provide payment assistance to customers, by allowing them to defer payments of network charges by up to six months for customers affected by the COVID-19 pandemic. The proposal builds on the voluntary support measures being provided by some network businesses.

Several state governments have also announced COVID-19 specific support packages for households and businesses. In Queensland, for example, households will receive a \$200 utility payment to assist with their electricity and water bills, and small businesses consuming less than 100 000 kilowatt hours will receive a \$500 utility rebate. In the ACT, holders of a utilities concession will receive an additional \$200 rebate on their electricity bill. In Tasmania, Aurora Energy—in conjunction with the state government—capped price increases in energy bills for 12 months, and announced a 100 per cent waiver for small business customers on their next bill after April 2020.

The framework sets out good practice principles of engagement based on trust, respect and empathy to promote constructive, long term customer relationships. Nineteen retailers have signed on to the framework, covering over 90 per cent of customers.

Customers who fulfil the terms of their payment plan agreement—such as making all repayments under their plan and repaying outstanding debt—are considered to successfully complete the plan. In 2019 the proportion of electricity payment plans successfully completed decreased from 44 per cent to 38 per cent, but in gas rose from 31 per cent to 34 per cent. The low success rate indicates repayment schedules may not have been set at appropriate levels.

### Hardship programs

Referral to a hardship program may be warranted for customers facing payment difficulties. The Retail Law requires energy retailers in Queensland, NSW South Australia, the ACT and Tasmania to develop and maintain a customer hardship policy that underpins how they identify and assist customers facing difficulty paying their energy bills. The AER identified deficiencies in how retailers implement their hardship policies and in 2019 released a new hardship guideline, enforceable by civil penalties.<sup>69</sup> The guideline requires retailers to ensure their programs are easily accessible and include a standard statement explaining how they will help customers, and puts greater onus on retailers to identify who may need assistance.<sup>70</sup>

Assistance under a retailer's hardship program can include:

- extensions of time to pay a bill, and tailored payment options

<sup>69</sup> AER, *Customer hardship policy guideline, Version 1*, March 2019.

<sup>70</sup> AER, 'Hardship protections a right not a privilege', Media release, 29 March 2019.

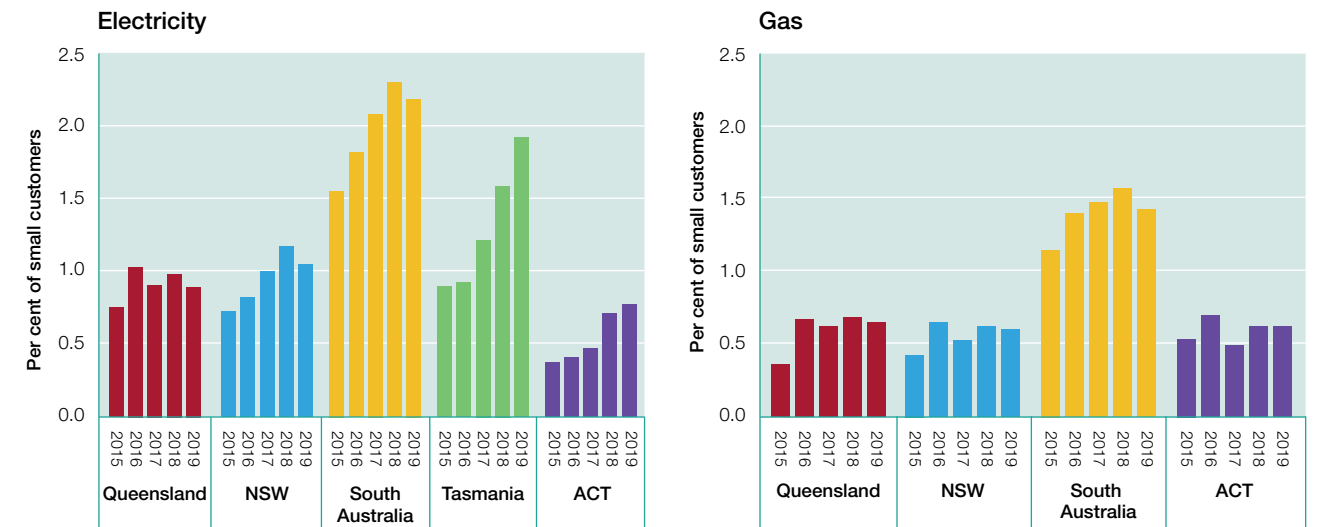
- advice on government concessions and rebate programs
- referral to financial counselling services
- a review of a customer's energy contract to ensure it suits their needs
- energy efficiency advice to help reduce a customer's bills, such as an energy audit and help to replace appliances
- a waiver of any late payment fees.

Customers can enter hardship programs by initiating entry themselves (around two thirds of customers), being identified by their retailer (around one third), or by referral by financial advisers or other agents (around 2 per cent). Among jurisdictions in which the Retail Law applies, the average proportion of customers on hardship programs decreased in 2019 (figure 6.19), after increases in previous years. South Australia continued to have the highest proportion of residential customers on hardship programs (2.2 per cent of electricity customers and 1.4 per cent of gas customers at December 2019). The ACT had the smallest proportion at around 0.8 per cent, but the rate has risen since 2017. Gas hardship customer rates in regions outside South Australia were around 0.6 per cent of customers in 2019.

Customers on hardship programs must typically make payments to cover any outstanding debt and ongoing energy costs. But retailers may allow a customer to make payments that are less than their ongoing costs (or do not take into account arrears), based on the customer's capacity to pay.

In 2019 the average hardship debt of electricity and gas customers increased by 16 per cent and 29 per cent respectively. The average electricity hardship debt was around twice the level of gas hardship debt (figure 6.20).

**Figure 6.19**  
Proportion of small customers on a hardship program



Source: AER, *Retail markets quarterly, Q2 2019–20*, March 2020.

Average electricity hardship debt and debt on entry to hardship programs was highest in South Australia and Tasmania, and lowest in Queensland. Outside Tasmania, electricity debt on entry to hardship programs was lower than average debt, indicating consumers accumulate additional energy debt while on hardship programs, which may become entrenched. Around 45 per cent of electricity customers on hardship payment plans and 36 per cent of gas customers were unable to meet their usage costs in 2019.

Average gas hardship debt and debt on entry in 2019 was significantly higher in the ACT than elsewhere, likely due to the high consumption of gas in the region.

The number of customers exiting hardship programs by paying off their debt is a useful indicator of programs' success. Successful completion of hardship agreements almost doubled between 2018 and 2019, to 31 per cent of customers. The rate remains low, however, indicating many hardship customers may not be receiving the assistance they require. Of the 34 742 customers who exited hardship programs in 2019, 58 per cent did not successfully meet their payment arrangement. Around another 10 per cent of hardship customers exited a program because they transferred to another retailer. Victoria operates its own state based hardship program. In 2019 it introduced new

minimum standards of assistance for customers who anticipate or face payment difficulties.<sup>71</sup>

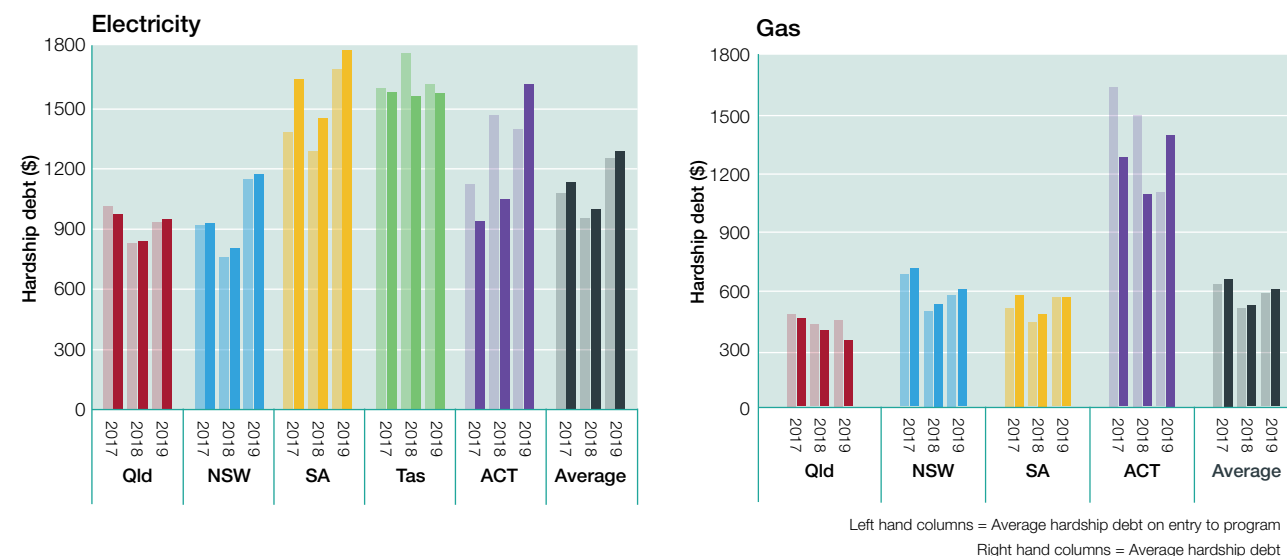
### 6.9.3 Disconnecting customers for non-payment

Energy retailers are required to help customers in financial hardship before considering whether to disconnect them for non-payment of a bill. Additionally, disconnection is not permitted in certain circumstances—such as when a customer's premises are registered as requiring life support equipment, a customer on a hardship program is meeting their payment obligations, or a customer's debt is below \$300. The National Energy Retail Rules set out strict processes that must be followed before a disconnection can occur. In 2019 disconnected customers typically had outstanding energy debts of between \$500 and \$1500.

Overall, the proportion of residential and small business customers disconnected for failing to pay an energy bill decreased in 2019. Queensland and South Australia had the highest rates of electricity disconnections in 2019, at around 1.2 per cent of customers. Around 0.85 per cent of NSW customers were disconnected, and 0.3 per cent of customers in the ACT and Tasmania (figure 6.21). Disconnection rates were generally lower in gas than

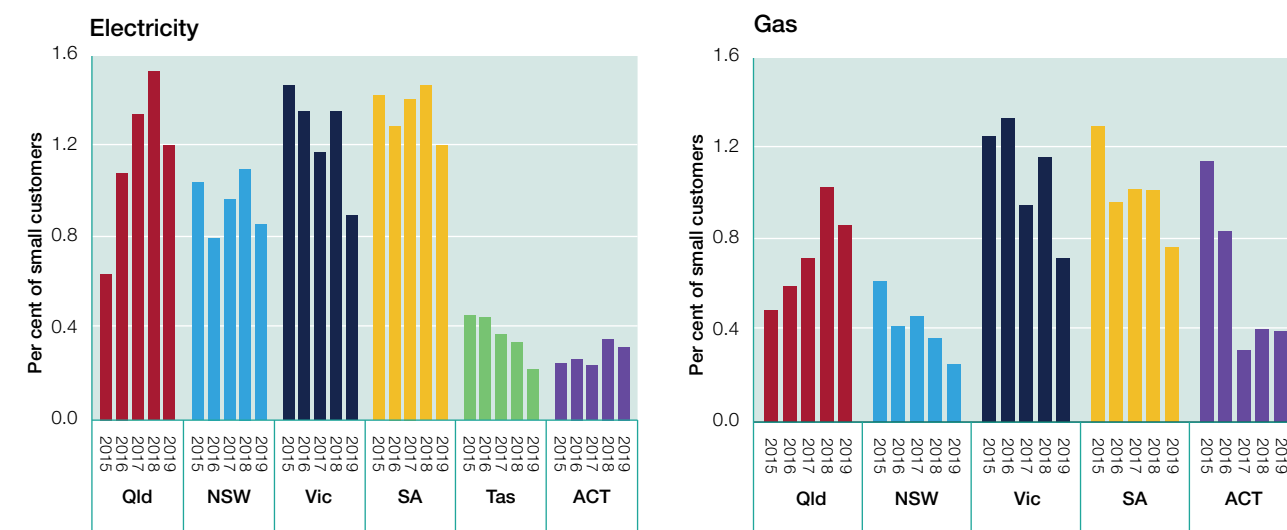
<sup>71</sup> ESC, *Amendments to the Energy Retail Code: payment difficulties*, October 2017.

**Figure 6.20**  
Average debt at time of entry to hardship programs and average hardship debt of small customers



Source: AER, *Retail markets quarterly*, Q2 2019–20, March 2020.

**Figure 6.21**  
Disconnection of residential customers for failure to pay amount due



Note: Based on customers with an amount owing to a retailer that has been outstanding for 90 days or more, at 30 December 2019 for all states except Victoria, which is at June 2019.

Source: AER, *Retail markets quarterly*, Q2 2019–20, March 2020; ESC, *Victorian energy market report 2018–10*, November 2019.

electricity, ranging from 0.4 per cent of customers in the ACT to 0.8 per cent of customers in Queensland.

Victoria recorded the largest reduction in disconnection rates in both electricity and gas in 2019. This reduction may reflect reforms introduced in January 2019 that raised the minimum amount of debt at which a customer can be disconnected from \$120 to \$300, and doubled the penalty for wrongful disconnections.

## 6.10 Customer complaints

Customer complaints can cover issues including billing discrepancies, wrongful disconnections, the timeliness of transferring a customer to another retailer, supply disruptions, credit arrangements, and marketing practices.

Customers can lodge a complaint directly with their retailer in the first instance. If unable to resolve an issue with their retailer, a customer can then take the complaint to the jurisdictional energy ombudsman scheme, which offers free and independent dispute resolution.

Some customer complaints relate to issues outside the retailer's control—complaints about price rises due to wholesale and network costs, for example. For this reason, the number of electricity complaints to ombudsman schemes can be a more meaningful measure of retailer performance than the number of complaints received by retailers. Retailers with effective customer service generally resolve complaints without the need for escalation to energy ombudsman schemes.

The number of electricity complaints to ombudsman schemes fell in Queensland, NSW and Victoria in 2018–19 (figure 6.22). South Australia has seen a rise in complaints since 2016–17, reflecting customer dissatisfaction with the implementation of electricity metering competition in that region. Rates are typically lower in Queensland than in other regions, at 0.26 per cent of Queensland customers in 2018–19 (compared with 0.7–1.0 per cent of customers elsewhere).

Gas complaints to ombudsman schemes are generally lower than for electricity. Victoria had the highest complaint rates at around 0.5 per cent of customers in 2018–19, a slight fall from the previous period.

Billing concerns continue to generate the largest number of complaints, constituting about 40 per cent of complaints in 2018–19. Credit issues—including the disconnection of customers following non payment, and the collection of outstanding charges—accounted for another 15 per cent of complaints, but were a larger issue in Victoria than elsewhere. Retailers' customer service was another

prominent issue (accounting for less than 10 per cent of complaints in most regions, but around 30 per cent in NSW).

## 6.11 Enforcement action in retail markets

The AER's recent enforcement activity has targeted areas including retailers' marketing practices and behaviour towards customers in vulnerable circumstances. Additionally, the ACCC has taken enforcement action against retailers under the Australian Consumer Law.

### 6.11.1 Marketing

The Retail Law's marketing provisions protect customers by requiring retailers to obtain the customer's explicit informed consent before signing them up to a new energy contract.

The ESC enforces similar provisions in Victoria. The Australian Consumer Law (enforced by the ACCC) also protects customers from improper sales or marketing conduct relating to unsolicited sales, misleading and deceptive conduct, and unconscionable conduct.

In February 2020 EnergyAustralia paid penalties totalling \$80 000 for allegedly failing to obtain explicit informed consent from customers. The AER issued four infringement notices to EnergyAustralia for the alleged breaches.<sup>72</sup>

The ACCC monitors how businesses promote discounts and savings under their energy offers, following concerns that consumers have been misled about the extent of savings available. Since 2019 the ACCC has issued infringement notices against Dodo and CovaU for alleged misleading claims about discounts available on their energy plans, due to advertised discounts being applied to market offers that were above standing offer rates.<sup>73</sup>

In April 2019 the ACCC instituted proceedings in the Federal Court against iSelect—a privately operated energy price comparison service—for misleading or deceptive conduct and false or misleading representations. The ACCC alleged iSelect did not compare all available plans from its partner retailers, and did not necessarily recommend the most competitive plan despite claims it would do so on its website.<sup>74</sup>

<sup>72</sup> AER, 'EnergyAustralia pays \$80,000 for switching customers without consent', Media release, 27 February 2020.

<sup>73</sup> ACCC, 'Dodo and CovaU to refund customers and pay penalties over energy discount claims', Media release, 18 July 2019.

<sup>74</sup> ACCC, 'iSelect in court for alleged misleading conduct and claims about energy plan comparisons', Media release, 12 April 2019.



**Figure 6.22**  
**Complaints to ombudsman schemes**



Source: Annual reports by ombudsman schemes in Queensland, NSW, Victoria and South Australia.

The ACCC also finalised an earlier Federal Court action against Amaysim (trading as Click Energy) for misleading marketing claims about discounts and savings that customers could obtain. The Court ordered Click Energy to pay penalties of \$900 000 for the breach.<sup>75</sup>

In Victoria, the ESC took action against Simply Energy and 1st Energy for transferring customers onto contracts without their explicit informed consent. The businesses paid penalties of \$300 000 and \$20 000 respectively.<sup>76</sup>

### 6.11.2 Customers in vulnerable circumstances

The AER's compliance and enforcement priorities include ensuring retailers maintain protections for customers using life support equipment, and provide appropriate assistance to customers experiencing payment difficulties.

In November 2019 the AER commenced legal proceedings against EnergyAustralia, alleging for eight customers between 2016 and 2018 that EnergyAustralia:

- failed to maintain and implement its hardship policy
- failed to provide customers the opportunity to enter into appropriate payment plans
- failed to offer and apply payment plans that had regard to the customer's capacity to pay
- failed to inform customers of EnergyAustralia's hardship policy, and/or
- wrongfully disconnected the customers.<sup>77</sup>

In August 2019 Origin Energy paid penalties totalling \$80 000 following the issue of infringement notices by the AER. Origin Energy allegedly wrongfully disconnected residential customers receiving hardship assistance and adhering to payment plans, or with energy debts of less than \$300. Origin Energy also provided the AER with an enforceable undertaking, committing it to undertake an audit and improve its systems and processes for managing disconnections.<sup>78</sup>

In April 2020 the AER commenced legal proceedings against EnergyAustralia for allegedly failing to comply with

life support requirements. The AER alleged EnergyAustralia, for a significant number of customers, failed from February 2018 to:

- register customers that required life support equipment, or advise the distributor that customers required life support equipment
- provide timely information to life support customers
- keep the registration details of its customers up to date.<sup>79</sup>

EnergyAustralia also failed to establish policies, systems and procedures for registering a premises as requiring life support equipment, and did not meet commitments it gave in an undertaking to the AER in August 2019. These commitments included registering customers requiring life support and reviewing customer phone calls within a prescribed timeframe.

In Victoria, the ESC took action against Momentum Energy for allegedly overcharging more than 2500 customers by failing to apply concessions to their bills, and then not notifying them in a timely way. Momentum Energy paid penalties of \$900 000 for this infringement.<sup>80</sup> Momentum Energy also agreed to compensate over 800 customers for allegedly failing to inform them they could be disconnected remotely, at a cost of around \$530 000.<sup>81</sup>

### 6.11.3 Other compliance action

The AER took other compliance action against retailers for alleged breaches of the Retail Law and National Electricity Rules from 2019:

- The AER commenced legal proceedings against AGL Energy in November 2019 for allegedly failing to submit timely and accurate retail market performance data.
- Discovery Parks paid \$40 000 following the issue of two infringement notices, for allegedly selling energy without an appropriate retailer authorisation or exemption.
- Energy Australia paid four infringement notices (totalling \$80 000), Origin Energy paid two infringement notices (totalling \$40 000) and M2 Energy (trading as Dodo Power and Gas) paid one infringement notice (\$20 000) for allegedly failing to promptly appoint metering coordinators following notice of a metering installation malfunction.

75 ACCC, 'Click Energy to pay \$900,000 for misleading claims', Media release, 27 March 2019.

76 ESC, 'Simply Energy pays \$300,000 in penalties for failing to obtain consent before switching customers', Media release, 16 December 2019; ESC, '1st Energy issued \$20,000 in penalties for switching small business customer without consent', Media release, 16 May 2019.

77 AER, 'EnergyAustralia alleged to have wrongly disconnected struggling customers', Media release, 21 November 2019.

78 AER, 'Origin pays penalties for alleged unlawful customer disconnections', Media release, 16 August 2016.

79 AER, 'EnergyAustralia in court for alleged failure to comply with customer life support obligations', Media release, 9 April 2020.

80 ESC, 'Momentum Energy pays \$900,000 for overcharging vulnerable Victorians', Media release, 12 November 2019.

81 ESC, 'Momentum Energy agrees to compensate disconnected customers over half a million dollars', Media release, 22 August 2019.