



INFORMATION

2017 Retail Energy Competition review - NSW

Consumers are experiencing increases in retail electricity prices. These price increases are a consequence of higher wholesale energy market costs.

Increasing wholesale energy market costs are being driven by a range of factors, including the increasing costs of hedging contracts which is a result of the lack of an emissions reduction policy that is properly integrated with the energy market, generator retirements and higher gas prices.

In the context of retail energy markets, consumers are exercising their choices, looking to take up new technology options and there is increasing diversity of retailers and energy service providers entering the market. These suppliers are providing products and services that are aligning with consumer preferences to manage their energy use and bills.

Key findings – state of competition for New South Wales

The Australian Energy Market Commission (AEMC) retail energy competition reviews are undertaken at the request of the Council of Australian Governments Energy Council. This year's review assesses how competition is evolving and the outcomes it is delivering for residential and small business gas and electricity consumers across the National Electricity Market (NEM).

Based on the analysis of key measures and indicators considered for the review, competition continues to be effective, and is increasing in the New South Wales retail electricity market. This is evidenced by new retailer offers, and also other new energy service provider product and service offers.

Competition is also effective in the retail gas market, though less intense than in the electricity market. Gas price regulation was removed on 1 July 2017.

Summary of key measures: 2016-2017

	Measure	Trend (electricity)	Trend (gas)
Structure	Barriers to entry, expansion & exit	Stable	Stable
	Market concentration/share	Improving	Improving
Market conduct	Consumer activity	Stable	Stable but decreases in switching
	Retail pricing strategy	Improving	Slight improvements
	Retail energy prices	Increases	Moderate
	Product and service innovation	Improving	N/A
Market outcomes /performance	Consumer outcomes: - satisfaction	Stable	Increase but decreases for value for money
	- complaints	Increase to retailers, but decrease to the Ombudsman	Increase to retailers, but unchanged to the Ombudsman
	Retailer margins	Increased from 2014-15 to 2015-16	N/A

Consumers are experiencing price increases as a result of high wholesale market energy costs.

Retail electricity market

Market structure measures indicate competition remains effective

- In December 2016, there were 22 electricity retailers serving approximately 3.47 million small electricity customers.
- Market concentration, as measured by the Herfindahl-Hirschman index (HHI), improved by around 5 per cent as second tier retailers continued to increase their market share from 9 per cent in 2015 to 11 per cent in 2016.
- In our retailer survey, it was noted that the contract market in NSW is tightening, with higher wholesale prices. This may limit a retailer's ability to expand but as yet have not impacted the market.

Consumer awareness is high and engagement increasing

- For this year's review the consumer research was undertaken in January-February 2017 by Newgate Research. Unless otherwise noted, all results are based on the research findings for this time period.
- 94 per cent of NSW residential electricity consumers are aware of their ability to choose their retailer and 86 per cent understand they can choose their plan. These are both improvements on the 2016 results.
- Around 82 per cent of residential consumers and 84 per cent of small business consumers said they actively chose their electricity plan they are on as at January/February 2017.
- In 2017, 34 per cent of both residential and small business consumers actively investigated their energy options. However, when prompted around 36 per cent of residential consumers did not know whether they were on a standing or market offer contract.
- Based on data from AEMO and the AER, 17 per cent of New South Wales residential and small business consumers changed their electricity retailer or plan during 2015-16.
- Over the past five years, 56 per cent of residential consumers and 53 per cent of small business consumers changed their electricity retailer or plan. This is a slight increase from 2016.
- Only 13 per cent of residential consumers and 11 per cent of small business consumers were aware of the AER's Energy Made Easy website.

Increasing diversity of products and service options

- There is a range of new energy service providers that have entered the national electricity market offering innovative services to consumers. For example, there is Powershop, Mojo and Simply all offering services. Powershop also in conjunction with Reposit offer services that are designed for consumers with solar PV and batteries. The Reposit software enables consumers to optimise the value of the electricity they generate either by using it or exporting it to the grid at optimum times.
- A growing number of retailers have digital interfaces, such as online portals or mobile apps that allow consumers to track and manage their usage and monitor their bills on an on-going basis.
- An increasing number of consumers are receiving services from embedded networks. Over 80 per cent of the growth in embedded networks in 2012 and 2013 was in the caravan and residential parks segment. However since then the main growth has occurred in the general residential category, and is mostly in apartment dwellings. The majority of residential embedded networks are in the Sydney region, with the remainder of sites on the north and south coasts and a minority registered in regional New South Wales.

Data provided by Big 3 retailers reveals that consumers may be paying closer to the best available market offer than standing offer

Larger discounts and savings by shopping around

- Consumers who shop around can potentially save around 21 per cent or \$309 per annum on their electricity bills when moving from a median standing offer to the cheapest market offer. This is based on the consumption profile of a representative consumer¹, and represents a larger potential saving than in 2016.
- The difference between the most expensive market offer and the cheapest market offer is \$682 per annum.² This is greater than the spread of bills under market or standing offers.
- The degree of price dispersion is almost the same across market and standing offers. The spread of bills under market offers in Ausgrid's supply area is \$467 (\$1,165 - \$1,632), compared to the spread for standing offers of \$453 (\$1,394 - \$1,847).³
- Based on retailer data, the average price paid by NSW customers of the Big 3 retailers (AGL, Origin and EnergyAustralia) is moving closer to the best market offer price, indicating that more consumers selecting discounted market offers. For example, in 2015-16, the average price paid by customers of the Big 3 retailers was 24.9c/kWh, which was 12 per cent above the Big 3's best market offer at that time. This compares with 2014-15 where the average price paid was 25.5c/kWh, which was 23 per cent higher than the best market offer available at that time.
- The discount rate offered by second tier retailers in New South Wales and Victoria is around 11 to 14 per cent higher than that of the Big 3, but the gap between the discounts appears to be decreasing over time.
- There are an increasing number of innovative pricing plans in the market. For example, Mojo offers a subscription pricing model that will suit users with specific usage profiles, and Powershop sells electricity in a variety of power-packs to suit different consumer requirements. Additionally, Origin offer a fixed annual bill for consumers wanting billing certainty, while options for shorter payment periods are also being offered to help consumers with budgeting.

Residential consumer satisfaction remains steady but small business satisfaction with value for money decreased

- The 2017 consumer survey revealed that 62 per cent of residential consumers rated their retailer as good to excellent value for money, and 67 per cent who rated their retailer's level of consumer service as good to excellent which was a decrease from 71 per cent in 2016.
- 61 per cent of small business consumers rated the level of customer service provided by their electricity retailer as good to excellent. However, the proportion of small business customers who rated value for money provided by their electricity retailer as good to excellent decreased significantly from 59 per cent in 2016 to 49 per cent in 2017.

Electricity retailer margins

- For this year's review, the information was voluntarily provided by the Big 3 retailers and some smaller second tier retailers. This made it possible to assess gross margins of these retailers.
- The gross margins of the Big 3 retailers:
 - were larger across New South Wales and Victoria than gross margins of smaller second tier retailers in 2014-15, but similar to the gross margins of smaller second tier retailers in 2015-16

¹ The annual electricity consumption of a representative consumer for NSW used was 5,936kWh, of which 1,900kWh is for controlled load as at 5 January 2017 and based on Ausgrid distribution network area.

² Data as at 5 January 2017.

³ Data as at 5 January 2017.

There is increasing diversity in retail offers and new retailers and service providers entering the retail energy market.

- decreased between 2014-15 and 2015-16, in overall terms across all relevant jurisdictions. This was due solely to the decrease in gross margins in South East Queensland. Retail prices were deregulated in South East Queensland from 1 July 2016.
- remained higher in Victoria than in other jurisdictions. As part of its inquiry into retail electricity supply and pricing, the ACCC may consider investigating the differences in retailer costs for different jurisdictions, in particular Victoria.

Retail gas market

Retail gas market structure in NSW has improved

- In December 2016, there were 6 gas retailers serving approximately 1.35 million small gas consumers.
- Market concentration, as measured by the Herfindahl-Hirschman index (HHI) improved by 4 per cent as second tier retailers increased their market share from 3 per cent in the 2016 review to 4 per cent in the 2017.
- Retailers identified logistical issues with entering or expanding into NSW gas markets, including gaining access to pipeline capacity in some regional areas and difficulties in setting up agreements with distributors, transmission companies or suppliers of gas.
- NSW retail gas prices were deregulated on 1 July 2017. IPART's price monitoring functions have been expanded to include gas.

Consumer awareness is high and engagement remained stable

- NSW residential gas consumers have high awareness of their ability to choose their retailer (92 per cent compared to 88 per cent in 2016) or their plan (84 per cent compared to 73 per cent in 2016).
- Based on AEMO data, in the past 12 months 10 per cent of small gas consumers changed their electricity retailer, compared with 14 per cent in 2016.
- Over the past five years, 42 per cent of residential consumers changed their electricity retailer or plan, which is an increase from 33 per cent from 2016.

Consumers can save by switching offers

- Bills for a representative gas consumer in NSW vary considerably depending on the offer they select. For example, the regulated offers yield an average annual bill of \$870 for a representative consumer⁴ in the Jemena Coastal Supply Area (which includes Sydney), whereas a consumer could save \$126 per annum (14 per cent) by switching to a market offer. The level of savings will differ with energy consumption, discount eligibility and type of contract.

Consumer satisfaction with their retailer remains steady but satisfaction with value for money has decreased slightly

- Most consumers are satisfied with their outcomes in the gas market. 76 per cent of residential consumers said they were very or somewhat satisfied with their current retailer, which is an increase from 71 per cent in 2016.
- 68 per cent of residential consumers rated the quality of customer service they receive as good to excellent. This represented a steady result for residential consumers compared to the previous year. There was a 7 per cent decline for small business consumers who rated the quality of customer service by their retailer as good to excellent.
- In relation to consumer perceptions about value for money, 63 per cent of residential consumer gave a rating of good to excellent, which is a reduction from 66 per cent in 2016.

⁴ Available to residential consumers as at 27 January and based on consumption of 24,000MJ.

Recommendations

The report makes a number of recommendations that relate to enhancing competition in NEM retail energy markets and improving consumer outcomes. These include:

Recommendation 1: A broad information program is developed by Energy Consumers Australia (ECA) in partnership with the jurisdictions that would support consumer awareness and confidence in the options that are available to manage energy bills. This information program would be developed as soon as practicable given recent and significant price increases. This work would apply the AEMC consumer blueprint that highlights and identifies the various channels needed to effectively communicate across and within consumer segments and also the broader community.

Recommendation 2: The AER is resourced to run an effective awareness campaign of their Energy Made Easy website and are resourced to maintain and develop the site.

Recommendation 3: The AER consider opportunities to improve the:

- Information provided by retailers to consumers related to the comparison of retail market offers.
- Transparency of information provided to consumers in relation to expiring fixed benefit periods in market offers.

The AER may need to consider whether amendments to its retail pricing guidelines are required or whether rule change requests need to be made to the AEMC.

Recommendation 4: As a priority, retailers and distributors make it easier and limit delays for consumers (and their agents) to access their consumption data. In particular, retailers and distribution network businesses develop streamlined arrangements for obtaining informed consent from consumers to the provision of metering data to their authorised representatives. The work by ECA and electricity distribution network businesses on streamlining information requirements from consumers and their agents should continue. In the absence of any industry progress, the ECA may consider if changes should be requested to the National Electricity Rules and National Energy Retail Rules.

Recommendation 5: Retailers, consumer advocates and jurisdictions assist in transitioning vulnerable consumers, particularly those on hardship plans or experiencing payment difficulties, away from higher priced standing offers or market offers with expired fixed benefit periods.

Recommendation 6: COAG Energy Council write to COAG and the relevant jurisdictions to review the application of their energy concession schemes with a strategy on awareness of energy concession schemes among different consumer segments.

Recommendation 7: Jurisdictions to harmonise their energy customer protection arrangements so that barriers and costs for traditional and new retailers who operate across the NEM are minimised. To facilitate this work, COAG Energy Council request the AEMC to provide advice on the existing suite of modifications that have been made by jurisdictions to the National Energy Customer Framework (NECF) and the differences between NECF jurisdictions and Victoria. This program of work should be completed within two years.

Recommendation 8: Noting the progress made to date, COAG Energy Council should continue to consider how the NECF can be reformed given the diversity of new retailers, service providers and product and service offering available in the competitive retail energy market.

Recommendation 9: Industry develops a credible survey to address the lack of data for electricity trading hedging products. In the absence of industry action, the AEMC will consider, as part of its G20 over the counter derivatives review, whether electricity OTC products should continue to be exempt from derivative trade reporting requirements.

The 2017 retail competition review considers how competition is evolving and outcomes it is delivering for residential and small business consumers.

Background

The AEMC retail competition reviews were initially undertaken to support the commitment made by jurisdictions in 2004 to deregulate retail energy prices where effective competition could be demonstrated. Since our last annual review, most major NEM jurisdictions now have deregulated retail energy markets. Given the extent of deregulation, this year's review focuses on how competition is evolving and the outcomes it is delivering for residential customers and small business consumers, excluding large industrial and commercial users.

To consider the overall effectiveness of competition in retail energy markets, the review applies a range of market measures and indicators against a structure-conduct-performance framework. The market measures and indicators are not considered in isolation, as no single measure or indicator captures all the information about the effectiveness of competition in the retail energy services market. Instead, the review assesses evidence provided by a range of indicators and measures and their trends over time. The analysis of measures and indicators uses market and retailer data, quantitative consumer research, a retailer survey and stakeholder feedback.

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