



2017 Retail Energy Competition Review

Initiation of annual review of retail energy market competition

The AEMC has initiated its fourth annual review of retail energy competition in the national electricity market (NEM). This information sheet sets out our proposed scope and approach for the 2017 review and welcomes stakeholder comments and input.

Scope for the 2017 review

The purpose of the review is to assess the current state (and possible future development) of competition for small customers (residential and small business customers) in retail energy markets in all NEM jurisdictions. This includes retail electricity and gas markets in the Australian Capital Territory, New South Wales, Queensland, South Australia, Tasmania and Victoria. The focus of the review is on small customers.

The reviews were initially established to support the commitment made by jurisdictions in 2004 to deregulate retail energy prices where effective competition could be demonstrated.

Most jurisdictions have now deregulated retail energy markets and competition in retail energy markets is evolving. For example, there is increasing competition in alternative energy use options driven by advances in technology and shifts in consumer preferences. Further, there are different business models emerging by traditional retailers and new energy service providers, complemented with a broader range of energy services.

Given this, the review will consider how competition is evolving and utilise the key competitive market indicators provided by the COAG Energy Council's Terms of Reference (2014) to comment on the following:

- *The current structure of retail energy markets.* This would include having regard to the number of retailers in the market; market concentration; ease of entry/ exit and extent of independent rivalry.
- *Retailer behaviour and consumer engagement.* This would include having regard to consumer activity and preferences, switching and retail pricing offers in the market, including consideration of differences between standing and market offers. We will also consider the different products and services offered to consumers, including those provided by non-traditional energy service providers.
- *Overall performance of retail energy markets.* This would have regard to business outcomes (revenue/profitability), trends in consumer satisfaction and the rate of progress and improvement over time of different products and services.

As part of the analysis of different products and services emerging in the retail market, we will consider the increase of embedded network energy service providers in the market and the associated issues for competition and consumers. We also will comment on, at a high level, the potential for alternative network service offerings that may be offered in the retail market on a competitive basis.

Figure 1 provides an overview of our core areas for the review, expanded areas and the additional areas of scope outlined above.

The AEMC has commenced its fourth annual review of retail competition in electricity and gas markets across the NEM

Figure 1: Overview of scope of the 2017 review



Approach for the assessment of competition

Similar to previous years, no one set of indicators will be used to determine effectiveness of competition in retail energy markets in the NEM.

Previously, the following key competitive market indicators have been used as part of the overall assessment of state of competition in electricity and gas retail markets:

- Customer activity
- Customer outcomes
- Barriers to entry/exit or expansion
- Independent rivalry
- Competitive retail prices

For the 2017 review, we will still consider these indicators but apply them in accordance with the framework provided in Figure 2. Our framework applies a structure-conduct-performance paradigm. This considers the interaction between how a market is structured, the degree of competition between providers, behaviour of consumers, and, in turn, the outcomes the market delivers for consumers and businesses (in terms of price, range of products, consumer satisfaction levels, and profitability).

The final report will provide advice on state of competition in retail energy markets across the NEM.

Figure 2: Summary of scope and approach



Our final report will deliver the following advice:

- state (and likely future development) of competition in NEM;
- trends in retail markets over time; and
- recommendations to improve retail competition in electricity and gas markets across NEM jurisdictions.

The report will be evidence-based and draw from a range of information sources and data. This includes information from:

- stakeholders;
- the quantitative customer research;
- retailer survey/interviews;
- international experience and information where relevant; and
- data provided by ombudsmen, retailers, jurisdictional regulators, the Australian Energy Regulator and the Australian Energy Market Operator.

While we are not seeking stakeholder submissions, we welcome comments on our scope and approach for the 2017 review. Comments can be provided by contacting Alan Rai or Lisa Shrimpton by 15 February 2017 (contact details below).

Timelines

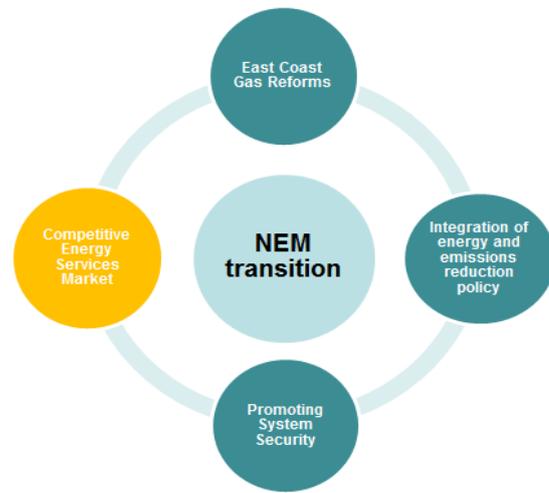
Scoping, data gathering, stakeholder comments on scope and approach	December 2016 – February 2017
Analysis and drafting	March – April 2017
Final Report publication	30 June 2017

The final report is due on 30 June 2017.

Background to the review

The 2017 review forms part of AEMC's broader work program, specifically our work related to reforms occurring in the competitive energy services market (Figure 3).

Figure 3: The AEMC's broader work program



The annual retail competition reviews are undertaken in accordance with standing terms of reference provided by the COAG Energy Council in January 2014. The Final Report must be published by 30 June each year.

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