

State of the energy market 2022

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Preface



The Australian Energy Regulator's (AER) flagship State of the energy market report has, for more than a decade, provided a clear, impartial and comprehensive view of our energy markets from all angles – wholesale electricity and gas markets, the transmission and distribution networks, energy retail markets and consumer experiences.

For the first time, we are publishing this report alongside the Energy Security Board's (ESB) annual report on the Health of the NEM. The Health of the NEM is the ESB's evaluation on how the NEM is performing against the objectives set by energy ministers in the Strategic Energy Plan. The State of the energy market focuses on the past year and provides in-depth analysis of recent outcomes, which the Health of the NEM report draws on. In combination, the reports should help readers to understand the market as it is now and the challenges we face as our energy markets transition.

As we release this report, we are concerned that energy is becoming less affordable for consumers. During 2022 wholesale markets have surged to record high prices. This was reflected in increases across all customer types in all regions in our decision on the Default Market Offer for 2022–23, released in May.

Depending on the extent and duration of these pressures, we are likely to see fewer and more expensive retail offers available to consumers. In that environment, it is more important than ever that shopping around is as simple as possible.

Our Energy Made Easy website offers free, impartial price comparisons for energy consumers. It was accessed by almost 2 million users over the past year in more than 4.9 million sessions.

Importantly, not all consumers will have the same opportunities to manage energy costs and those opportunities may not be enough. Some consumers will experience periods of vulnerability as they grapple with increasing energy bills in an environment of high inflation following years of subdued wage growth.

The AER recognises the need to respond to these issues across our work.

We are supporting consumers to make more confident decisions by implementing the Better Bills Guideline and improving our Energy Made Easy website, so that consumers can find and switch to a better plan more easily. We are also working with stakeholders on a sector-wide, 'game changing' reform initiative to address consumer vulnerability in the energy sector more broadly. These actions, and others, will be outlined in more detail in our first ever consumer vulnerability strategy, scheduled for release in October.

Our compliance and enforcement work is a central part of our role. Each year it is guided by a set of priorities which, over the past year, included the effective identification of residential consumers in payment difficulty and the offering of payment plans reflecting consumers' capacity to pay. This remains a priority for the forthcoming year.

Our work has been supported by the Federal Court, which ordered a record \$35 million in civil penalties under national energy laws in 2021–22. This is an almost ten-fold increase on the next highest year and reflects the culmination of several longstanding processes. In addition to these penalties, we accepted 4 enforceable undertakings and agreed to an administrative resolution of a 'hardship' investigation, which saw an energy retailer waive \$1 million of customer debt.

In 2020–21 consumers on average spent less on the network component of their bills, continuing a recent trend of reductions. In coming years, we expect upward pressure on network costs as inflation and rising costs of capital combine with significant upcoming network investments.

We are committed to making network determinations that reflect the input of consumers and support efficient investments in the future of energy networks, but do so at the least possible costs to consumers. Through work such as our Better Resets Handbook, our review of incentive schemes and our imminent completion of the second binding rate of return instrument, we are improving the tools we use to regulate networks.

In August 2022, energy ministers established the National Energy Transformation Partnership. This is a major development in the energy sector. The first act under the Partnership will be to include an emissions objective in the rules and laws governing the market and our work. This reiterates the vital connection between Australia’s energy markets and its journey towards decarbonisation.

We also see this journey happening in the everyday lives of consumers, with more households than ever installing solar PV on rooftops and consumer energy resources (CER) accounting for 8% of demand in the NEM – the highest ever proportion.

I recommend the *State of the energy market 2022* report to all stakeholders as a source of key data on the industry, but also as a compelling reminder of our shared responsibility to help make energy consumers better off, now and in the future.

Clare Savage
AER Chair
September 2022

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