



NEWS

National energy retail competition review released

Energy sector transformation is accelerating. Retail competition is stronger. New energy entrepreneurs are offering customers more varied products and better priced deals. Gains for customers are real but at risk because of rising wholesale costs.

The Australian Energy Market Commission (AEMC) today released its fourth annual review of the state of competition in retail energy markets across the national electricity market which includes Queensland, New South Wales, Victoria, South Australia, Tasmania and the Australian Capital Territory. The review makes a number of recommendations to improve customer outcomes.

The review found that energy consumers have more choices to manage their energy use and are looking to take up new technology options:

- 20% of consumers surveyed now have solar panels
- 21% are likely to adopt battery storage in the next two years
- 18% are likely to take up a home energy management system in the next two years.

New retailers are entering the market with new business models and pricing structures. At the same time, new energy service providers are introducing technology, digital platforms and software solutions to create simple service offers for consumers. This is forcing traditional retailers to compete not just on price, but with more innovative products and services.

Overall, competitive retail market indicators continue to improve in jurisdictions with price deregulation.

By shopping around some households can save 38% or \$507 on their yearly electricity bill and 30% or \$285 on gas. These potential savings are larger than last year.

Also, residential consumers are more aware of their choices: more than 90% of energy consumers know that they can choose their retailer, and around 80% of residential consumers actively chose their current energy offer.

However, 30% of consumers are unable to identify the type of plan or offer they are on, and consumers find it harder to compare energy offers than they do in banking, insurance and telecommunications. Consumer awareness of the government's Energy Made Easy comparison website remains at 9%.

The report makes a number of recommendations to make it easier for customers to take advantage of competition and make the best energy choices for their household or business.

AEMC Chairman John Pierce said customers today have more options to manage their energy use, but for most people, understanding the details of energy plans and new energy products and services is low.

"The review recommends a range of programs to build awareness of cost savings, concession and hardship schemes, comparison websites and other essential information to help consumers choose the offer or product that's right for them," said Mr Pierce.

“While competition is driving innovation and new choices for consumers in the retail market, these benefits are under threat by a wholesale market with rising costs”

The review found that while retail competition is stronger and delivering benefits for consumers, higher wholesale costs are driving up retail prices. This is putting these benefits at risk.

Rising wholesale energy market costs are being driven by a range of factors, including the increasing costs of hedging contracts. Fewer generators can provide hedging contracts due to the lack of an emissions reduction policy that is properly integrated with the energy market, while generator retirements are reducing the supply of contracts.

This, along with higher gas prices, is increasing the costs of doing business for electricity retailers, especially smaller retailers with innovative offerings. The risk of these electricity retailers leaving the market is growing.

Mr Pierce said we are seeing a two-speed market.

“While competition is driving innovation and new choices for consumers in the retail market, these benefits are under threat by a wholesale market with rising costs.”

“It’s critical that future policy on emissions reduction facilitates commercial investment in generation in the right place at the right time, and supports a liquid forward contracts market so retailers can effectively manage their risk and keep prices as low as possible for consumers,” said Mr Pierce.

The review found that a lack of liquidity in the contract market was creating a barrier to retailer entry and expansion, particularly in South Australia.

This risk to retail competition offsets the positive trend of decreasing market concentration. The review found that the market share of the big three retailers - AGL, Origin and Energy Australia - who currently supply 70% of customers in the national electricity market, decreased, while the market share of second tier retailers is increasing.

For the first time, this year’s review also looked at retailer gross margins.

It found the gross margins of the big three retailers were similar to the gross margins of smaller second tier retailers across New South Wales and Victoria in 2015-2016, although gross margins of the big three were higher in Victoria than in other jurisdictions.

The report notes there are limitations in interpreting gross margins, and suggests the ACCC investigates the differences in retailer costs for different jurisdictions as part of its inquiry into retail electricity supply and pricing.

Consumer research undertaken for the AEMC by Newgate Research assessed retail competition in electricity and gas markets for all national electricity market jurisdictions, drawing on research and data collected in 2016 and early 2017. Research involved a quantitative survey of 2,147 residential and 550 small business customers across the national electricity market.

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25 July 2017