Source: shutterstock

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.

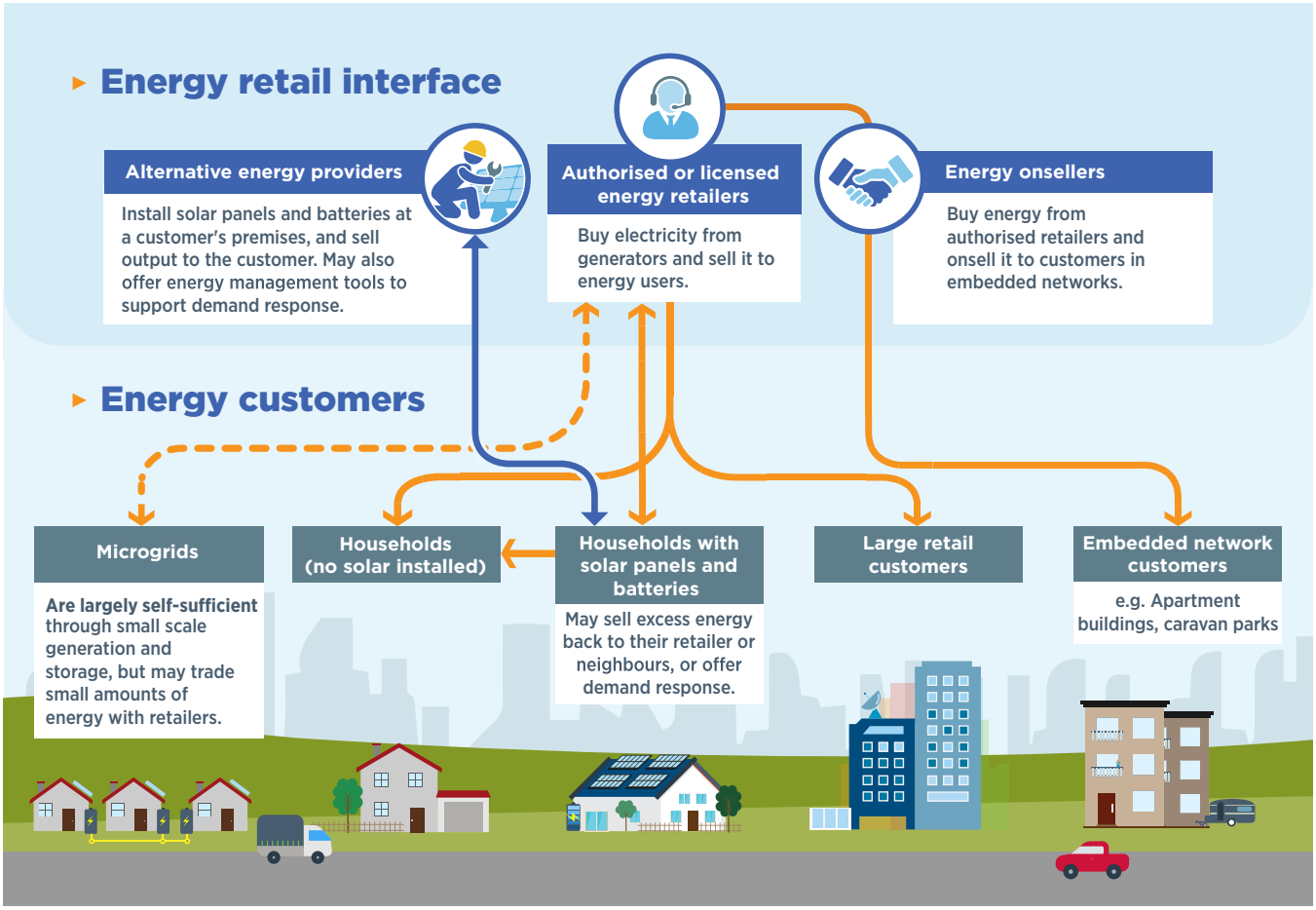
But advances in technology (particularly in the electricity market), high energy prices and environmental concerns are driving customers to be more active in the market and take greater control over their energy use (figure 6.1). Technologies that are opening markets for new types of energy services 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)
- electric vehicles, which may significantly increase customer electricity demand but can also offer electricity stored in the battery back into the market.

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

A small but growing base of customers are bypassing the traditional energy supply model, going 'off-grid' through self-sufficient solar PV generation and battery storage, community based standalone 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 that 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 for 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) 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 who are 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 5 of those jurisdictions and to gas retailing in Queensland, NSW, South Australia and the ACT. Victoria does not apply the national framework, but its regulatory arrangements are broadly consistent with it.[1]

The National Energy Retail Law (Retail Law) confers wide-ranging regulatory responsibilities on the Australian Energy Regulator (AER) (box 6.1). This chapter focuses on the 5 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.

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.[2]

Small customers make up over 99% of electricity and gas connections, although they account for less than 50% 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 than, for example, customers in embedded networks or entering solar power purchase agreements.

State and territory governments regulate electricity prices in Victoria, the ACT, Tasmania and regional Queensland. Since 1 July 2019 the AER sets caps on 'standing offer' prices[3] for electricity in jurisdictions without state-based price regulation (section 6.6).

1 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.

2 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.

3 Standing offers apply where 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 6 months.

6.3 Energy retailers

Energy sellers include:

- those authorised as retailers under the Retail Law
- those exempt from the requirement to be authorised[4]
- 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 customers in all 5 participating jurisdictions.

In April 2021, 98 businesses held authorisations to retail electricity and 37 businesses held authorisations to retail gas.[5] Since the start of 2020, 11 new retailers have been authorised to retail electricity and 2 have been authorised to retail gas. Victoria has 55 licensed electricity retailers and 29 licensed gas retailers, including 5 electricity retailers and 3 gas retailers that are not authorised to provide energy services in other regions.

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. There has been an increase in 'white-label' retailing – for example, where a business offers energy services under its own name but partners with an authorised retailer to provide the services. Section 6.4 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 large commercial customers, for example, or those in embedded networks. Some retailers target users with certain characteristics, such as those with swimming pools, solar PV or battery systems, or those with flexibility in when they use energy.

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

Forty-five retail brands sell energy to residential or small business customers in southern and eastern Australia (table 6.1). Twenty 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.

Twenty-five retail brands offer energy in all 4 of the largest markets – south east Queensland, NSW, Victoria and South Australia. NSW has the largest number of active electricity retailers (40), followed by Queensland (38), Victoria (31) and South Australia (29). 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.

In gas, however, Victoria has significantly more brands (17) than other regions (7–12). 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, Tasmania and regional Queensland have less competitive energy markets, reflecting the relatively small scale of those markets and a continuous history of price regulation. But competition is rising in the ACT, with 10 electricity retailers and 4 gas retailers active in 2021.

4 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.

5 Details of all businesses that hold electricity or gas authorisations can be found in the public register of authorised retailers on the AER website.

Table 6.1 Retailers offering energy contracts to small customers

RETAILER	OWNERSHIP	QLD	NSW	VIC	SA	TAS	ACT
1st Energy	1st Energy						
ActewAGL Retail	AGL Energy, ACT Govt						
AGL Energy	AGL Energy						
Alinta Energy	Alinta Energy						
Amber Electric	Amber Electric						
Aurora Energy	Aurora Energy (Tas Govt)						
Blue NRG	Blue NRG						
Bright Spark Power	Bright Spark Power						
CovaU	TPC						
DC Power Co[1]	DCP Company						
Diamond Energy	Diamond Energy						
Discover Energy	Discover Energy						
Dodo Power and Gas	M2 Energy						
Electricity in a Box	Electricity in a Box						
Elysian Energy	Elysian Energy						
Energy Locals	Energy Locals						
EnergyAustralia	CLP Group						
Enova Energy	Enova Community Energy						
Ergon Energy	Qld Govt						
ERM Power	Shell Energy						
Future X Power	Future X Power						
Globird Energy	Globird Energy						
Glow Power	Glow Power						
Kogan Energy[1]	Kogan						
Locality Planning Energy	Locality Planning Energy						
Lumo Energy	Snowy Hydro						
Mojo Power	Mojo Power						
Momentum Energy	Hydro Tasmania (Tas Govt)						
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						
Radian Energy	Radian Energy						
ReAmped Energy	ReAmped Energy						
Red Energy	Snowy Hydro						
Simply Energy	ENGIE						
Sumo Power	Sumo Power						
Tango Energy	State Power Investment Corporation						
Tas Gas Retail	Brookfield Infrastructure						
Total	**Gas retailers**	7	12	17	10	2	4
	Electricity retailers	35	37	28	26	4	8
		31	33	25	25	5	9

= Residential = Small business

1. DC Power and Kogan Energy offer energy contracts through partnerships with Powershop.

Note: Includes retailers with generally available offers at February 2021. Retailers servicing only embedded network customers are excluded.

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

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:

- to a limited customer group (for example, at a specific site or incidentally through a relationship such as a body corporate)
- to supplement its customers' primary energy connection.

At April 2021 over 3,500 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.

The Australian Energy Market Commission (AEMC) cited stakeholder estimates that up to 500,000 customers purchase energy through embedded networks.[6] Those customers do not enjoy the full set of protections in the Retail Law and have fewer avenues for dispute resolution.[7] But energy ombudsman schemes have been widened so that customers of exempt sellers can lodge complaints (section 6.8).

6.4 Competition in retail energy markets

Electricity markets in south east Queensland, NSW, Victoria and South Australia have several competitive characteristics, including a diversity of sellers making offers, intensive marketing activity and customer switching. Barriers to entry are low, as evidenced by regular new entry (although weaker contract market liquidity in South Australia means barriers are higher in that market).8 Standalone retailers have identified access to competitively priced hedging as a barrier to entry and expansion that impacts them more than it does retailers which own generation.[9]

Competition is 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 some 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.

Gas markets are generally less competitive than electricity markets, given their smaller scale and issues in sourcing gas and pipeline services in some regions. Gas markets in all regions are more concentrated than electricity markets.

Positive market trends across electricity and gas include:

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

Customer satisfaction with competition in energy retail markets improved in recent years. In December 2020, 59% of consumers across the National Electricity Market (NEM) were satisfied with the state of competition. Consumer trust, or confidence that the market is working in consumers' interests, is lower but improving. In December 2020, 38% of residential customers expressed confidence in the market – this is up from 21% in December 2017.[10]

Regulatory reforms since 2018 aim to address concerns that competition has not delivered sufficient benefit to consumers. The reforms seek to encourage customers to engage more closely with the market and make it easier to compare retail offers (sections 6.4.4 and 6.4.7).

6 AEMC, *Updating the regulatory frameworks for embedded networks*, information sheet, June 2019, p 1.

7 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.

8 AEMC, *2019 retail energy competition review, final report*, June 2019.

9 AEMC, *2020 retail energy competition review, final report*, June 2020.

10 ECA, *Energy consumer sentiment survey, December 2020*, p 12.

Despite the reforms, not all customers can access the benefits of competition. Embedded network customers, for example, often lack retail choice and cannot switch away from a supplier that fails to meet their needs. In June 2019 the AEMC proposed new arrangements that would shift embedded networks into the national regime, improving protections and access to retail market competition for their customers.[11]

In December 2019 the AEMC received a rule change request from Energy Consumers Australia (ECA) which would require retailers to provide information to enable more effective competition assessments. The rule change process had not commenced at May 2021.

6.4.1 Market concentration

Forty-five retail brands supply small energy customers in southern and eastern Australia (table 6.1). Of these, the retail brands of 3 businesses – AGL Energy, Origin Energy and EnergyAustralia (the 'big 3') – supply 64% of small electricity customers and 73% of small gas customers (figure 6.2). Those businesses own at least 2 of the 3 largest retailers in every region except Tasmania. The market share of these businesses has gradually declined over the past decade, but Origin Energy and AGL Energy recorded net growth in electricity customer numbers over 2020. AGL Energy's customer numbers were boosted by its acquisition of amaysim's energy business (including Click Energy) in September 2020.

Three 'tier 2' retailers have significant market share in some regions:

- Snowy Hydro (owned by the Australian Government and trading as Red Energy and Lumo Energy) supplies around 7% of electricity customers and 9% of gas customers – its market share is highest in Victoria, supplying 13% of electricity customers and 14% of gas customers.
- Alinta Energy supplies 5% of electricity customers and 3% of gas customers – its market share is highest in Queensland (where it is the third largest retailer in the south east of the state, with 9% of electricity customers and 1% of gas customers) and South Australia (6% of electricity customers and 5% of gas customers).
- Simply Energy (owned by ENGIE) supplies 4% of electricity customers and 6% of gas customers, including 9–10% of customers in Victoria and South Australia. It is the third largest energy retailer in South Australia.

Smaller retailers have also gained market share in recent years, increasing from 5% of small electricity customers in 2016 to 8% in 2020. This overall market share remained steady in 2020, despite AGL Energy acquiring amaysim. In gas, smaller retailers accounted for 5.9% of small customers in 2020, up from 4.4% in 2019. Smaller retailers have made more inroads in Victoria than elsewhere, supplying 15% of small electricity customers and 10% of small gas customers.

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 3' account for 89% of retail gas customers. In Queensland, Origin Energy and AGL Energy account for 92% of retail gas customers.

The ACT, Tasmania and regional Queensland – which have had continuous price regulation –are even more concentrated. The dominant retailers in these regions are typically government-owned (or part-owned) businesses with little activity outside their home region:

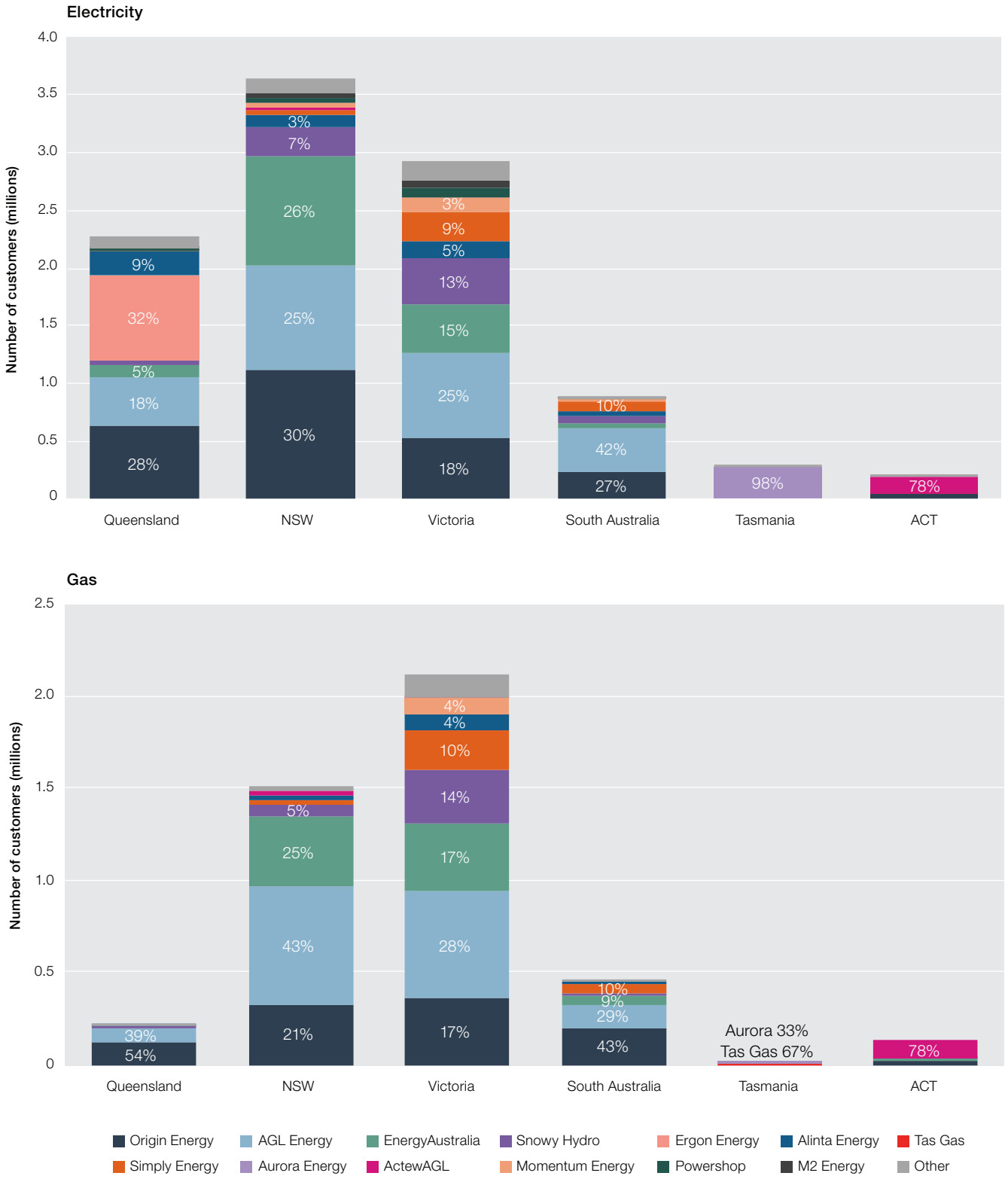
- ActewAGL (a joint venture between the ACT Government and AGL Energy) supplies 78% of ACT electricity and gas customers. Origin Energy (16% of small customers) and EnergyAustralia (5% of small customers) are the other large market players.
- In Tasmania, Aurora Energy (Tasmanian Government owned) was until recently the only retailer offering electricity to households. Since 2019, 4 retailers have begun retailing electricity, and by 2020 they had acquired around 2% of small customers.
- Ergon Energy (Queensland Government owned) supplies electricity to most small customers in regional Queensland.

NSW is the most concentrated of the major electricity markets. The 'big 3' account for 81% of NSW electricity customers. Snowy Hydro accounts for another 7% of customers. The other 26 retailers in NSW share 12% of the market.[12]

11 AEMC, *Updating the regulatory frameworks for embedded networks, final report*, June 2019.

12 Use of statewide data masks levels of market concentration within some parts of regions with multiple distribution zones (Queensland, NSW and Victoria). Market concentration is likely to be higher in regional NSW than in Sydney, for example.

Figure 6.2 Energy retail market share (small customers)



Note: Includes residential and small business customers. All data at December 2020, except Victoria (electricity and gas, June 2020) and Tasmania (gas, June 2020).

Source: AER, *Retail markets quarterly, Q2 2020–21*, April 2021; ESC, *Victorian energy market report 2019–20*, December 2020; Office of the Tasmanian Economic Regulator, *Energy in Tasmania report 2019–20*, December 2020.

While most retailers operate across multiple regions, less than half of electricity retailers operating in south east Queensland, NSW, Victoria and South Australia operate in all 4 regions. The gas market is even more segregated, with most retailers concentrating on the Victorian market, followed by the NSW and South Australian markets.

In the year to March 2021, 5 new electricity retail brands entered the small customer market:

- Bright Spark Power
- Electricity in a Box
- Glow Power
- Radian Energy
- Social Energy.

Additionally, 13 existing retailers expanded electricity retailing into another jurisdiction, and 6 commenced or expanded gas retailing into another jurisdiction.

Four retail brands exited the market in the year to March 2021. AGL acquired the customers of amaysim (branded as amaysim and Click Energy) in September 2020. M2 Energy retired its business customer focused Commander Power and Gas brand but continues to retail as Dodo Power and Gas.

6.4.2 Vertical integration

In the 1990s governments structurally separated the energy supply industry into separate wholesale, network and retail businesses. In electricity, however, many generators and retailers have since integrated to become 'gentailers'.

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 3' retailers – AGL Energy, Origin Energy and EnergyAustralia – each have significant market share in generation across NSW, Victoria and South Australia (figure 6.3).[13] Most other retailers with a significant retail customer base are also aligned with an electricity generation business – Snowy Hydro (retailing as Red Energy and Lumo Energy), ENGIE (Simply Energy), Alinta Energy, Hydro Tasmania (Momentum Energy), ERM Power, Meridian Energy (Powershop) and Pacific Hydro (Tango).

In 2020 the 4 largest vertically integrated participants in each region (the big 3 plus the next largest gentailer based on generation output) accounted for the majority of generation output and at least half of all retail load:

- In NSW they accounted for 79% of generation output and 65% of load.
- In Victoria they accounted for 83% of generation output and 50% of load.
- In South Australia they accounted for 69% of generation output and 63% of load.

In Queensland, state government owned businesses (CS Energy, Stanwell, CleanCo and Ergon Energy) accounted for 68% of generation output and 56% of load. In Tasmania, state government owned businesses (Hydro Tasmania and Aurora Energy) accounted for 95% of generation output and 62% of load.

Despite collectively owning more generation than needed to service their retail load, the profile of gentailers varies significantly. Among the 6 largest businesses, on average AGL Energy and Alinta Energy tend to have larger generation portfolios, while EnergyAustralia and ENGIE have relatively more balanced portfolios. Origin Energy and Snowy Hydro need to service a larger retail load than their generation fleet accounts for but have significant flexible generation in their portfolios, which allows them to manage the risk of high prices.

The NEM's largest standalone electricity retailer to small customers is M2 Energy (trading as Dodo Power and Gas) with less than 1% of small customers across the NEM.

Vertical integration also occurs in gas, but to a lesser extent. Interests in upstream gas production or storage can complement gas retailing or gas powered electricity generation.

13 In March 2021 AGL Energy announced plans to reduce its level of vertical integration by separating out its coal fired generators into a separate business – PrimeCo.

Figure 6.3 Vertical integration in National Energy Market jurisdictions

Note: Electricity generation market shares are based on generation output in 2020. Retail market shares are based on market load in 2020.
Source: AER, AEMO.

6.4.3 Customers with market contracts

Most energy consumers can enter a market contract with their retailer of choice.[14] Market contracts allow retailers to tailor their energy products, offering different tariff structures, discounted prices, carbon offsets, 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. Retailers must obtain a customer's explicit informed consent before entering them into a market contract.

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 area). Standing offers provide a safety net for customers unable or unwilling to engage in the market, with prescribed terms and conditions and a suite of customer protections that the retailer cannot change. Standing offer prices are generally higher than those offered under market retail contracts and are either set annually under regulation or can be changed no more than once every 6 months. Since 1 July 2019 standing offer electricity prices are set or capped by independent regulators in all jurisdictions (section 6.6.3). Retailers set their own standing offer gas prices, which are not regulated.

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.

Primary regional retailers – ActewAGL, Aurora and Ergon Energy – account for over 60% of all electricity standing offer customers. These (part) government owned retailers maintain dominant market positions in regions with limited retail competition. In the other regions, most electricity and gas standing offer customers have contracts with a 'big 3' retailer. This reflects the position of these retailers as incumbents when retail contestability was introduced, allowing them to retain customers that never took up a market contract.

Victoria – the first state to fully deregulate its energy market – has the highest proportion of energy customers on market contracts, at around 94% (figure 6.4). South Australia has 91% 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 2021 around 88% of customers were on market contracts in NSW. South east Queensland had similar levels of electricity customers on market contracts (87%), but the level was lower in gas (79% of customers). Nearly all small energy customers in regional Queensland are on standing offers.

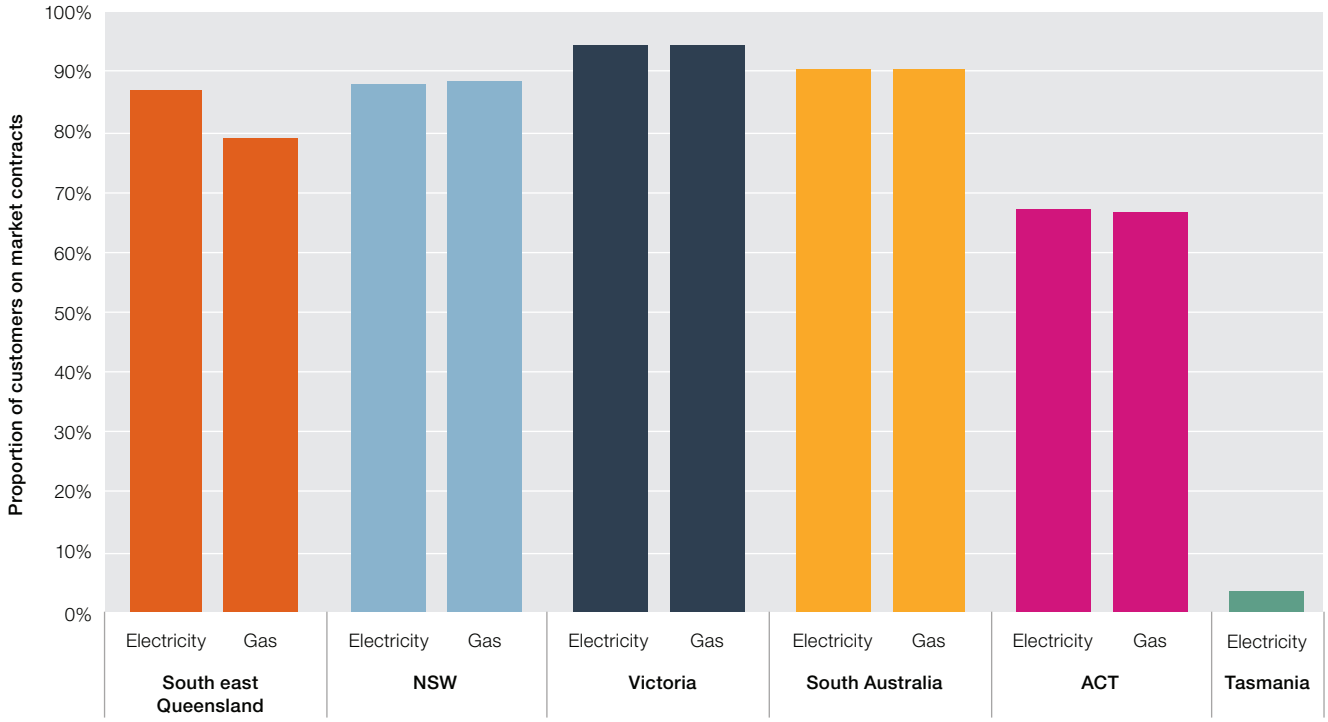
In January 2020, 67% of ACT customers were on market contracts compared with 38% in 2018. The increase follows strong participation by Origin Energy in the market. In Tasmania, new entrant retailers have offered market contracts to residential customers since early 2019. Despite this entry, the proportion of customers on market contracts dropped significantly over 2019 after the Tasmanian Government set standing offer prices that attracted Aurora's market customers to switch back to the standing offer. At January 2021 only 3% of Tasmanian electricity customers were on a market offer.

Financially vulnerable customers are less likely than other customers to be on a standing contract – less than 2% of customers on a hardship program or payment plan compared with over 8% of all customers.[15] This likely reflects reforms requiring retailers to identify the best offer for customers in hardship (section 6.7.2).

14 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.

15 ACCC, *Inquiry into the National Electricity Market, September 2020 report*, September 2020.

Figure 6.4 Small customers on market and standing contracts



Note: Standing and market offer shares are based on the number of small customers at January 2021 except Victoria (June 2020). Queensland electricity numbers exclude customers in regional Queensland, who largely remain on standing offers.

Source: AER, *Retail markets quarterly, Q2 2020–21*, April 2021; ESC, *Victorian energy market report 2019–20*, December 2020.

6.4.4 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. For example, customers have found it difficult to compare retail offers, and this sometimes causes 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 regularly report that customers find the market difficult to navigate. These difficulties impose transaction costs (including time) that customers face when comparing offers, reinforcing a lack of trust and contributing to low levels of engagement.

Reforms in 2019 sought to make it easier for customers to compare offers by simplifying and standardising how retailers must present offers. The reforms require marketed discounts to be quoted against a 'reference bill', being the default market offer set by the AER (section 6.6.3). Some retailers also introduced simpler pricing structures. These changes followed reforms in 2018 requiring retailers to provide customers with advance notice of any change in their energy price or benefits.

Some retailers argue these reforms may lead to customers becoming less engaged. For example, customers may consider there is less value in looking for a better offer if discounts are advertised off a lower baseline or they may take comfort from being on a government-regulated offer.[16]

More recent reforms aim to simplify customer bills.[17] Under new arrangements effective from August 2022, prescriptive billing provisions will be replaced with a guideline to be developed by the AER that offers retailers more flexibility in how they present information to customers. This flexibility will allow retailers to develop tools for their customers to access the key information needed to effectively engage in the market, including through digital platforms.

While these reforms may improve customer engagement, other barriers for some customers remain: language barriers; cultural issues; disabilities; low levels of literacy in energy markets, concepts and terms; and status quo bias for consumers to stay with their default retailer or plan.

16 AEMC, *2020 retail energy competition review, final report*, June 2020.

17 AEMC, *Bill contents and billing requirements, final determination*, March 2021.

Customer understanding of the market

Customer confidence in being able to navigate the energy retail market increased slightly across most regions in 2020. A positive response of 70% on this measure was the highest recorded in the 4 years that surveys have been undertaken by ECA.[18] NSW was the only region to record a fall on this measure in 2020, down 7% to a 65% positive response rate.

Between 2017 and 2019 there was an increase in customer confidence in the availability of easily understood information. This may partly reflect reforms over that period to help customers make informed decisions. Outcomes in 2020 varied, with confidence in Queensland rising by 8% (to 66%) but falling slightly in most other states. Tasmania recorded the largest drop (down 6% to 48%).

Market developments – including the rollout of smart metering and cost-reflective tariffs –will add new layers of complexity to the market, potentially making it harder for consumers to confidently engage. But this added complexity will be offset by better tools for comparing offers. Customers are more widely using price comparator websites, for example. For residential customers looking to switch retailers, use of a comparator website to find a better offer ranged from 25% of customers in Queensland to 38% of customers in Victoria.[19]

Enhancements to the AER's comparator website – Energy Made Easy (www.energymadeeasy.com.au) – in 2020 aimed to simplify the user experience and increase the site's capability to compare innovative offers.

Commercial switching websites and services also allow 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 6.4.7).

The Australian Government (Treasury) is progressing work to implement a national Consumer Data Right for energy, which will allow consumers' data to be shared with trusted third parties. Increasing the availability of and access to electricity data (such as a household's current energy deal and consumption patterns) should support customer decision making by enabling more personalised and precise comparisons of offers. The Consumer Data Right framework for energy is expected to be finalised in 2021.[20]

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 78% of residential customers were satisfied with their energy supply arrangements in NEM jurisdictions in 2020 (up from 74% in 2019). This result was driven by large improvements in Queensland (up 11% to 83%) and the ACT (up 13% to 80%). South Australia also recorded an increase in overall satisfaction (up 6% to 80%).[21] Satisfaction eased slightly in NSW and Victoria, to 75% and 76% respectively.

Satisfaction with value for money in electricity rose to 57% of household consumers, up 4% over the past year and up 22% since 2017. Satisfaction rates are higher for gas than for electricity (68% in 2020). Satisfaction with both fuels is at the highest or equal highest level since ECA commenced surveys in 2016, reflecting falling or stable energy prices in most regions. But satisfaction with value for money for energy trails services including mobile phone, internet, insurance, water and banking, and this gap widened in 2020.

Customer satisfaction with competition in national energy retail markets improved in recent years. Consumer trust, or confidence that the market is working in consumers' interests, has risen steadily since 2017 but remains low – 38% of residential customers expressed confidence in the market at December 2020, up from 21% in December 2017.[22] Consumer satisfaction with the level of competition in energy markets remained steady over 2020 in all markets except south east Queensland, which recorded an increase in satisfaction to 69% of customers (up from 56% in 2019). On average across the NEM, 58% of consumers were satisfied with competition in their area. Customer satisfaction was lowest in Tasmania at 26%.

18 ECA, *Energy consumer sentiment survey December 2020*, December 2020.

19 ECA, *Energy consumer sentiment survey December 2020*, December 2020.

20 ACCC, *Energy rules framework, consultation paper*, July 2020.

21 ECA, *Energy consumer sentiment survey December 2020*, December 2020.

22 ECA, *Energy consumer sentiment survey, December 2020*, p 12.

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 it 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). Victorian data for 2019–20 indicates that over half of all switches reflect customers moving properties or setting up new connections.[23]

Reforms introduced in December 2019 make it easier for customers to switch retailer by allowing them to transfer within 2 days of a cooling-off period expiring.[24] This new process limits retailer 'save' activity (retailers contacting customers who try to switch retailer and giving them a better offer to encourage them to stay) and allow customers faster access to prices and products they want.

Small customer switching decreased in 2020 in all regions for electricity customers. NSW, Victoria and South Australia recorded their lowest annual switching rates over the past decade (figure 6.5). Gas switching rates fell in Victoria, South Australia and the ACT but rose slightly in Queensland and NSW. Customer switching rates peaked in 2018 following the introduction of initiatives to encourage customer engagement. Subsequent easing of energy prices, along with the reintroduction of price caps on electricity standing offers, may have contributed to lower switching rates more recently, as customers consider there is less financial gain from changing retailer.

Victoria remains the most active region, with 21% of electricity customers and 19% of gas customers switching in 2020. This outcome occurred despite price spreads in energy offers narrowing significantly in Victoria since 2019, meaning potential savings from switching in 2020 tended to be lower in Victoria than in other regions.

The ACT continues to have the lowest switching rates, with 10% of customers switching retailer in 2020.

Switching rates are typically lower in gas than in electricity. This 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 it may not receive the same attention.

Residential customers were most likely to consider switching retailer because they were dissatisfied with value for money (around one-third of customers who considered switching). Other key drivers of customers considering switching included receiving notice of an energy price change, being approached by another retailer and moving properties.[25]

While overall switching activity indicates relatively engaged customers, over a third of customers reported having never switched retailer or energy plan.[26] Those customers may lack confidence in making decisions – nearly half of consumers in some regions were still not confident that they have access to easily understood information, for example.[27] Alternatively, those customers may be satisfied with their current supplier or unaware they can switch.

Victoria had the smallest proportion of customers who reported having never switched energy company or plan (29%), followed by South Australia (32%), NSW and south east Queensland (each 37%), the ACT (43%) and Tasmania (71%).[28] These outcomes are consistent with other measures of customer engagement.

In many markets, engagement by even a limited number of customers can drive lower prices and product improvements that benefit all consumers. This 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 2 years, and customers who do not switch regularly may find themselves paying higher prices than necessary.

23 ESC, *Victorian energy market report 2019–20*, December 2020, p 26.

24 AEMC, *National Energy Retail (Reducing Customers' Switching Times) Rule 2019, rule determination*, 19 December 2019.

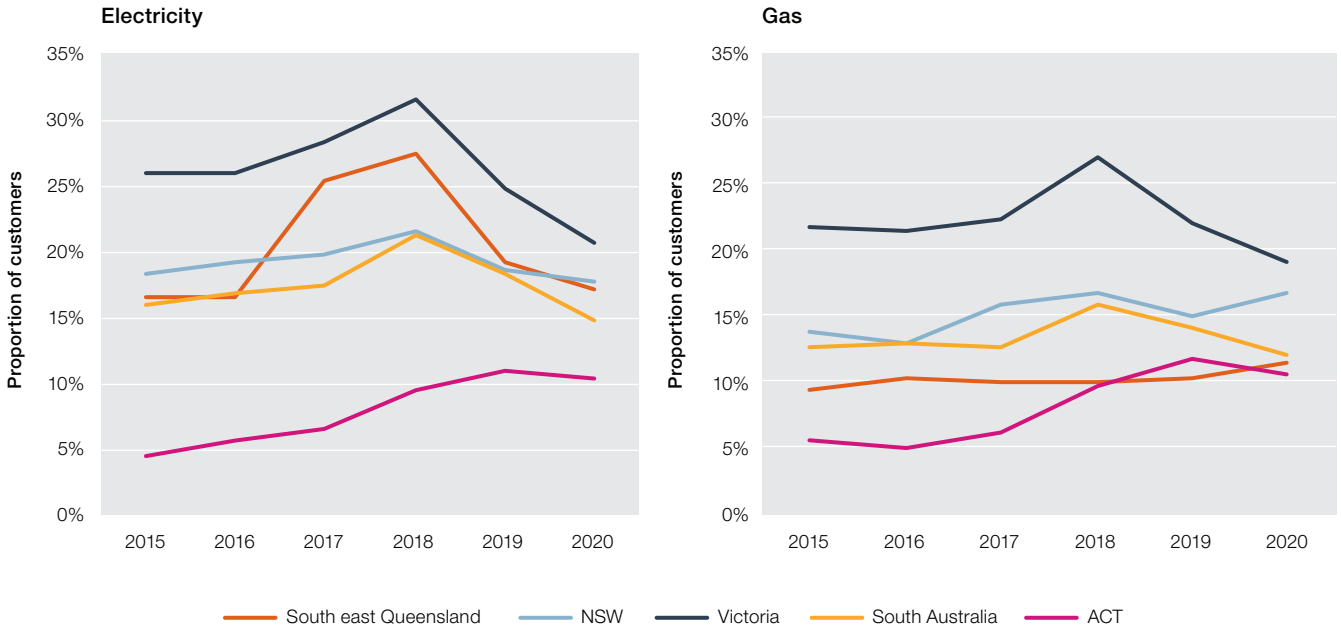
25 ECA, *Energy consumer sentiment survey December 2020*, December 2020.

26 ECA, *Energy consumer sentiment survey December 2020*, December 2020.

27 ECA, *Energy consumer sentiment survey December 2020*, December 2020.

28 ECA, *Energy consumer sentiment survey December 2020*, December 2020.

Figure 6.5 Small customer switching activity



Note: Total annual customer switches in a year divided by average customer numbers. Queensland data excludes customers in regional Queensland, who have limited access to competitive market offers.

Source: Customer switches: AEMO, *NEM monthly retail transfer statistics*, December 2020; AEMO, *Gas retail market monthly statistics*, December 2020. Customer numbers: estimates from AER, *Retail markets quarterly, Q2 2020–21*, April 2021; ESC, *Victorian energy market report 2019–20*, December 2020.

The National Retail Energy Rules require retailers to notify small electricity and gas customers before any change in their benefits and provide advance notice of any price change.[29] In Victoria, retailers must also prominently display their 'best offer' on customers' bills (every 3 months for electricity and every 4 months for gas), along with advice on how to access it.

Additionally, at the end of a fixed-term contract, retailers must inform customers in writing about their options, 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.

6.4.5 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 4 years, with around 20% of customers indicating an approach from a retailer prompted their most recent engagement in the energy market.[30] A peak of 53% 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.[31] But the use of digital acquisition channels, including retailers' websites and price comparison websites, has grown (section 6.4.7).

Low retailer activity in some markets may reflect barriers to entry or expansion. Retailers cited the reintroduction of standing offer price caps (section 6.6.3) as a barrier to activity. Limited access to competitive risk management contracts was also cited as a barrier to entry or expansion in South Australia, with almost half of all retailers in 2020 considering that contact market liquidity in South Australia was too low.[32]

The duplication of regulatory frameworks – notably in Victoria, which has a separate Energy Retail Code – was another barrier due to the compliance costs this imposes. Retailers considered the divergence of Victorian regulations from other regions has widened since 2019.[33]

29 AEMC, *National Energy Retail Amendment (Notification of the End of a Fixed Benefit Period) Rule 2017, rule determination*, 7 November 2017; AEMC, *National Energy Retail Amendment (Advance Notice of Price Changes) Rule, rule determination*, 27 September 2018.

30 ECA, *Energy consumer sentiment survey December 2020*, December 2020.

31 AEMC, *2018 retail energy competition review, final report*, June 2018, p 89.

32 AEMC, *2020 retail energy competition review, final report*, June 2020.

33 AEMC, *2020 retail energy competition review, final report*, June 2020.

In gas, retailers in the past 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).

6.4.6 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 and restrictions around discounting (section 6.6.3), retailers are looking to differentiate their products in other ways.

Retailers can differentiate products by offering more price certainty; rewarding customers with flexibility in how and when they use energy; or using technology such as batteries or electric vehicles. Some products offer energy management services, including as part of virtual power plants (section 1.2.2).

Some retailers offer other incentives, such as carbon offsets, sign-up discounts and product add-ons and rewards; or they partner with other businesses. Bundling of products such as phone and internet alongside energy has also increased.

Conditional discounts

Until recently, price competition between energy retailers tended to play out through 'headline' discounts, often requiring the customer to meet conditions such as paying on time, e-billing, or paying by direct debit. The size of a 'discount' was often misleading, as retailers applied discounts off a range of price bases. Customers were also exposed to much higher prices if the conditions were not met. In 2020 around 11% of residential customers on offers with conditional discounts did not meet the conditions required to receive the discounted price.[34] Customers in financial difficulty were more likely to miss out on the discounts, with 18% of hardship customers and 17% of customers on payment plans not meeting the required conditions.

Reforms in 2019 require retailers to base any discount advertising off the default price and prohibits them from including conditional discounts in their most prominent advertised price for a market offer. The reform covered retailers in NSW, South Australia and south east Queensland.[35] Equivalent provisions apply in Victoria.

Further reforms in 2020 cap conditional discounts at a level reflecting the reasonable cost savings a retailer would expect if a consumer satisfies the conditions attached to the discount.

Since the reforms, the proportion of electricity offers with guaranteed prices (no conditional discounts) rose significantly. At February 2021 around 90% of offers in Queensland, NSW and South Australia (and all offers in the ACT) had guaranteed prices (up from 44–60% in 2019). The shift was less pronounced in Victoria, where offers with guaranteed prices comprised around 83% of offers at February 2021.

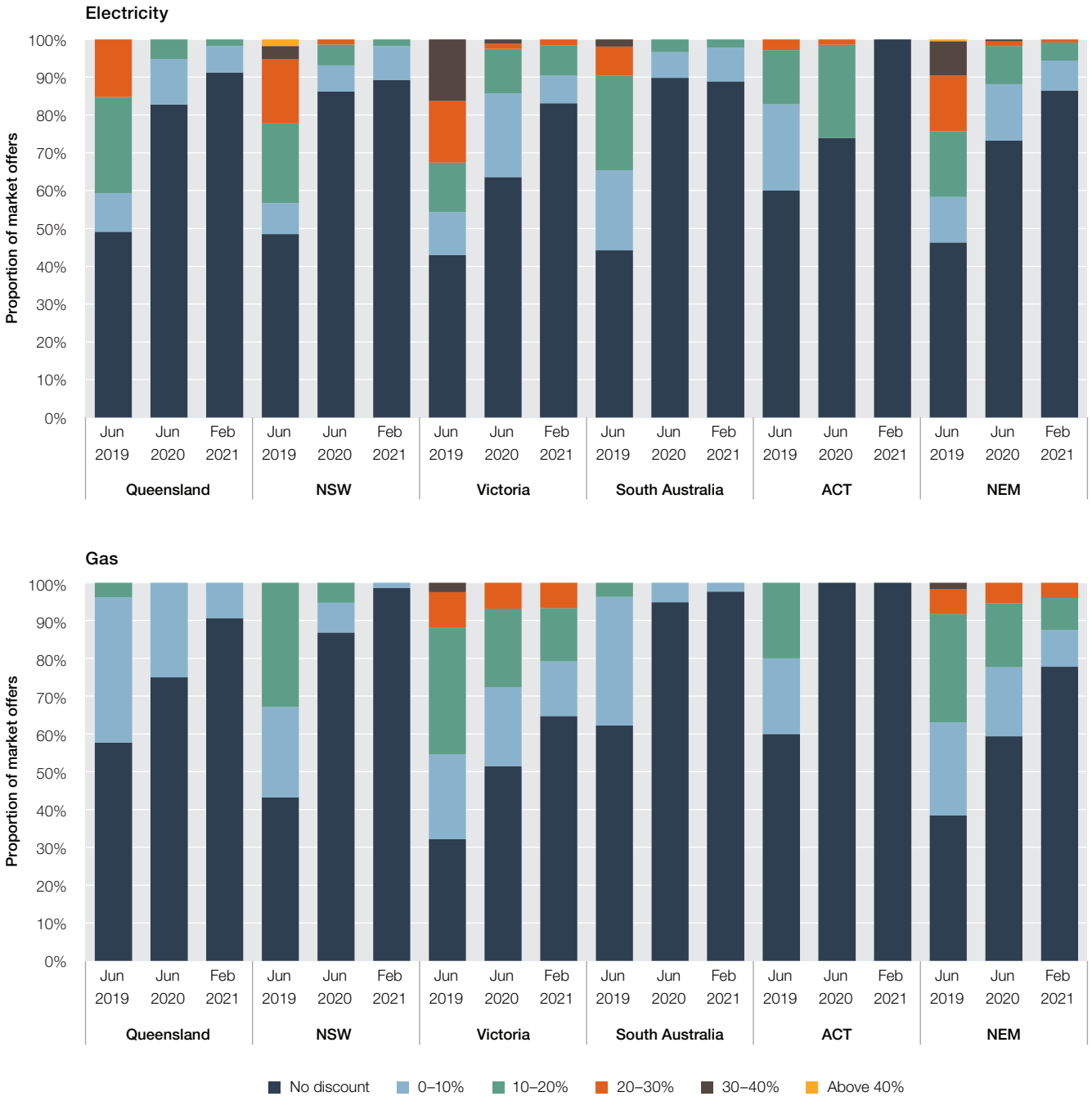
The size of offered discounts also reduced over this period. Most discounts in 2019 offered at least 10% off the original bill, with some offering up to 40% off (figure 6.6). In February 2021, conditional discounts typically offered less than 10% of the original bill, with few discounts offered above 20%.

While the reforms only apply to electricity, discounting practices in gas have also changed. At February 2021 over 90% of gas offers in Queensland, NSW, South Australia and the ACT had a guaranteed price. In Victoria, 65% of offers had a guaranteed price.

34 ACCC, *Inquiry into the National Electricity Market, May 2020 report*, June 2020.

35 Competition and Consumer (Industry Code – Electricity Retail) Regulations 2019.

Figure 6.6 Conditional discounts for residential energy market offers



Note: Discounts are advertised conditional discounts in generally available market offers at February 2021.

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

Offer structures

Retailers typically use one of 3 types of tariff structures in their electricity offers:[36]

- single-rate or 'flat' tariffs, which apply a daily (fixed) supply charge plus a simple usage charge for the electricity that a customer uses
- time-of-use tariffs, which apply different pricing to electricity use at peak and off-peak times. Lower prices at off-peak times encourage customers to shift their energy use to those 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.

36 Gas offers have less variability in tariff structure, with flat tariffs typically applied. Usage charges may vary based on the overall volume of gas consumed and the time of year.

Retailers vary the level of fixed and variable tariff components to appeal to different customers. For example, customers with low energy use may prefer an offer with a low fixed charge but higher usage charges, while a customer with flexibility around when they use energy may prefer an offer with low off-peak charges or free weekend energy use.

Some retailers are trialling other price structures. Fixed-price or subscription tariffs, where customers pay a (yearly or monthly) fee based on their typical electricity use, focus on simplicity and bill certainty. At the other end of the pricing spectrum, tariffs that pass through wholesale market spot prices allow customers to dynamically interact with the wholesale market. These tariffs are best suited to customers with battery storage who can adjust their use of grid-supplied electricity during high price periods.

New dynamic products are emerging as battery storage systems and electric vehicles become more affordable and as accessibility to consumer energy data improves. Some of these products have a time-of-use pricing structure but with rates set to encourage charging/discharging of batteries or electric vehicles at specific times. These products may also come with 'add-on' services, such as automated systems that learn customers' electricity use patterns and charge/discharge batteries to maximise value. Some offers allow customers to become part of a virtual power plant that aggregates multiple household solar and battery systems to provide power for network support or frequency control ancillary services or to engage in wholesale price arbitrage (section 1.2.2).

Non-price competition

In addition to competing on price and tariff structure, many retailers offer financial or non-financial incentives to entice customers. Financial incentives may include credit for continuing with a plan for a minimum period, for signing up online or through a partnering business or for referring a friend to the retailer.

A number of retailers offer reward schemes that provide deals and discounts on a range of products and services. Non-financial benefits include carbon offsets for electricity use and product add-ons such as digital subscriptions. Retailers sometimes partner with another business to provide these additional benefits (Alinta Energy partnered with Kayo Sports to provide an energy and streaming offer in 2020, for example; and Origin Energy partnered with Woolworths' Everyday Rewards program).

Retailers increasingly offer products or services alongside electricity and gas to appeal to customers looking for the convenience of a single service provider. Internet and phone services, as well as solar PV and battery products, are offered by a number of energy retailers. AGL Energy also offers an electric vehicle subscription service.

6.4.7 Price comparison websites and switching services

The variety of product structures, discounts and other inducements makes it difficult for energy customers to compare retail offers. Some customers use comparator websites to manage the complexity and range of offers in the market.

The AER operates an online price comparator – Energy Made Easy (www.energymadeeasy.com.au) – 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 (compare.energy.vic.gov.au). The NSW Government also operates a switching service, Energy Switch, which 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.[37] Brokers are also active in the market for larger customers.

37 AEMC, *2019 retail energy competition review, final report*, June 2019, p 102.

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 show the cheapest offer for the customer. Government-operated comparison sites avoid this bias by listing all generally available offers in the market.

In October 2020 the ACCC finalised proceedings in the Federal Court against iSelect – a privately operated energy price comparison service – for misleading or deceptive conduct and false or misleading representations. 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. The Federal Court ordered iSelect to pay penalties of $8.5 million.[38]

The ACCC and the AEMC have recommended that the government prescribe a mandatory code of conduct to ensure price comparator and broker services act in the best interests of consumers.[39] 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.

6.5 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 rolling out smart meters, introducing cost-reflective network pricing (section 3.7), making it easier for consumers to access their energy data and 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.[40] The New Energy Tech Consumer Code covers all aspects of supply, including marketing, finance, installation, operation, customer service, warranties and complaints handling. The Australian Competition Tribunal authorised the code in September 2020.

6.5.1 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 innovative offers from retailers and for 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% of customers between 2009 and 2014. 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 less than 17% of customers had a smart meter at February 2021.[41] Another 5% of customers (mostly in NSW) had access to an interval meter providing half hourly consumption readings but without remote reading and connection capabilities.

Retailers are required to provide customers with electricity meters within 6 business days after a property has been connected to the network and with replacement meters within 15 days.[42]

6.5.2 Rooftop solar PV and batteries

Many energy customers partly meet their electricity needs through rooftop solar PV and sell excess electricity back into the grid. At March 2021 over 2.3 million households and businesses in the NEM (23% of customers) had installed rooftop solar PV systems.

38 ACCC, 'iSelect to pay $8.5 million for misleading consumers comparing energy plans' [media release], 8 October 2020.

39 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.

40 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.

41 AEMO data (unpublished).

42 AEMC, *National Energy Retail Amendment (Metering Installation Timeframes) Rule 2018, rule determination*, 6 December 2018.

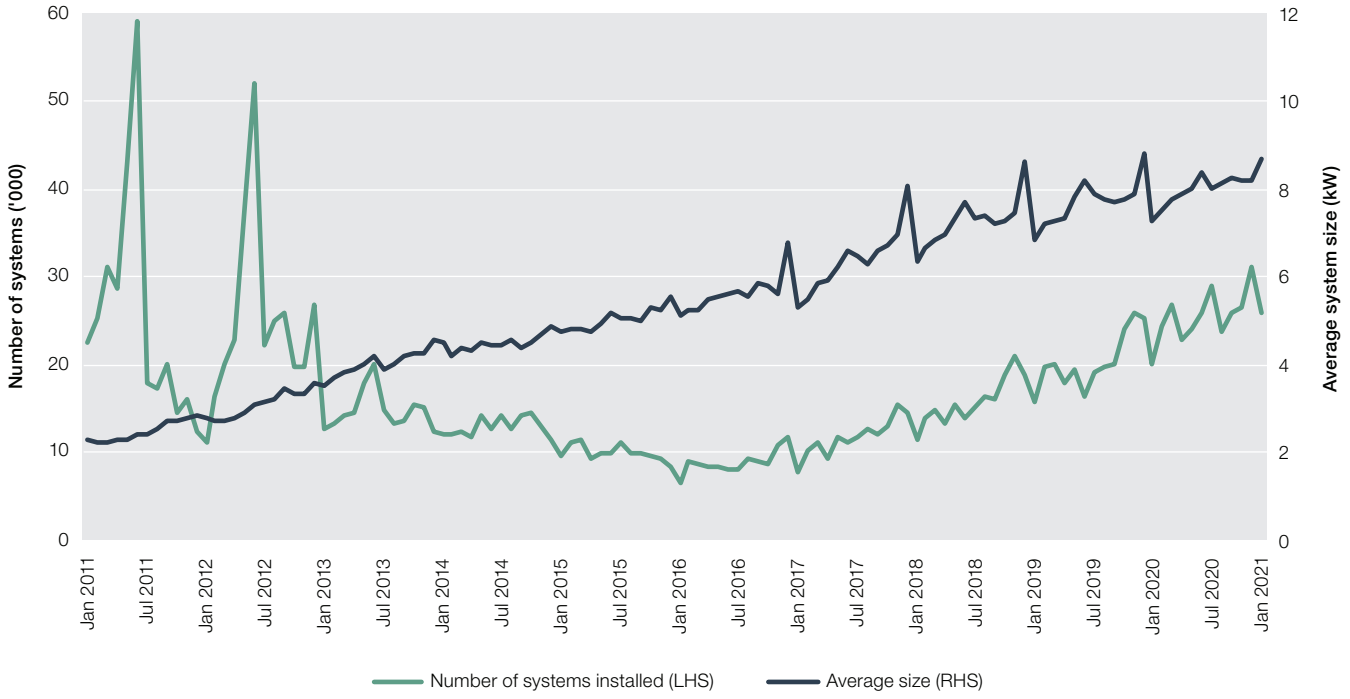
There were over 300,000 new installations of solar PV systems in 2020, exceeding the previous peak level recorded in 2011 (figure 6.7). The 2011 peak was due to attractive premium feed-in tariffs offered by state and territory governments. Those schemes have closed, but ongoing subsidies provided by 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 2020 (2,470 megawatts (MW)) set a new record – 30% higher than the previous highest annual capacity in 2019 (1,890 MW) and more than 3 times the capacity installed in 2011 (750 MW). NSW and the ACT recorded the strongest growth in installations, with over 40% more installations in 2020 than in 2019.

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 (and inject into) the network. Of the 300,000 solar PV systems installed in the NEM in 2020, less than 3% had an attached battery system.[43] The uptake of batteries was similar to 2019, despite the increase in the number of solar PV systems installed.

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

Excess electricity produced by solar PV systems is typically sold back to the customer's retailer. Customers are paid a feed-in tariff for this excess electricity. The recent influx of solar PV capacity has created network constraints that have led to some networks limiting the amount of excess electricity that some customers can export to the grid. In March 2021 the AEMC released a draft rule change that would allow network businesses to charge customers for any electricity they export at times of network congestion (section 1.5.3).[44]

Figure 6.7 Growth of solar PV installations



kW: kilowatts.
Note: Data at January 2021.
Source: Clean Energy Regulator, *Postcode data for small scale installations, small generation units – solar*.

43 Clean Energy Regulator, *Solar PV systems with concurrent battery storage capacity by year and state/territory*. Data at 31 March 2021.

44 AEMC, *National Energy Retail Amendment (Access, Pricing and Incentive Arrangements for Distributed Energy Resources) Rule 2021, draft rule determination*, March 2021.

6.5.3 Electric vehicles

Electric vehicles, like dedicated batteries, have the potential to draw electricity from, and inject it into, the electricity grid. Electric vehicle uptake in Australia has been slower than in other developed countries, but the number of electric vehicles is expected to grow as costs fall and charging infrastructure is expanded. There were around 20,000 electric vehicles in Australia at the end of 2020.

Although still a small part of the market, electricity retailers are beginning to develop offers that reflect the specific needs of electric vehicles, including price incentives to encourage charging and discharging of batteries or electric vehicles at specific times.

6.5.4 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. Demand response refers to a temporary shift or reduction in electricity use by customers to support power system stability.

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 several 'virtual power plant' trials that coordinate output from small scale solar and battery systems to provide services equivalent to a 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 or frequency control ancillary service markets to manage or limit price spikes and can also be used by networks to manage system constraints, for example. A demand response mechanism that allows customers to directly offer demand response into the wholesale market will commence in the NEM in October 2021, but it will be restricted to large customers. Small customers are limited to offering wholesale demand response through programs offered by their retailer.

6.5.5 Customers in embedded networks and standalone power systems

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

Embedded network customers have less access to the competitive market than customers supplied through a distribution network, despite reforms implemented in 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.[45]

Standalone power systems or microgrids – where a community primarily uses locally sourced generation and does not rely on a connection to the main grid – are also gaining traction in some areas. These arrangements have mainly developed in regional communities that are remote from existing networks. But improvements in energy storage and renewable generation technology may lead more customers to take up this form of energy supply.

These supply arrangements are generally not covered by the Retail Law and Rules. Regulatory and pricing frameworks are being implemented to support the growth of off-grid arrangements. In early 2021 energy ministers began consulting on regulatory changes to make it easier for distribution network businesses to offer standalone power systems (where economically efficient to do so) while maintaining appropriate consumer protections and service standards.[46]

45 AEMC, *Updating the regulatory frameworks for embedded networks, final report*, June 2019.

46 Energy Ministers, *Stand-alone power systems priority 1 rule amendments, explanatory note for stakeholder consultation*, March 2021.

6.6 Energy 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 lower priced market offers often revert to higher prices after an initial 'benefit period'. Customers on legacy market offers may pay prices on par with standing offers (table 6.2).

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

A typical residential electricity retail bill in southern and eastern Australia in 2020–21 comprised:

- retailers' wholesale costs of buying electricity in spot and hedge markets – 34% of a bill
- network costs for transporting electricity through transmission and distribution networks; and metering – 46% of a bill
- the costs of environmental schemes for promoting renewable generation and energy efficiency and reducing carbon emissions – 9% of a bill
- the retail costs of servicing customers (including meeting regulatory obligations) and acquiring and retaining customers; and the retailer's margin (profit) – 11% of a bill.

The contribution of each component varies by region (figure 6.8).

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 their risk 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 risk (discussed in sections 6.4.2 and 6.5.4).

Wholesale costs for 2020–21 were forecast to be lowest in Queensland, which has substantial low cost black coal fired generation. Costs were forecast to be highest in South Australia, reflecting the state's significant reliance on relatively expensive gas powered generation, peaky demand and limited interconnection with other regions.

Increased renewable generation and flat demand across the NEM resulted in lower average wholesale prices than forecast over the first 3 quarters of 2020–21. This outcome will have only a limited impact on current retail prices, given retailers' contract positions for this period were entered into on expectations of higher prices, but it should be reflected in future retail prices.

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 2020–21 accounted for 40–50% of retail bills across most jurisdictions but were lower in the ACT (30%). Distribution networks account for the majority of costs (73–78%). Transmission networks account for up to 21% of network costs, with metering accounting for the balance.

Customer type (central business district (CBD), urban or rural), density and terrain affect network costs. In jurisdictions with multiple distribution networks (Queensland, NSW and Victoria), costs are generally higher in regional networks based on these factors.

Network productivity levels also partly explain cost differences across networks and jurisdictions. 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 3.14).

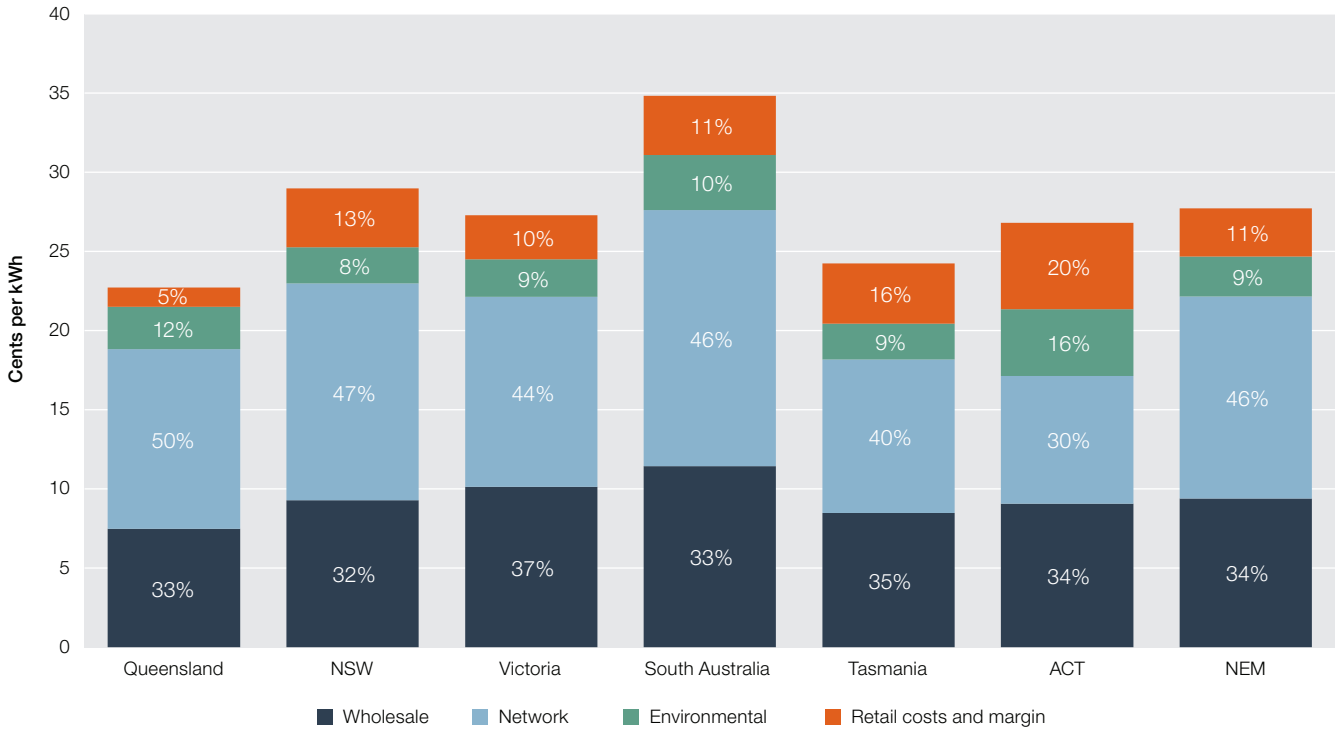
Environmental costs

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 almost 70% of environmental costs across the NEM (comprising both large scale and small scale components of the scheme).

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

Environmental costs were lowest in NSW and Tasmania, with neither jurisdiction having an active feed-in tariff scheme.

Figure 6.8 Composition of a residential electricity bill



kWh: kilowatt hour.

Note: Data are estimates for 2020–21. Average residential customer prices excluding GST. Percentages may not add to 100% due to rounding.

Source: AEMC, *Residential electricity price trends 2020*, Final report, December 2020.

Retail costs and margin

Retail costs fall into 2 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. This outcome highlights a risk that competition may increase energy bills for customers if the costs of competing outweigh competition benefits from efficiency and innovation. But competition should also lead to reduced retailer profit margins. The AEMC estimated that retailer costs and margin in 2020–21 were lowest in Queensland (5% of a retail bill).

6.6.2 Components of gas bills

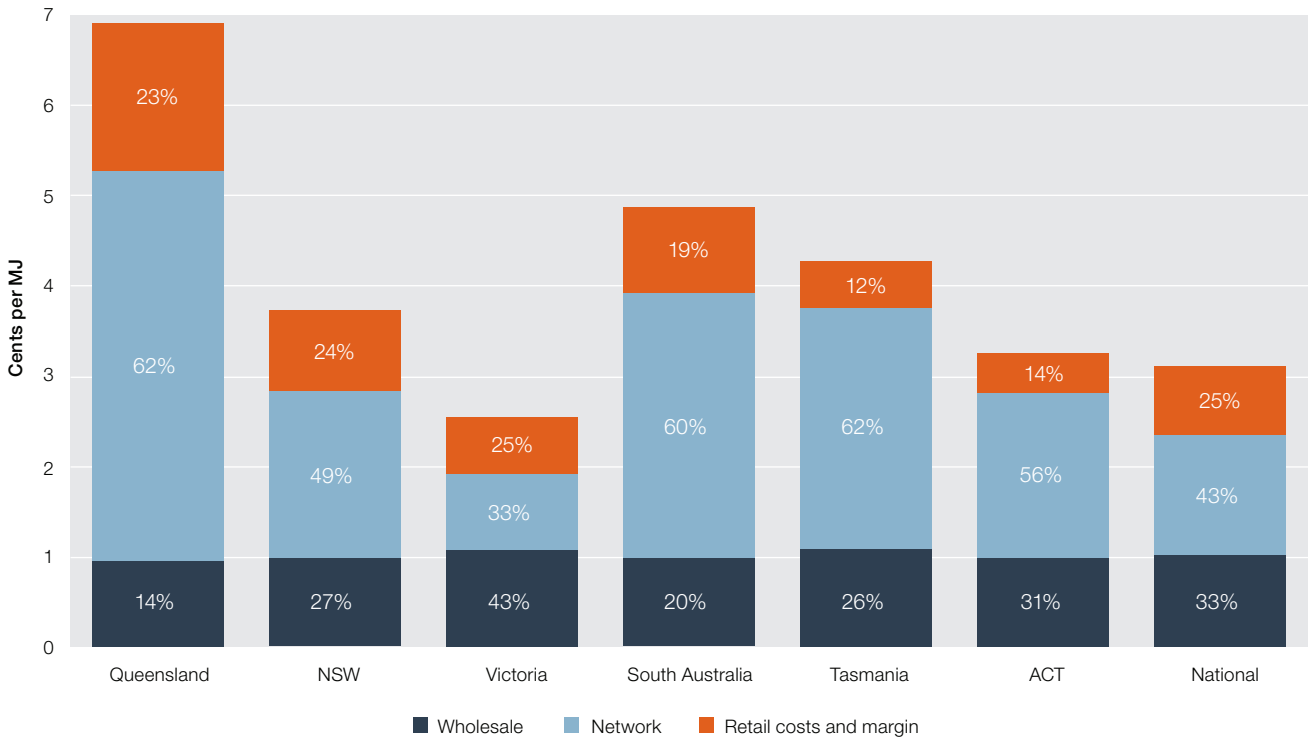
The composition of retail bills is less transparent in gas than electricity. Regulatory bodies provide no systematic annual reporting on gas bill data.

Figure 6.9 shows estimates from the most recent comprehensive data published in 2017. On average, gas pipeline (transportation) charges made up over 40% of a gas bill in that year. Distribution charges represented the bulk of this proportion, comprising around 35% of a gas bill.[47] 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% of retail gas bills.

Victoria had the cheapest residential gas prices on a unit basis, largely because the state had lower network costs (33% 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% 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.[48]

Figure 6.9 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% due to rounding.

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

47 Oakley Greenwood, *Gas price trends review 2017*, March 2018, p 158.

48 Oakley Greenwood, *Gas price trends review 2017*, March 2018, p 225.

6.6.3 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.

In 2019 the Australian Government appointed the AER to set a default market offer as a cap on standing offer electricity prices in south east Queensland, NSW and South Australia.[49] The default offer is not intended to mirror the lowest price in the market – this is 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 they can use 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 have maintained state-based arrangements to regulate retail electricity prices for small customers. 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). The ACT Government in 2021 announced plans to introduce a reference bill requirement for advertising market offers.

Gas price deregulation occurred along similar timeframes to those of electricity price deregulation. In July 2017 NSW became the last jurisdiction to deregulate retail gas prices for small customers. The recent reintroduction of price controls was not applied in gas.

The Australian Government introduced further price protections in June 2020. Under the *Treasury Laws Amendment (Prohibiting Energy Market Misconduct) Act 2019*, retailers are required to pass on to customers any sustained and substantial decreases in the costs of electricity.

6.6.4 Energy prices

Energy prices have become slightly more affordable over the past 3 years but remain high by historical standards. There has been significant volatility in retail energy prices since 2007, driven largely by changes in input costs. Electricity and gas prices have followed broadly similar trends, as some key underlying price drivers apply to both fuels.

Longer term trends

Prices rose sharply between 2007 and 2013 before plateauing (gas) or falling (electricity) until 2016. Prices again moved sharply upwards in 2017 before moderating in the past few years (figure 6.10).

Network cost increases – driven by network businesses investing heavily in new assets; and financial market instability raising debt costs – were the primary contributor to electricity prices increasing by an average 9% per year, and gas prices increasing by 6% per year, over the 6 years to 2013.

Lower network costs from 2013 eased pressure on prices for both fuels. For electricity, the removal of carbon pricing and an oversupply of generation capacity depressed wholesale electricity prices, with retail prices falling 8% over 2 years.

49 The AER's responsibilities are set out in: *Competition and Consumer (Industry Code—Electricity Retail) Regulations 2019*.

The easing of prices reversed in 2016, when high electricity and gas wholesale prices began to flow through into retail prices in most regions. In electricity, the retirement of large coal fired generators in South Australia (Northern, 2016) and Victoria (Hazelwood, 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. In gas, the commencement of liquefied natural gas (LNG) exports in Queensland exposed the domestic market to international oil prices and reduced the amount of gas available for the local market. Moratoriums on onshore gas exploration in some states, and declining production in some established gas basins, also contributed to a tighter supply–demand balance. New price peaks for electricity and gas retail prices were recorded in 2017 and 2018.

While not a primary driver of price movements, environmental and retailer costs also added to electricity and gas prices over the decade. Environmental costs related to:

- meeting obligations under the Large-scale Renewable Energy Target
- state-based energy efficiency schemes
- the rapid growth in rooftop solar PV, which increased costs under the Small-scale Renewable Energy Scheme and payments under premium feed-in tariff schemes.

Box 6.2 Default market offer

The Australian Government's default market offer (DMO) scheme, applying since 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 not working as an effective safety net
- 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 5 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.

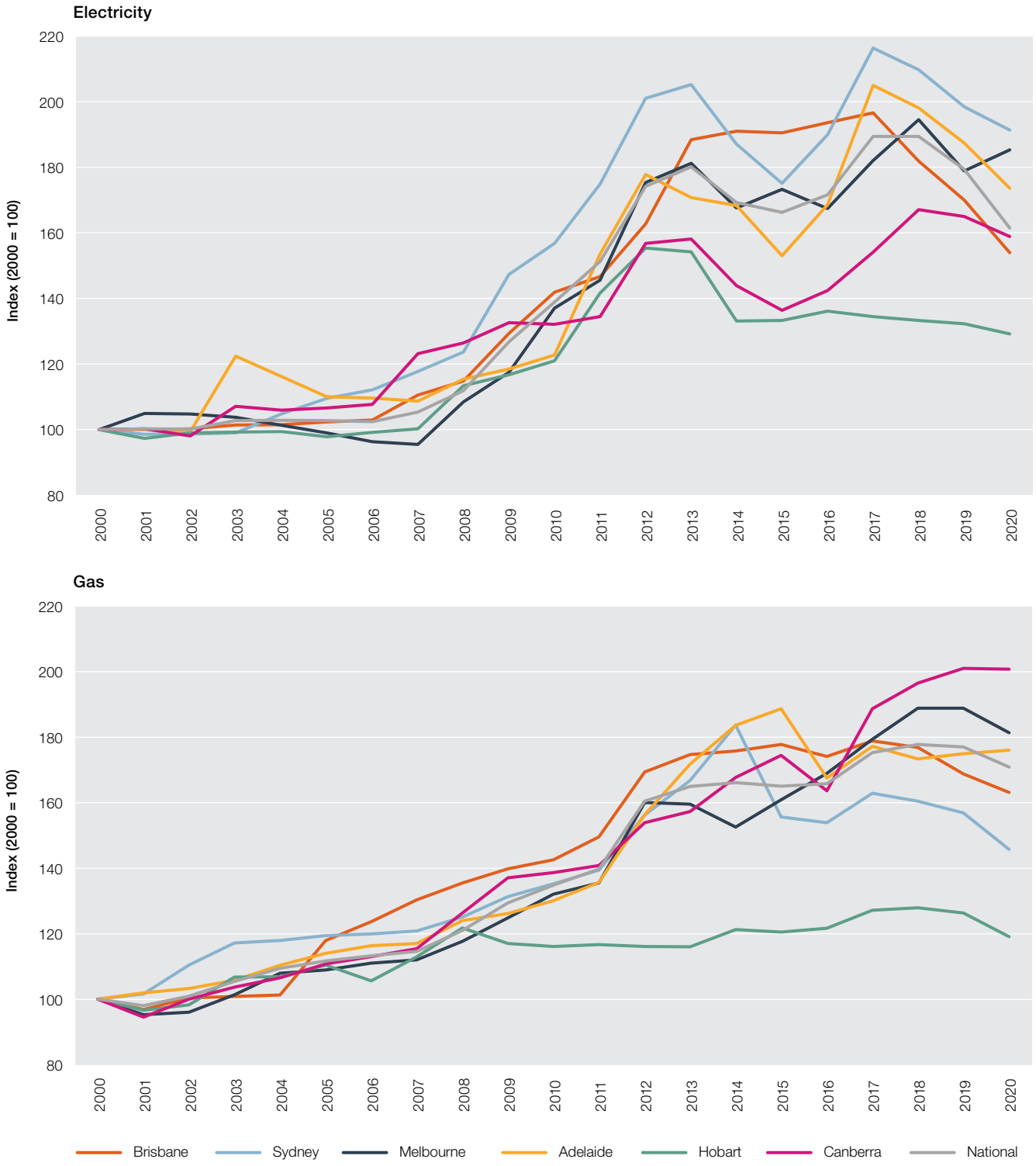
The DMO scheme provides a fallback for those who do not engage in the market, rather than providing a low priced alternative to a market offer. It aims to reduce unjustifiably high standing offer prices while allowing retailers to recover their costs in servicing customers and providing customers and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

We initially 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.[50] The default price has been updated each subsequent financial year, with adjustments for:

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

50 AER, *Final determination, Default market offer prices*, April 2019

Figure 6.10 Energy retail price indices (inflation adjusted)



Note: Consumer price index electricity and 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.

Electricity price movements since 2018

Since 2018 electricity retail prices fell in most regions after significant rises in preceding years. *Standing offer* prices fell most dramatically between 2019 and 2020 due to new price regulations that limited the level of standing offers, removing inflated offers from the market. *Market offer* price falls were largest between 2020 and 2021 as a lagged response to sharply falling wholesale costs over 2019 and 2020. These wholesale cost reductions were driven by a range of factors, including the commissioning of low cost renewable generators, moderate weather conditions limiting demand, and lower coal and gas fuel costs. Lower network costs also contributed to retail price falls in some regions.

Environmental costs increased in some regions, offsetting some of the cost reductions from other factors. For example, in 2019 the Queensland Government ended a scheme to recover premium feed-in tariff costs through the tax base rather than electricity charges. But these changes were minor relative to the decrease in wholesale 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. Figure 6.11 compares prices under market and standing offers for residential electricity customers at June 2018, June 2019, June 2020 and February 2021.

Between June 2018 and February 2021, median market offer prices fell by 8–16% in Queensland, 10–18% in NSW, 7–10% in Victoria, 19% in South Australia and 4% in the ACT. Tasmania was the only region to record a rise in market prices over this period, of less than 1%.

Changes in the cheapest market offers in each region were even more pronounced over this period, except in Victoria. The lowest market offer price reduced by 8–22% in Queensland, 17–22% in NSW, 26% in South Australia, 4% in the ACT and 8% in Tasmania. The cheapest market offer in Victoria increased by 1% in one network area and reduced by up to 6% in the other 4 network areas.

The cheapest market offers were typically offered by smaller tier 2 retailers. The lowest price offer by a small retailer was typically more than $100 cheaper than the lowest offer from one of the 'big 3' retailers (and up to $270 cheaper).

Gas price movements since 2018

Gas prices have trended down since 2018 in most regions, driven largely by lower wholesale gas costs. But price reductions were less pronounced in gas than in electricity.

Gas wholesale costs have eased significantly since early 2019 (chapter 4). As in electricity, cost reductions take time to flow through to retail prices as longer term contract positions are adjusted, and they may not be fully reflected in prices at February 2021.

Between June 2018 and February 2021, median gas market offer prices fell by 3–8% in Queensland, 8% in NSW, 2–5% in Victoria and 8% in the ACT. South Australia was the only region to record a rise in market prices over this period, of less than 1%. Figure 6.12 compares prices under market and standing offers for residential gas customers at June 2018, June 2019, June 2020 and February 2021.

Reductions in the cheapest market offers were even more pronounced over this period in Queensland, NSW and the ACT, falling by 8–15%. But the lowest price offers in Victoria and South Australia became more expensive.

The cheapest market offers were typically offered by smaller tier 2 retailers. The lowest price offer by a small retailer was between $15 and $90 cheaper than the lowest offer from one of the 'big 3' retailers.

Standing offer prices followed a different trend to market offer prices, with the median price remaining stable or increasing in all regions between June 2018 and February 2021. Unlike in electricity, there is no price regulation of standing offer gas prices.

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 (%) JUN 2019 – JUN 2020		CHANGE IN MEDIAN OFFER (%) JUN 2020 – FEB 2021		ESTIMATED ANNUAL CUSTOMER BILL, FEBRUARY 2021 ($)	
			MARKET	STANDING	MARKET	STANDING	MARKET	STANDING
Electricity								
Queensland	Retailers (capped at DMO)	Energex	–1.7	–7.8	–7.5	–4.4	1,505	1,791
	QCA	Ergon Energy	3.1	–2.0	-5.1	-6.5	1,848	1,840
NSW	Retailers (capped at DMO)	Ausgrid	–6.2	–10.5	–5.0	–0.8	1,543	1,898
		Endeavour Energy	–7.3	–13.7	–5.9	–0.9	1,652	2,035
		Essential Energy	–2.2	–12.2	–4.3	0.5	1,956	2,385
Victoria	ESC	Citipower	1.5	–13.5	–9.1	–10.8	1,227	1,346
		Powercor	0.0	–18.6	–10.4	–10.6	1,431	1,585
		AusNet Services	3.9	–14.6	–8.3	–8.8	1,523	1,682
		Jemena	2.6	–15.9	–10.6	–11.4	1,233	1,366
		United Energy	5.0	–12.4	–11.5	–13.1	1,308	1,449
South Australia	Retailers (capped at DMO)	SA Power Networks	–4.8	–13.3	–7.2	–5.7	1,785	2,051
Tasmania	OTTER	Aurora Energy	2.6	4.9	–1.6	–0.7	2,419	2,536
ACT	ICRC	Evoenergy	4.7	–1.3	–4.6	–3.3	1,711	1,937
Gas								
Queensland	Retailers	AGN	–5.0	2.3	–0.8	–0.7	610	700
		Allgas Energy	–2.1	2.1	0.0	–2.0	680	740
NSW	Retailers	Jemena	0.9	1.0	–7.4	–3.4	810	1,000
Victoria	Retailers	Multinet	–6.0	3.6	–2.4	–1.1	1,414	1,877
		AusNet Services	–3.0	5.1	–3.4	–2.5	1,382	1,825
		AGN	–7.4	–1.9	–6.6	–6.0	1,406	1,830
South Australia	Retailers	AGN	3.6	4.0	2.6	4.9	9,30	1,020
ACT	Retailers	Evoenergy	0.5	3.1	–5.8	–1.7	1,465	1,760

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 2019, June 2020 and February 2021, using average consumption in each jurisdiction: NSW 5,881 kWh (electricity), 22,855 MJ (gas); Queensland 5,699 kWh, 7,873 MJ; Victoria 4,589 kWh, 57,064 MJ; South Australia 4,752 kWh, 17,501 MJ; ACT 6,545 kWh, 42,078 MJ. Market offer prices include all conditional discounts.

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

Price dispersion

Price controls introduced in 2019 reduced electricity prices in standing offers in relevant regions, but the immediate impact on market offers was less clear. Higher priced market offers tend to have lowered in price, given those offers often link to standing offers. Some of the lowest priced offers were removed in some regions, resulting in a significant narrowing of the price range in available offers in 2019.

By February 2021 the median standing offer was around 19% higher than the median market offer in south east Queensland (compared with a 23% difference in June 2019), 22–23% higher in NSW (22–29% in June 2019) and 15% higher in South Australia (24% in June 2019). The Victorian market had the largest contraction in offers, with median standing offers at February 2021 around 10–11% higher than median market offers (compared with a 31–37% difference in June 2019).

Price competition at the lower end of the market intensified over 2020, with prices of the lowest offers in most regions reducing more than the median market or standing offer. In some network areas, the difference between the lowest market offer and median standing offer at February 2021 was larger than at June 2019 (immediately before the Electricity Retail Code was introduced). Victoria was the exception to this recent trend of greater price dispersion, which may reflect the tighter standing offer price cap in that region.

These price differences indicate continued potential for savings for customers who engage in the market. A customer switching from the median electricity market offer to the best market offer in their distribution zone could save between $180 and $300 annually in February 2021. Potential savings were lower in Victoria – between $110 and $150 annually.

In gas, the gap between market and standing offers has widened since 2019. Median standing offers in February 2021 were 9–33% higher than median standing offers, up from 6–22% in June 2019. A customer switching from the median electricity market offer to the best market offer in their distribution zone in February 2021 could save from $50 annually in Queensland to almost $300 in the ACT.

6.6.5 Electricity price forecasts

The AEMC publishes annual forecasts of electricity retail prices based on current expectations, policy and legislation. In December 2020 it forecast electricity prices for a 'representative customer' would fall across the NEM in 2021–22 before increasing in 2022–23.[51] Forecast prices in 2022–23 remain below current levels in all regions except NSW and the ACT. The largest price reductions are forecast for Victoria (with prices in 2022–23 expected to be 9% below current levels) followed by Queensland and South Australia (each 4% lower) and Tasmania (2% lower). Prices are forecast to rise by 3% in NSW and 4% in the ACT.

Lower wholesale costs are forecast as a key driver of lower retail prices. Wholesale costs should continue to ease as new generation capacity comes online, before increasing in 2022–23 following the closure of the Liddell power station in NSW. Environmental costs are also expected to fall across all regions, driven by a decrease in costs for certificates to meet Renewable Energy Target obligations. Higher network costs are forecast to put upward pressure on retail prices in NSW and the ACT.

Consistent with these findings, the AER's DMO determination for 2021–22 will reduce the price cap on standing offer prices for residential customers in south east Queensland, NSW and South Australia by between 2.7% and 7.4%. Wholesale costs and environmental costs were cited as the main factors driving these decreases.[52]

51 AEMC, *Residential electricity price trends 2020, final report*, December 2020.

52 AER, *Default Market Offer prices 2021–22, final determination*, April 2021.

Figure 6.11 Price diversity – electricity offers

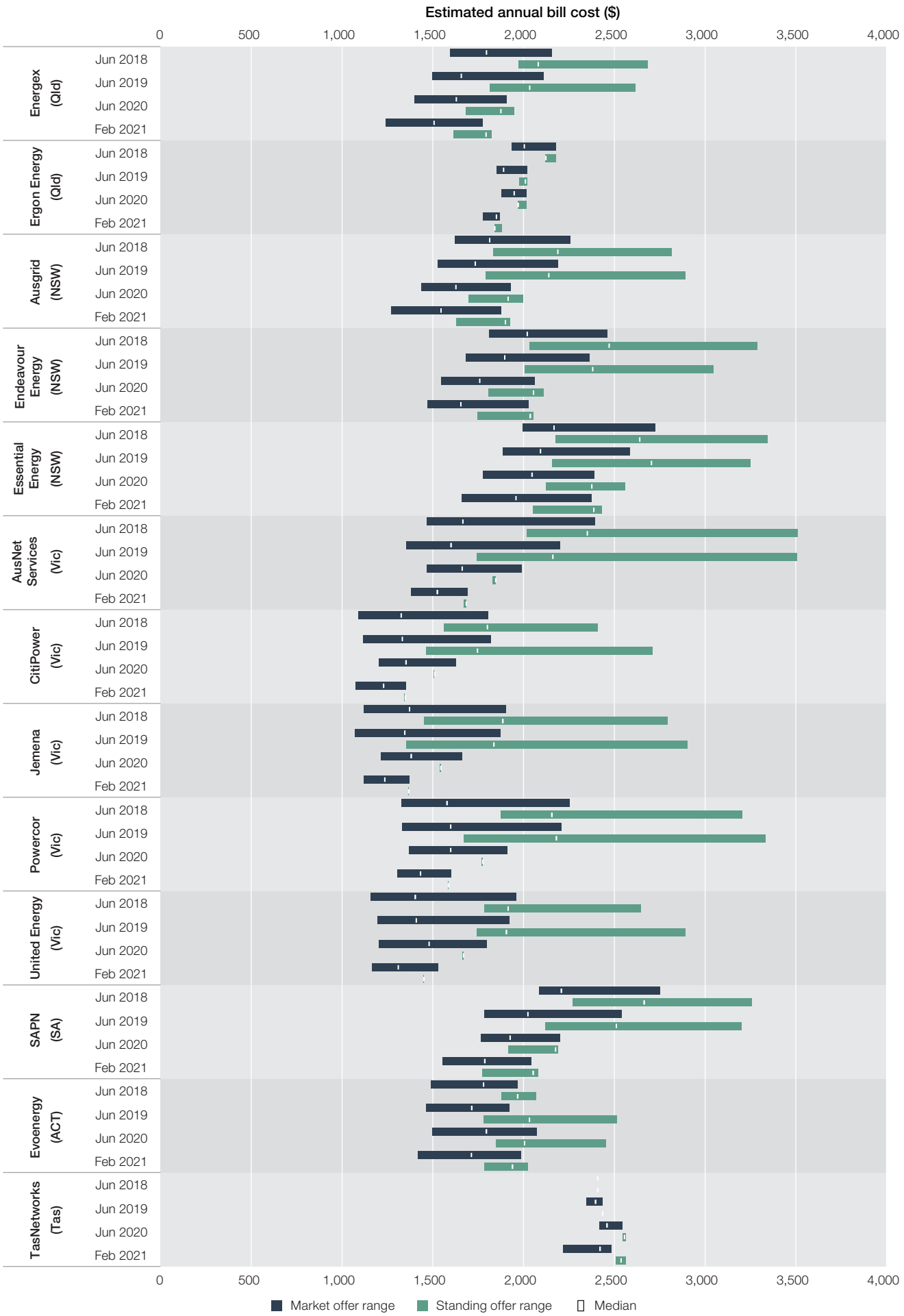
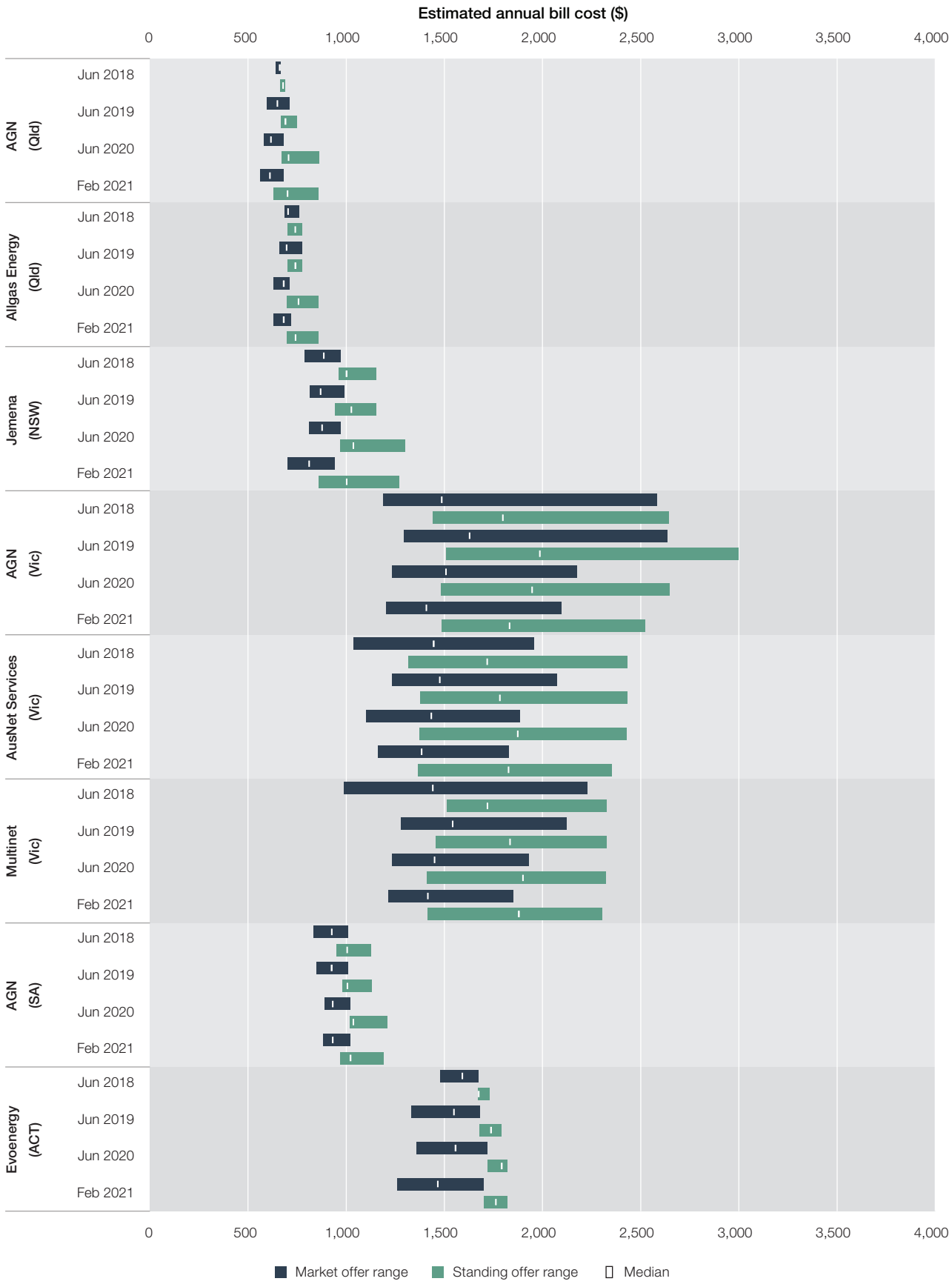


Figure 6.12 Price diversity – gas offers



Note (figures 6.11 and 6.12): Data includes all generally available offers for residential customers using a single-rate tariff structure at June 2018, June 2019, June 2020 and February 2021. Annual bills are based on average consumption in each jurisdiction (table 6.2). Market offer prices include all conditional discounts.

Source (figures 6.11 and 6.12): Energy Made Easy website (www.energymadeeasy.gov.au); Victorian Energy Compare website (compare.energy.vic.gov.au).

6.6.6 Energy use

Electricity use is highest in the ACT and Tasmania. Key drivers of electricity use are climate (with greater heating and cooling requirements in some jurisdictions) and the penetration of gas as an alternative fuel. Tasmania in particular has low gas penetration for households. Conversely, most households in Victoria have both electricity and gas connections, resulting in it having the lowest average household electricity consumption. Benchmark data shows that average electricity use in a Victorian household with gas can be up to 25% lower than for a non-gas household.[53]

While energy prices are significantly higher than a decade ago, reductions in energy use have moderated the impact on customer bills (particularly electricity bills).

Average household electricity use has trended downwards over the past 4 years in most jurisdictions, easing by 5–10% in NSW, South Australia and the ACT. Smaller reductions were recorded in Victoria and Queensland. Tasmania was the only region to record increased electricity use (up 3%).

The trend towards lower electricity use was largely driven by the uptake of rooftop solar PV systems. Improving energy efficiency of homes and appliances also contributed. Given these drivers, average outcomes likely obscure a widening gap between use for those households with the capacity to adopt new technology and those unable to do so (for reasons such as cost or residential tenancy laws). The former group is likely experiencing a substantial reduction in electricity use, while electricity use among other households has likely remained relatively consistent over time.

Gas is primarily used in homes for space heating, water heating and cooking. Customers in colder climates (such as those in Victoria, Tasmania and the ACT) tend to use the most gas. This largely reflects the use of gas for space heating – winter gas use in these regions is 6–7 times higher than over summer.[54]

There is little systematic reporting of gas consumption data in Australia, but changes in customer behaviour, including switching to energy efficient appliances, reducing discretionary energy use and switching from gas to electricity, mean that average gas use has also trended downwards.

6.7 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.

Energy use varies with household size, 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.

The AER reports annually on energy affordability, with a focus on low income households.[55] In 2020 electricity affordability improved for low income households in NSW and South Australia but was unchanged or deteriorated elsewhere (figure 6.13).

Gas affordability for low income households improved in Queensland and Victoria in 2020 but was consistent or deteriorated elsewhere.[56]

Although affordability recently improved in some regions, energy costs remain high in historic terms. Electricity affordability remains a top cost of living issue for households.[57]

53 Frontier Economics, *Residential energy consumption benchmarks, final report for the Australian Energy Regulator*, December 2020, p 25.

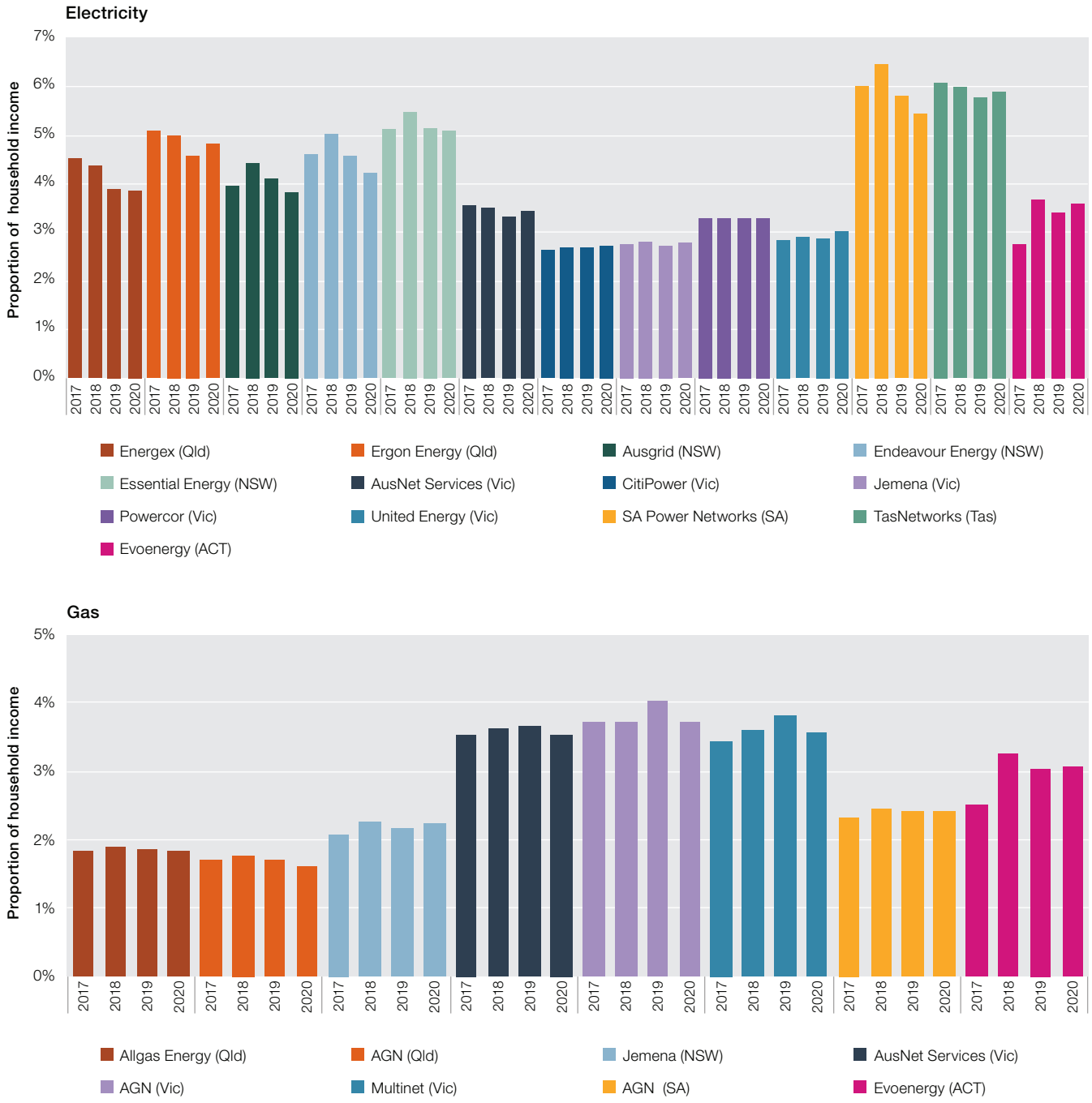
54 Frontier Economics, *Residential energy consumption benchmarks, final report for the Australian Energy Regulator*, December 2020, p 26.

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

56 Based on the percentage of household disposable income spent on the median market offer.

57 In a survey of households by Energy Consumers Australia, 25% said that electricity is the bill they were most concerned about, while 73% rated it in their top 3. ECA, *Shock to the system: energy consumers' experience of the Covid-19 crisis*, July 2020.

Figure 6.13 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 household disposable income for the adjusted lowest income quintile (on an equivalised income basis) as reported by the Australian Bureau of Statistics for 2015–16 and 2017–18, adjusted for other years using the consumer price index.

Source: AER, *Annual retail markets report 2019–20*, November 2020.

Despite the availability of energy bill concessions offered by state and territory governments, low income households often paid more than double (as a share of income) what households on average incomes paid for their energy. For a typical low income household on the median market offer and receiving energy bill concessions, at June 2020:

- electricity costs accounted for 2.7–5.9% of disposable income (compared with 2.7–5.8% in 2019)
- gas costs accounted for 1.6–3.7% of disposable income (compared with 1.7–4% in 2019).[58]

Bills for customers on standing offers were more expensive than bills for customers on market offers in all networks at June 2020. Customers on the median standing offer would pay up to 1% more of their disposable income on electricity, and up to 1.2% more of their disposable income on gas, than an equivalent customer on the median market offer. While only a small number of customers are on standing offers in most jurisdictions, the role of standing offers as a fallback for customers who are unable to engage in the market means that some of the most vulnerable customers may be exposed to these higher prices.

But not all customers on market offers are getting the lowest prices for electricity and gas. The range of offer prices means that a customer on the highest cost market offer would pay up to 57% more for electricity, and up to 80% more for gas, than a customer on the cheapest market offer. In many cases, customers on high cost market offers would also be paying more than a typical standing offer customer.

Tasmanian customers had the highest electricity bill to income ratio in low income households. This outcome in part reflects Tasmania having the highest average electricity use, as a cold climate creates 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 were 16–49% higher than other NEM regions.

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.

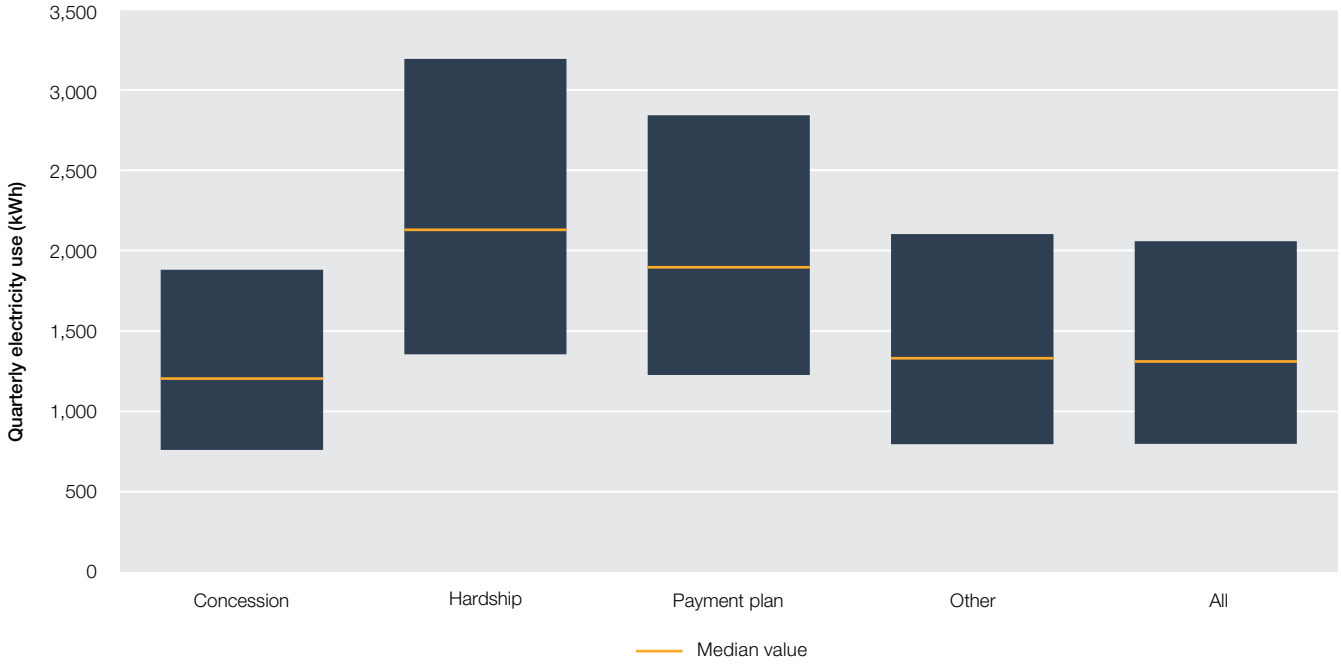
In gas, the high use jurisdictions of Victoria and ACT had the highest bills (across market and standing median offers) as a percentage of disposable income.

While many households can achieve significant savings simply by switching to a cheaper offer, total energy use plays an important role in energy affordability. For example, customers on hardship programs in 2020 consumed on average over 60% more electricity than a typical customer (2,129 kWh per quarter compared to 1,310 kWh) (figure 6.14). This may reflect that the financially vulnerable have less access to solar PV systems and are living in properties and using electrical appliances that are less energy efficient. State and territory governments have implemented initiatives to help low income households improve their energy efficiency or install solar PV systems:

- In Victoria, the Household Energy Savings Package offers high efficiency heating and cooling systems for low income households and energy upgrades of social housing properties. A Home Energy Assist program includes measures such as replacing inefficient electric water heaters and electric heaters in public housing properties; and home energy retrofits, appliance replacement and energy advice for low income households.
- In the ACT, the Actsmart Household Energy Efficiency Program, delivered by St Vincent de Paul, provides a home energy efficiency assessment, draught proofing and an energy savings kit to improve energy efficiency. The Solar for Low Income Program provides eligible households with a subsidy of up to 50% of the cost of a solar system. An Energy Efficiency Improvement Scheme provides products such as LED lighting, insulation, standby power controllers, draught sealers and energy efficient appliances and includes a target for electricity retailers to achieve energy savings for low income households through efficiency measures.
- South Australia's Retailer Energy Productivity Scheme offers free or discounted energy efficiency and energy productivity activities, but it is not specifically targeted at low income households.
- Tasmania's Power$mart Homes helped low income households save money on their bills by providing upgrades such as LED light bulbs, draught sealing and expert energy efficiency advice. The program was discontinued in 2020.

58 AER, *Annual retail markets report 2019–20*, November 2020.

Figure 6.14 Electricity use by customer type



Source: ACCC, *Inquiry into the National Electricity Market, May 2020 report*, June 2020.

6.7.1 COVID-19 issues

In 2020 the economic impact of the COVID-19 pandemic increased financial stress on many energy customers. To support households impacted by the pandemic, the AER introduced temporary assistance measures to be provided by energy businesses (box 6.3). These measures were developed in consultation with energy businesses, consumer organisations and market bodies. The ESC introduced similar measures in Victoria.

6.7.2 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 customers in debt increased over the period of the COVID-19 pandemic. In December 2020, 2.9% of customers were in debt – 16% more customers than a year earlier. But this rise followed a trend of falling numbers of customers in debt since 2015 in regions other than Tasmania. The number of customers in debt in 2020 remained well below the number over the period from 2015 to 2018.

Tasmania had the highest proportion of residential energy customers in debt at December 2020, at 5.8% of customers (figure 6.15). Queensland had the lowest rate of customers in debt, at around 2.4%.

Along with increases in the number of customers in debt over 2020, the level of debt held by those customers also increased across all regions. The average value of debt at December 2020 was $1,008 (up from $796 in the previous year). This continued a trend of increasing debt levels since 2015 (figure 6.16). The average value of debt was highest in South Australia, at $1,266; and lowest in the ACT, at $744.

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.

A retailer's approach to managing customer debt can significantly impact whether a customer navigates a period of financial difficulty. The AER has previously highlighted concerns with retailers disconnecting customers, or referring customers for collection activity, for debt less than $500.[59] Both disconnections and collection referrals reduced significantly over 2020, reflecting that the AER's Statement of Expectations had been in place since March 2020. Residential customer disconnections reduced by 68% and customer referrals for collection activity reduced by 42%.[60]

59 AER, *Annual retail markets report 2018–19*, November 2019.

60 AER, *Retail markets quarterly, Q2 2020–21*, April 2021.

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, recognising that energy is an essential service. The AER's priorities for supporting customers over the COVID-19 pandemic period included:

- ensuring that retailers met the needs of customers in vulnerable circumstances and that customers could access the energy they need
- protecting customers who may have been unable to safeguard their own interests, including customers requiring life support equipment or who were experiencing financial difficulty
- actions needed to ensure the safety and reliability of energy supply
- being responsive to the rapidly evolving pandemic situation and preparing for our recovery.

Reflecting these priorities, the Statement of Expectations set out principles for energy retailers to follow to avoid imposing unnecessary hardship on the community, including that retailer must:

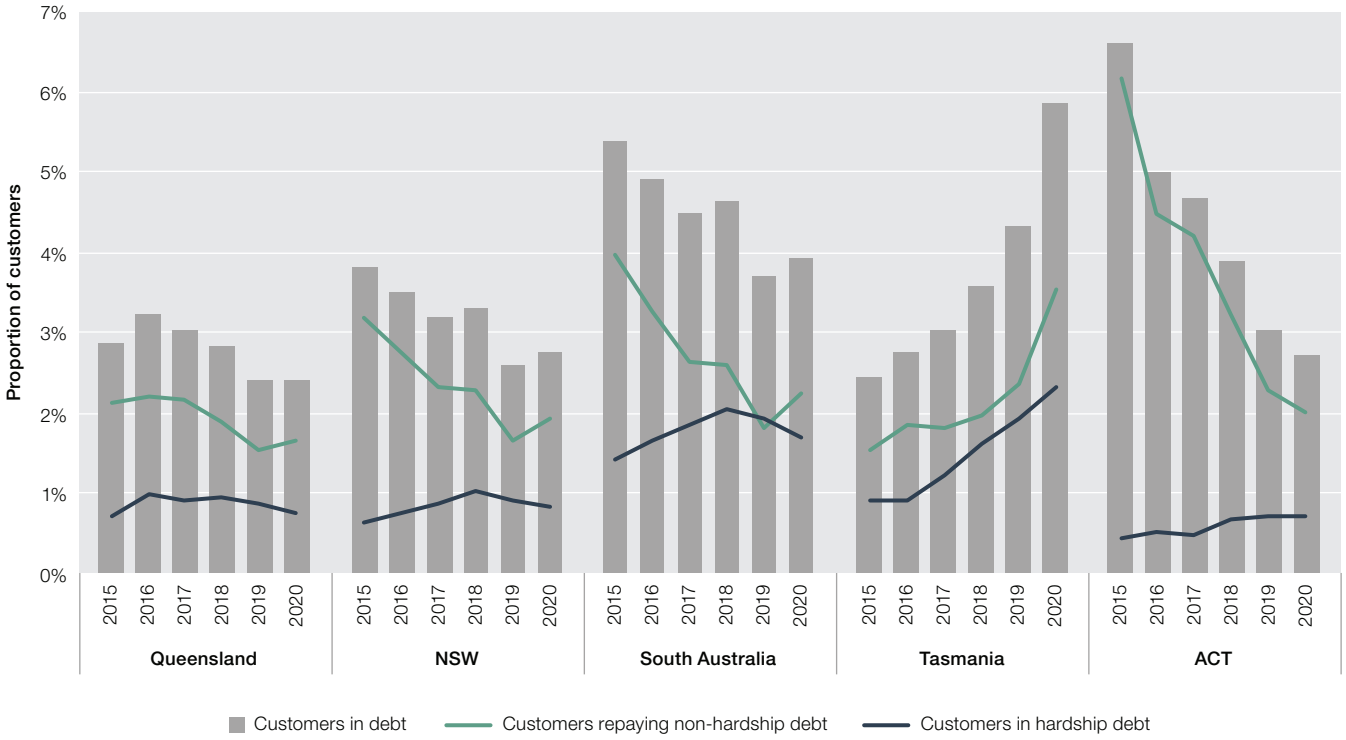
- offer a payment plan or hardship arrangement to all residential and small business customers that indicate they may be in financial stress
- be ready to modify an existing payment plan if a customer's changed circumstances make this necessary
- not disconnect any residential or small business customer in financial stress. Initially a this was a blanket ban on disconnection, but since August 2020 retailers can disconnect customers for non-payment if the customer does not engage with the retailer
- for any customer disconnected for non-payment, reconnect the customer immediately following contact and waive disconnection, reconnection and contract break fees
- defer any referrals of customers to debt collection agencies for recovery actions and credit default listing
- prioritise clear communications with customers about the availability of retailer and other support.

The AER's Statement of Expectations evolved as we moved through the COVID-19 pandemic, with updates released in August and November 2020 and in April 2021. Recent updates have focused on retailers transitioning customers from temporary support to formal payment plans and hardship programs. The Statement of Expectations will expire on 30 June 2021.

To support retailers as they provide payment assistance to customers, a new rule in August 2020 allowed energy retailers to defer payment of network charges for up to 6 months if they related to customers affected by the COVID-19 pandemic. The rule remained in place until February 2021. The rule built on voluntary support measures introduced by some network businesses.

Several state and territory governments also introduced COVID-19 support packages for households. In Queensland, for example, households received a $200 utility payment to assist with their electricity and water bills. In the ACT, holders of a utilities concession received a $200 rebate on their electricity bill. The Tasmanian Government capped price increases in energy bills for 12 months.

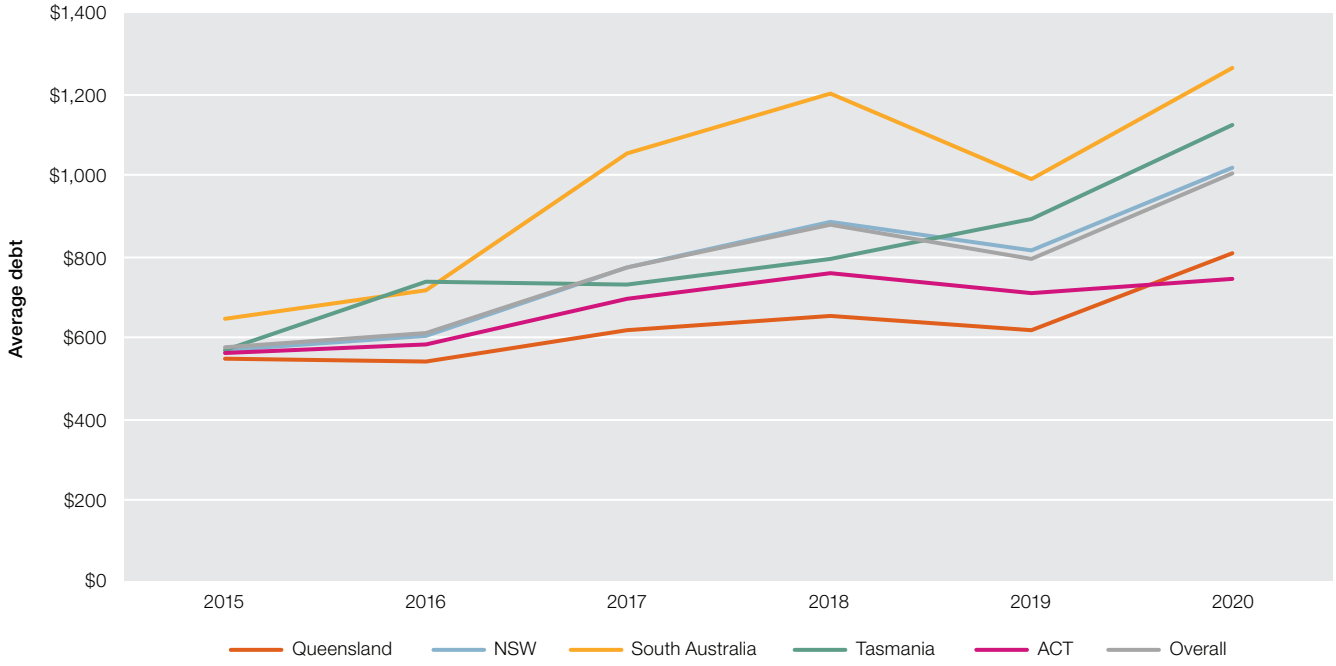
Figure 6.15 Residential customers in energy debt



Note: Based on customers with an amount owing to a retailer that has been outstanding for 90 days or more, at 30 December 2020.

Source: AER, *Retail markets quarterly, Q2 2020–21*, April 2021.

Figure 6.16 Average energy debt of residential customers



Note: Average debt of residential customers with an amount owing to a retailer that has been outstanding for 90 days or more, at 30 December 2020.

Source: AER, *Retail markets quarterly, Q2 2020–21*, April 2021.

Payment plans

Payment plans allow settlement of overdue amounts in periodic instalments. They 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.[61]

The framework sets out good practice principles of engagement based on trust, respect and empathy to promote constructive, long term customer relationships. The framework has been adopted by retailers that account for around 90% of small customers. The total number of customers on payment plans at December 2020 was around 18% higher than the previous year, despite retailers also offering other types of COVID-19 support.

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 have successfully completed their plan. In 2020 the proportion of payment plans successfully completed increased compared to 2019 for both electricity customers (47% successfully completed, up from 38%) and gas customers (48% successfully completed, up from 32%).

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's Customer Hardship Policy Guideline requires retailers to ensure their programs are easily accessible and include a standard statement explaining how they will help customers. It puts greater onus on retailers to identify who may need assistance.[62]

Assistance under a retailer's hardship program can include:

- extensions of time to pay a bill, and tailored payment options
- 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, such as an energy audit and help to replace appliances, to help reduce a customer's bills
- a waiver of any late payment fees.

Customers can enter hardship programs by initiating entry themselves (60–70% of customers), being identified by their retailer (20–30%) or by referral by financial advisers or other agents (around 1%).

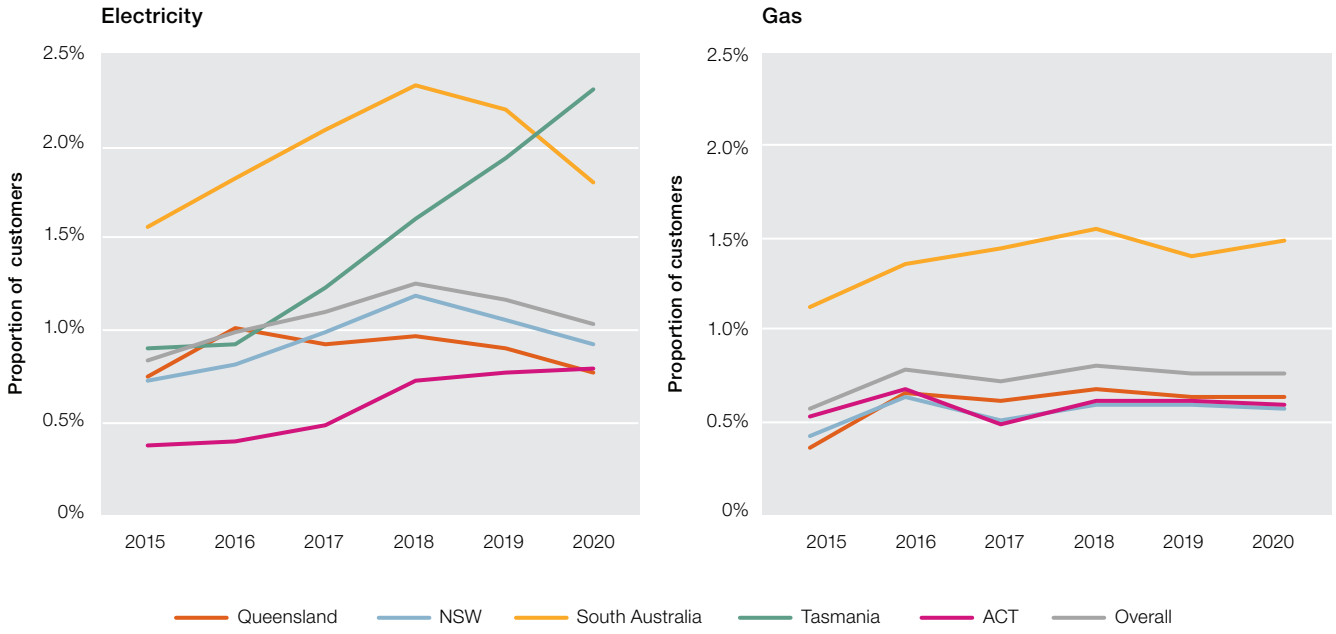
The average proportion of residential electricity customers on hardship programs decreased in 2020 in Queensland, NSW and South Australia, with the proportion at December 2020 being the lowest since 2016 (figure 6.17). Tasmania had a record high number of customers on hardship programs, surpassing South Australia as the region with the highest proportion of residential electricity customers on hardship programs (2.3% of electricity customers at December 2020). The ACT had a slight increase in the proportion of electricity customers on hardship programs in 2020, but its rate remains among the lowest across the regions.

Gas hardship customer numbers remained fairly stable over 2020. South Australia had the highest proportion of customers on a gas hardship program at December 2020 (1.5%). Around 0.6% of customers in other regions were on a gas hardship program.

61 AER, *Sustainable payment plans, a good practice framework for assessing customers' capacity to pay, Version 1*, July 2016.

62 AER, 'Hardship protections a right not a privilege' [media release], 29 March 2019.

Figure 6.17 Proportion of small customers on a hardship program



Source: AER, *Retail markets quarterly, Q2 2020–21*, April 2021.

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 December 2020 the hardship debt of electricity customers reached record levels, averaging $1,584. This was the second year of large debt increases, with 2020 debt levels 58% higher than debt levels at December 2018 (figure 6.18). Gas debt levels also increased over the past 2 years, rising 42% to an average $745.

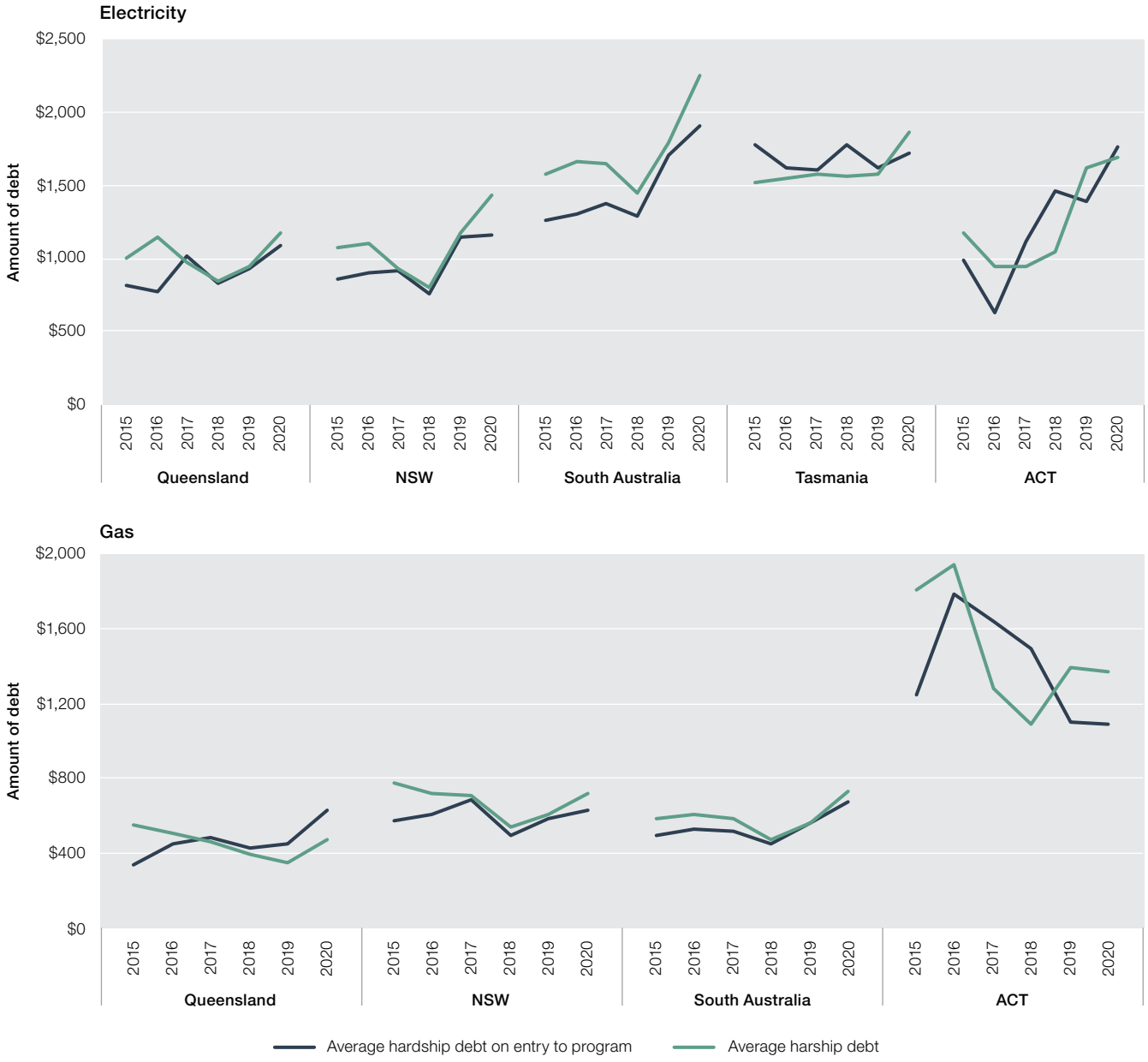
Average debt of customers on entry to hardship programs also increased over the past 2 years. Electricity debt on entry increased by 42% to $1,357, and gas debt on entry increased by 30% to $669. Average debt on entry to hardship programs is lower than average hardship debt in all regions except the ACT (for electricity) and Queensland (for gas). This indicates that, once customers are on a hardship program, on average they tend to accumulate more energy debt, which may become entrenched. Around 42% of electricity customers on hardship payment plans and 36% of gas customers were unable to meet their ongoing usage charges at December 2020.

Average electricity hardship debt and debt on entry to hardship programs was highest in South Australia and lowest in Queensland. Average gas hardship debt and debt on entry in 2020 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 increased from 31% in 2019 to 35% in 2020 after almost doubling between 2018 and 2019. The rate remains low, however, indicating many hardship customers may not be receiving the assistance they require. Of customers who exited hardship programs in 2020, 57% did not successfully meet their payment arrangement. Around 9% 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.[63]

63 ESC, *Amendments to the Energy Retail Code: payment difficulties*, October 2017.

Figure 6.18 Average debt at time of entry to hardship programs and average hardship debt of small customers



Source: AER, *Retail markets quarterly, Q2 2020–21*, April 2021.

6.7.3 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. Disconnection for non-payment of bills should be viewed as a last resort after payment plans and hardship programs have been attempted and only after the strict processes set out in the Retail Rules have been followed.

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.

In April 2020 the AER released a Statement of Expectations in response to the COVID-19 pandemic, which included the expectation that retailers do not disconnect any small customer (residential or small business) who 'may be in financial distress'. This restriction was relaxed from August 2020, with retailers allowed to recommence disconnections for those customers who fail to engage with the retailer. Similar restrictions were introduced in Victoria.

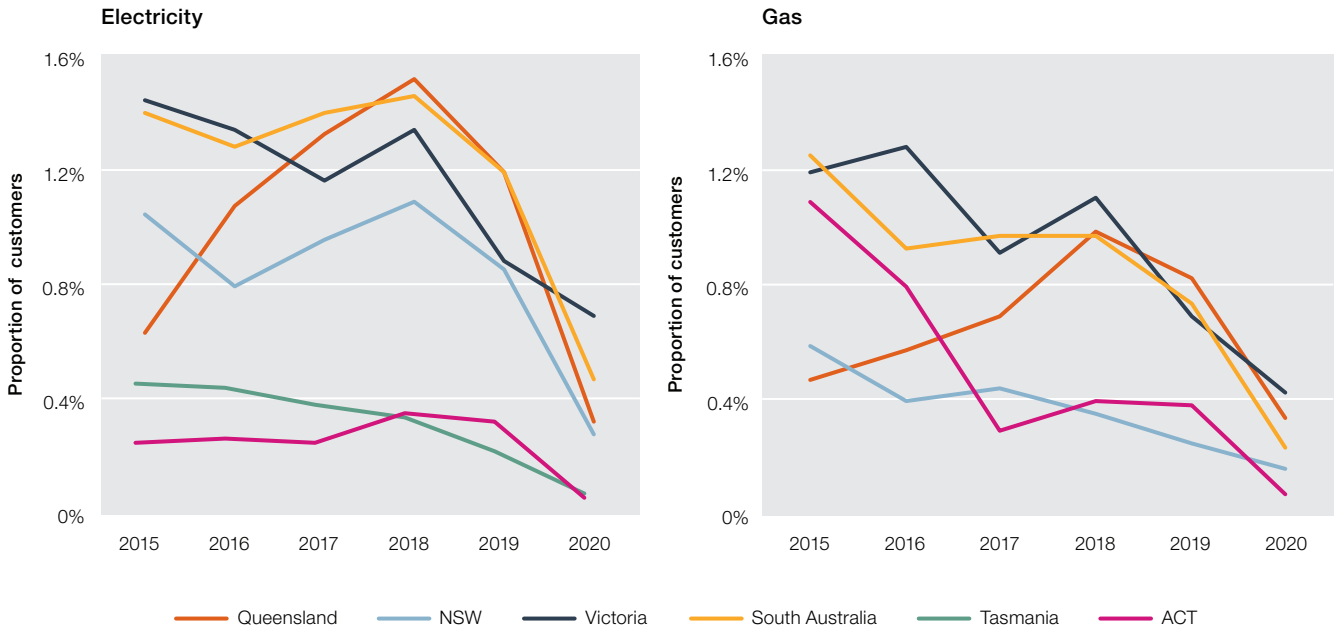
Restrictions on disconnections for much of 2020 resulted in a significant reduction in the proportion of customers disconnected compared with 2019.

South Australia had the highest rate of disconnections of residential electricity customers in 2020, at around 0.5% of customers. Around 0.3% of customers in Queensland and NSW, and less than 0.1% of customers in the ACT and Tasmania, were disconnected (figure 6.19). Disconnection rates presented for Victoria are not comparable with the other regions, as they relate to 2019–20.

Gas customer disconnection rates were around half the level of electricity in NSW and South Australia but similar in Queensland and the ACT.

Almost half of residential customers disconnected in 2020 had outstanding energy debts of between $500 and $1,500. Around 25% of residential electricity customers and 32% of gas customers disconnected had debts of less than $500. Of those residential customers disconnected in 2020, around 16% of electricity customers and 11% of gas customers had been disconnected on another occasion in the previous 24 months.

Figure 6.19 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 2020 for all states except Victoria, which is at June 2020.

Source: AER, *Retail markets quarterly, Q2 2020–21*, April 2021; ESC, *Victorian energy market report 2019–20*, December 2020.

6.8 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 a customer is unable to resolve an issue with their retailer, they 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.

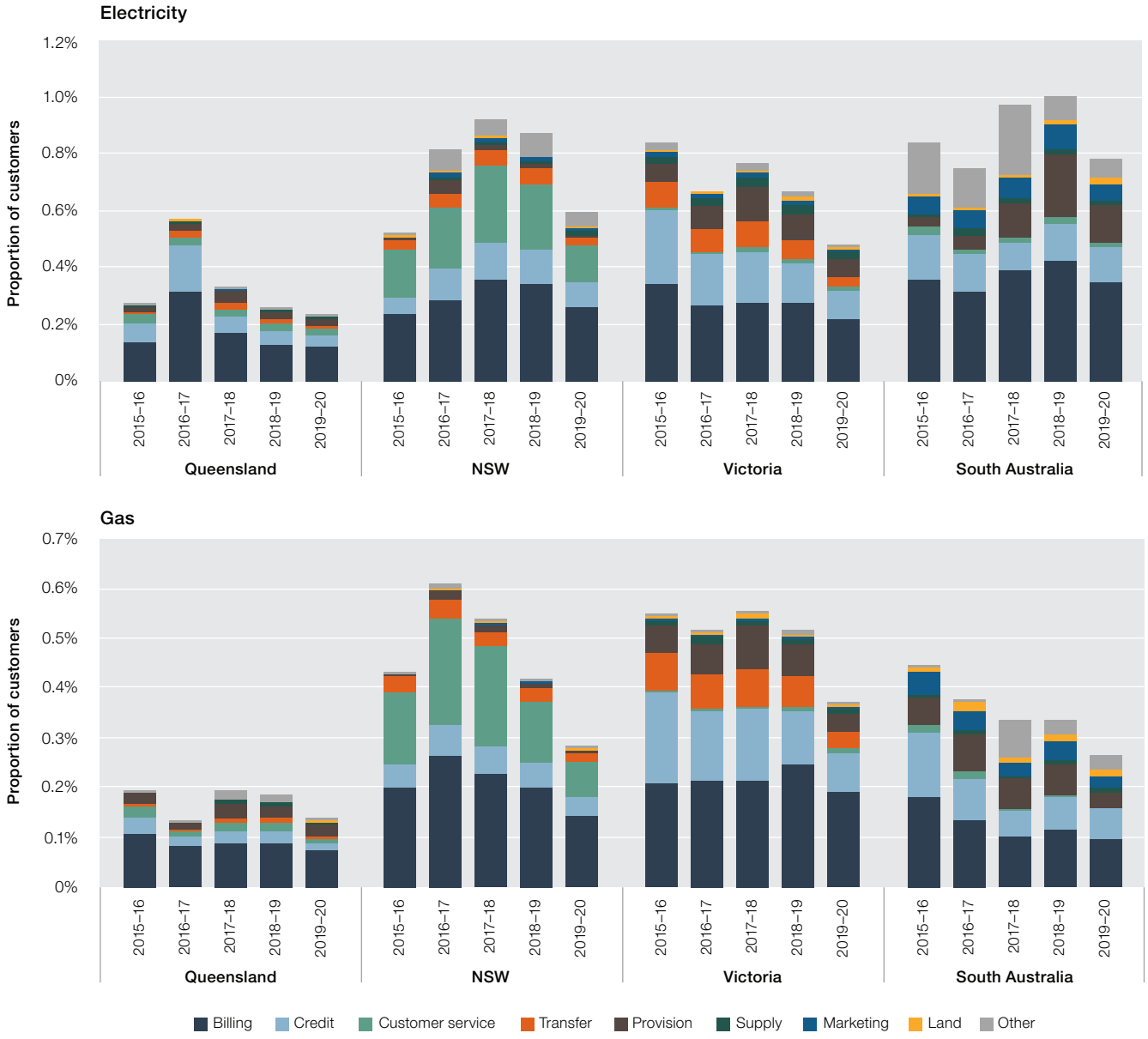
The number of electricity and gas complaints to ombudsman schemes fell in all regions in 2019–20, down 26% on the previous year (figure 6.20).

Complaints levels decreased most markedly following the introduction of stronger consumer protections in response to the COVID-19 pandemic. In particular, the AER's Statement of Expectations (and the equivalent Victorian response) prevented disconnection, debt collection and credit default listing for customers experiencing financial stress. The introduction of the AER's revised Customer Hardship Policy Guideline in October 2019 likely also contributed to a decrease in complaint numbers.

Electricity complaint rates are typically lower in Queensland than in other regions, at 0.23% of Queensland customers in 2018–19 (compared with between 0.48% and 0.77% of customers elsewhere). Gas complaints to ombudsman schemes are generally lower than for electricity. Victoria had the highest complaint rates, at around 0.38% of customers in 2019–20.

Billing concerns generate the largest number of complaints, constituting over 45% of complaints in 2019–20. Unexpectedly high bills are the primary billing issue. Other billing issues include errors, incorrect tariff, estimation of energy use, fees and charges, and backbilling. Credit issues – including the disconnection of customers following non-payment; and the collection of outstanding charges – accounted for another 17% of complaints. Retailers' customer service was another prominent issue (accounting for less than 10% of complaints in most regions but over 22% in NSW).

Figure 6.20 Complaints to ombudsman schemes



Note: Data includes all cases recorded by ombudsman schemes for electricity and gas industries. This includes enquiries and complaints in relation to energy retailers, distribution networks and embedded network operators. 'Other' captures issues including general enquiries, metering and privacy complaints.

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

6.9 Enforcement action in retail markets

The AER's enforcement activity in retail markets recently targeted areas including behaviour towards customers in vulnerable circumstances. Additionally, the ACCC has taken enforcement action against retailers under the Australian Consumer Law, with a focus on marketing practices. In Victoria, the ESC is responsible for enforcement action.

6.9.1 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.

Following enforcement action initiated by the AER, in November 2020 the Federal Court found that EnergyAustralia had breached provisions relating to customers experiencing payment difficulties. The Federal Court found that, for 8 customers between 2016 and 2018, 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.

The Federal Court ordered by consent that EnergyAustralia pay penalties of $1.5 million and maintain a compliance program for 3 years.[64]

In November 2020 AGL Energy paid penalties totalling $100,000 for allegedly disconnecting customers who were experiencing payment difficulties, without first offering the customers' payment plans. The AER also required AGL Energy to undertake an independent audit of how it treats its customers in financial difficulty.[65]

In November 2020 Origin Energy paid penalties totalling $120,000 for allegedly wrongfully disconnecting residential customers. Origin Energy initiated the disconnection of 6 customers with outstanding debts. Due to a system error, Origin Energy failed to cancel the disconnection process after the customers paid all amounts owing.[66]

In April 2020 the AER commenced legal proceedings against EnergyAustralia for allegedly failing to comply with life support requirements. The AER alleges that, from February 2018, for a significant number of customers, EnergyAustralia failed to:

- register customers that required life support equipment
- 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.[67]

The AER also alleges EnergyAustralia 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 June 2020 Momentum Energy paid penalties totalling $100,000 following the issue of 5 infringement notices by the AER. Momentum Energy allegedly incorrectly removed customers requiring life support equipment from its life support register.[68]

64 AER, 'EnergyAustralia penalised $1.5m for failing to protect hardship customers' [media release], 6 November 2020.

65 AER, 'AGL pay penalties and audited for alleged wrongful disconnection of vulnerable customers' [media release], 4 November 2020.

66 AER, 'AER takes action to protect against wrongful disconnections' [media release], 12 November 2020.

67 AER, 'EnergyAustralia in court for alleged failure to comply with customer life support obligations' [media release], 9 April 2020.

68 AER 'Momentum Energy pays penalties for alleged life support breaches' [media release], 11 June 2020.

In November 2020 Alinta Energy paid penalties totalling $200,000 following the issue of 10 infringement notices by the AER. Alinta Energy admitted that on more than 1,500 occasions it breached requirements around the registration of life support customers. These requirements include registering customers' premises as requiring life support equipment and notifying the energy distributor. The AER accepted a court enforceable undertaking from Alinta Energy for the implementation and independent audit of a compliance improvement action plan.

In Victoria, the ESC took action against Alinta Energy in February 2020 for allegedly requiring customers to provide financial information before they could access payment plans. Alinta Energy paid penalties of $1.125 million.[69]

6.9.2 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.

The ACCC monitors how businesses notify customers of price changes, and promote discounts and savings under their energy offers, following concerns that consumers may be misled.

In July 2020 Locality Planning Energy paid a penalty of $10,500 for an alleged contravention of the Electricity Retail Code. The ACCC alleged that Locality Planning Energy published an offer on its website that failed to include required information, including a comparison to the reference price, the total amount an average customer would pay, the distribution region and the type of small customer to which the offer applied. This was the ACCC's first enforcement action for a breach of the Electricity Retail Code.

In August 2020 the ACCC instituted proceedings in the Federal Court against Sumo Power for false or misleading representations in relation to its electricity plans. The ACCC alleged Sumo Power promoted electricity plans with low rates and high discounts and represented that it would maintain, or not materially change, prices in these plans for 12 months. But Sumo Power planned to substantially increase the prices charged to those consumers who signed up within a few months, or knew it was likely to do so.[70]

In October 2020 the ACCC finalised proceedings in the Federal Court against iSelect – a privately operated energy price comparison service – for misleading or deceptive conduct and false or misleading representations. 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. The Federal Court ordered iSelect to pay penalties of $8.5 million.[71]

In December 2020 Origin Energy paid a penalty of $126,000 after the ACCC issued it with an infringement notice. Origin Energy allegedly made a false or misleading representation in a price increase letter sent to residential electricity customers in Victoria.[72]

In December 2020 1st Energy agreed to a court enforceable undertaking in relation to representations made to consumers in Tasmania during unsolicited telemarketing calls. 1st Energy admitted that sales representatives made several representations that were likely to be false or misleading. 1st Energy undertook to contact affected customers and help them exit their contracts, if they wish, without charge. The company will also update its compliance program, staff training and complaints handling system.[73] In Victoria, the ESC took action against Alinta Energy and amaysim in 2020 for transferring customers onto contracts without their consent. The businesses paid penalties of $280,000 and $600,000 respectively.[74]

69 ESC, 'Alinta Energy pays more than $1 million for putting hurdles in way of help' [media release], 4 February 2021.

70 ACCC, 'Sumo Power allegedly misled consumers about electricity pricing' [media release], 5 August 2020.

71 ACCC, 'iSelect to pay $8.5 million for misleading consumers comparing energy plans' [media release], 8 October 2020.

72 ACCC, 'Origin Energy pays penalty for allegedly misleading electricity customers' [media release], 22 December 2020.

73 ACCC, '1st Energy admits it likely misled Tasmanian consumers' [media release], 21 December 2020.

74 ESC, 'Alinta Energy penalised for second time in two years' [media release], 17 March 2020; ESC, 'Amaysim Energy pays $600,000 for alleged sales agent fraud' [media release], 20 April 2020.

6.9.3 Other compliance action

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

- In November 2020 the Federal Court found that AGL Energy failed to submit timely and accurate retail market performance data. The Federal Court ordered AGL Energy to pay penalties totalling $1.3 million.[75]
- In January 2021 AGL Energy paid 8 infringement notices (totalling $160,000) for allegedly failing to promptly appoint metering coordinators to fix customers' faulty meters.[76]

The AER also required retailers EnergyAustralia, Red Energy, 1st Energy and M2 Energy to conduct compliance audits related to performance reporting obligations.

In Victoria the ESC took action against Alinta Energy in August 2020 for allegedly failing to follow the required steps in seeking to recover undercharged amounts from customers. AGL Energy paid penalties totalling $450,000.

In Queensland in November 2020 the Queensland Competition Authority required AGL Energy to reimburse late payment fees it incorrectly charged to more than 24,000 electricity customers between 2015 and 2020.[77]

75 AER, 'AGL to pay $1.3 million penalty for failing to provide performance data on time' [media release], 13 November 2020.

76 AER, 'AER takes action against AGL for not promptly fixing customers' meters' [media release], 19 January 2021.

77 QCA, 'ALG to reimburse customers for late payment charges' [media release], 5 November 2020.

Abbreviations

1P	proven (gas reserves)
2P	proved plus probable (gas reserves)
3P	at least 10 per cent probability of being commercially recoverable (gas reserves)
5MS	5-minute settlement
ABS	Australian Bureau of Statistics
ACCC	Australian Competition and Consumer Commission
ACT	Australian Capital Territory
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
AFMA	Australian Financial Markets Association
AGN	Australian Gas Networks
APLNG	Australian Pacific LNG
ARENA	Australian Renewable Energy Agency
ASX	Australian Securities Exchange
BESS	battery energy storage system
C&I	commercial and industrial
CBA	cost–benefit analysis
CBD	central business district
CCGT	combined cycle gas turbine
CCP	Consumer Challenge Panel
CEFC	Clean Energy Finance Corporation
CESS	capital expenditure sharing scheme
CoAG	Council of Australian Governments
COVID-19	coronavirus disease 2019
CPI	consumer price index
CSG	coal seam gas
CSIRO	Commonwealth Scientific and Industrial Research Organisation
CSIS	customer service incentive scheme
DEIP	Distributed Energy Integration Program
DER	distributed energy resources

DMIA	demand management innovation allowance
DMIS	demand management incentive scheme
DMO	default market offer
EBSS	efficiency benefit sharing scheme
ECA	Energy Consumers Australia
ENA	Energy Networks Australia
EOI	expression of interest
ESB	Energy Security Board
ESC	Essential Services Commission
EV	electric vehicle
FEX	FEX Global
FCAS	frequency control ancillary services
GAP	Gas Acceleration Program
GJ	gigajoule
GLNG	Gladstone LNG
GSL	guaranteed service level
GST	goods and services tax
GW	gigawatt
GWh	gigawatt hour
Hz	Hertz
HHI	Herfindahl–Hirschman index
ICT	information and communication technology
IRENA	International Renewable Energy Agency
ISDA	International Swaps and Derivatives Association
ISP	integrated system plan
km	kilometre
kW	kilowatt
kWh	kilowatt hour
LCOE	levelised cost of electricity
LNG	liquefied natural gas
MAIFI	momentary average interruption frequency index
MJ	megajoule
MOS	market operator services
MLF	marginal loss factor
MLO	market liquidity obligation
$MtCO_2$-e	million metric tonnes of carbon dioxide equivalent
mtpa	million tonnes per annum
MW	megawatt
MWh	megawatt hour
NEM	National Electricity Market
NSW	New South Wales

NT	Northern Territory
OCGT	open cycle gas turbine
OTC	over-the-counter
PJ	petajoule
PST	pivotal supplier test
PV	photovoltaic
QCLNG	Queensland Curtis LNG
RAB	regulatory asset base
RERT	reliability and emergency reserve trader
RET	Renewable Energy Target
REZ	renewable energy zone
Retail Law	National Energy Retail Law
RIN	regulatory information notice
RIT	regulatory investment test
RIT–D	regulatory investment test – distribution
RIT–T	regulatory investment test – transmission
RRI	Rate of Return Instrument
RRO	Retailer Reliability Obligation
SAPS	stand-alone power systems
SAIDI	system average interruption duration index
SAIFI	system average interruption frequency index
STPIS	service target performance incentive scheme
STTM	short term trading market
TJ	terajoule
TJ/d	terajoules per day
TW	terawatt
TWh	terawatt hour
UNGI	Underwriting New Generation Investment program
VPP	virtual power plants
WACC	weighted average cost of capital