



INFORMATION

2017 Retail Energy Competition review - ACT

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 ACT markets

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, there continues to be signs that competition is increasing in the ACT retail electricity market, although effective competition is yet to emerge.

There is also limited competition in the ACT retail gas market.

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	Improving	Stable but decreasing switching
	Retail pricing strategy	Improving	Slight improvements
	Retail energy prices	Increases	Moderate increase
	Product and service innovation	Improving	Stable
Market outcomes /performance	Consumer outcomes: - satisfaction	Stable	Stable but decreases for value for money
	- complaints	Increases to retailers and to the Ombudsman	Increases to retailers and to the Ombudsman

Retail electricity market

Market concentration is improving

- In December 2016, there were five active electricity retailers in the market with the entry of Next Business Energy.
- Market concentration decreased, with the incumbent retailer ActewAGL losing a small amount of market share to the other retailers operating in the market.
- Retailers continue to consider retail price regulation in the ACT electricity market as a barrier to entry as with the limited size of the market.

Consumers remain engaged in the market, although consumers switching over 5 years has decreased

- For this year's review the consumer research was undertaken in January-February 2017 by Newgate. Unless otherwise noted, all results are based on the research findings for this time period.
- Residential consumers' awareness of their ability to choose their energy company decreased to 66 per cent from 73 per cent in 2016. Small business awareness of their ability to choose electricity remained stable at 78 per cent, while awareness of their ability to choose their plan increased to 82 per cent in 2017 from 60 per cent in 2016.
- Around 40 per cent of residential consumers said they did not know whether they were on a market or standing offer contract.
- The proportion of both residential and small business consumers investigating their options remained stable. Around 20 per cent of residential and eight per cent of small business consumers said they had actively investigated options in the last 12 months.
- Based on data from AEMO and the AER, 5 per cent of residential and small business consumers changed their retailer during 2015-16.
- Over the past five years, 22 per cent of residential consumers and 8 per cent of small business consumers changed their energy retailer or plan. Around 40 per cent of residential consumers' wanting a cheaper price or a larger discount as the main reason for switching.
- The ACT recorded an increase in awareness of the independent government comparison site Energy Made Easy amongst residential consumers. When prompted, 9 per cent of residential consumers recognised Energy Made Easy, compared to 3 per cent in 2016.
- Around 55 per cent residential consumers and 16 per cent of small business consumers were currently looking or interested in switching to a better deal.

Increasing diversity of products and services, 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, Powershop 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.

Consumers can save by shopping around.

- Consumers who shop around can save around 11.5 per cent (or \$170) per annum on their electricity bills when moving from a median standing offer to the cheapest market offer.¹

¹ Based on a representative consumer with annual consumption of 7,312kWh in the ActewAGL distribution area, as at 5 January, 2017.

- The degree of price dispersion is higher in standing offers than in market offers. The spread of bills under market offers is \$170 (\$1,312–\$1,482) compared to a spread of \$630 for standing offers (\$1,424–\$2,054).

Consumer satisfaction for residential electricity consumers decreased slightly but increased for small business.

- Around 39 per cent of residential consumers in 2017 said they were very or somewhat satisfied with the level of market choice. This is a decrease from 48 per cent in 2016.
- The proportion of residential consumers very or satisfied with their retailer decreased to 67 per cent in 2017 from 72 per cent in 2016. Small business consumers' satisfaction with their retailer has remained relatively stable at 74 per cent.
- The proportion of residential consumers who rated the quality of customer service and value for money provided by their retailer as good to excellent remained stable at 68 per cent and 56 per cent respectively.
- Small business consumer who rated the value for money provided by retailers as good to excellent increased by 13 per cent from 52 per cent in 2016.
- Small business consumers who rated the quality of customer service provided by their retailer as good to excellent significantly increased to 84 per cent from 64 per cent in 2016.

Retail gas market

Barriers to entry remain, although market concentration decreased slightly.

- The level of market concentration has decreased with the incumbent retailer, ActewAGL, losing two per cent market share to other retailers.
- There are three gas retailers in the ACT. The small demand base remains a barrier to entry.

Residential and small business gas consumer switching activity remained steady.

- Based on data from AEMO and the AER, consumer switching over the past 12 months among residential and small business gas consumers decreased slightly to 4 per cent 2016 from 5 per cent in 2015.
- Over the past five years, around 20 per cent of residential consumers changed their gas retailer or plan. This was an increase of 13 per cent in 2016.
- Residential consumers' awareness of their ability to choose their gas retailer decreased to 51 per cent from 47 per cent in 2016.

Consumers can save by switching offers.

- The ACT has five standing offers and 12 market offers available. Consumers can achieve a discount of around five per cent (or \$44) by switching to a market offer.²

Residential consumer satisfaction has improved slightly.

- Around 67 per cent of residential consumers are very or somewhat satisfied with their current retailer, a decrease of 5 per cent from 2016.
- Residential consumers who rated the value for money provided by their retailer as good to excellent increased to 53 per cent in 2017 from 45 per cent in 2016. The proportion of residential consumers who also rated the quality of customer service provided by their retailer as good to excellent increased to 68 per cent in 2017 from 62 per cent in 2016.

Note: Comments on gas for small business customers are restricted to switching rates due to low sample sizes in the Newgate consumer survey.

² Based on a representative consumer's consumption of 24,000 MJ, as at January 27, 2017.

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. The 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 improving 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.

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

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

could be demonstrated. Since our last annual review, most 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.

For information contact:

AEMC Chairman, **John Pierce** (02) 8296 7800

AEMC Senior Director, **Kris Funston** (02) 8296 7811

AEMC Director, **Alan Rai** (02) 8296 0600

Media: Communication Director, Prudence Anderson 0404 821 935 or (02) 8296 7817

25 July 2017