Australian Energy Market Commission

REVIEW

FINAL

2017 AEMC Retail Energy Competition Review

Executive summary and recommendations

25 July 2017

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About the AEMC

The AEMC reports to the Council of Australian Governments (COAG) through the COAG Energy Council. We have two functions. We make and amend the national electricity, gas and energy retail rules and conduct independent reviews for the COAG Energy Council.

Executive Summary

The 2017 Retail Energy Competition Review assesses the current state and possible future development of competition in the retail electricity and gas markets for small customers. The report covers all the jurisdictions in the National Electricity Market (NEM). The review has been undertaken by the Australian Energy Market Commission (AEMC) at the request of the Council of Australian Governments (COAG) Energy Council.

The AEMC publishes a separate, but related, annual report every December. The Residential Electricity Prices Trends Report looks at the key drivers of potential trends in residential consumer electricity prices across the NEM over the coming years. The report is also undertaken at the request of COAG Energy Council.

Context for the 2017 Retail Energy Competition Review

Consumers are currently experiencing increases in retail energy prices. This is being driven by increases in wholesale energy market costs, which affect the costs of businesses competing in the retail sector. The increases in wholesale energy market costs and hence retail energy prices, are driven by factors that are unrelated to the state of competition within the retail energy sector itself.

The increases in wholesale energy market costs for retailers arise from:

- a lack of investment due to the uncertainty created by a lack of integration between current energy and emissions reduction policy mechanisms
- the retirement of Hazelwood in March 2017, which supplied capacity of 1600 MW equivalent to around 20 per cent of Victoria's electricity consumption. This came on top of the retirement of the Northern Power Station in May 2016, which supplied 546 MW of capacity
- increases in gas prices, partially due to high demand for gas for export markets and the moratoria on gas exploration and development.

The factors that are increasing wholesale costs are also contributing to the decline in the availability of wholesale hedging contracts. This has the potential to have a detrimental impact on retail competition.

This review involves an assessment of retail competition in electricity and gas markets based on a range of measures that are outlined in Table A and Table B. The measures show that there have been changes in the nature of retail competition and the outcomes for consumers. There are both opportunities and challenges to enhance the effectiveness of retail energy competition.

The opportunities and challenges arise due to:

- changing consumer preferences
- growing diversity of products and services
- market structure, retail pricing, and margins
- upward pressure on retail prices by external influences, in particular, the absence of an emissions reduction policy mechanism that appropriately integrates with energy policy.

These are each discussed in more detail below.

Changing consumer preferences

Consumer preferences and expectations have changed from previous years. Evidence from the 2017 consumer research and retailer survey suggests that an increasing number of consumers now seek greater flexibility and variety in service offerings. In particular, they want more personalised and streamlined engagement through both digital and physical channels. Changes in technology and the emergence of new product offerings have given consumers more choices in regards to their generation, consumption and energy management options.

The 2017 consumer research survey highlights the following key trends:

- **Consumers have more options to manage energy use and are exercising those options.** Around 20 per cent of consumers have solar panels and around 18 per cent have said that they are definitely or likely to take up solar in the next two years. Further, around 21 per cent of consumers indicated that they were definitely or likely to adopt battery storage in the next two years.
- **Consumer awareness of choices is high, but knowledge about the plans they are on is limited.** In NEM jurisdictions where consumers have an active choice of retailer, over 90 per cent of residential consumers surveyed were aware that they had a choice of energy retailer. Around 80 per cent of the same consumers indicated that they actively chose the energy offer they are on now. While this is the case, consumer understanding of differences between market and standing offers and the different retail tariff structures is low. Thirty per cent of respondents were not able to identify the type of offer they were on. A number of retailers noted that this lack of awareness in relation to the offers consumers were on also meant consumers are often unaware of when benefits associated with these offers lapsed.
- **Around 50 per cent of consumers have not switched in five years and awareness of independent government comparator sites is low**. In NEM jurisdictions where consumers have an active choice of retailer, 47 per cent of residential and 54 per cent of small business electricity consumers have not switched retailer or plan in the past five years. A higher proportion, 57 per cent, of residential gas consumers had also not switched retailers in the last five years. Behavioural biases may contribute to why some consumers do not investigate options or shop around for a better deal. This implies that consumers may not be accessing savings available in the market. Consumer awareness of Energy Made Easy remains low at nine per cent.
- **Consumers who switched found it harder to compare energy offers than in other sectors, yet switching rates are higher in electricity than other sectors**. Of residential consumers who switched energy retailer or plan in the last five years, 62 per cent found energy offers easy to compare. On the other hand, 21 per cent found offers difficult to compare. Compared to other sectors, such as banking, insurance, and telecommunications, fewer consumers found offers in energy easy to compare, and more consumers found offers difficult to compare. Despites this, 39 per cent of consumers surveyed have switched electricity provider in the last five years, compared to 36 per cent for car insurance, and 34 per cent for mobile providers.
- **Switching is largely price driven, and across the NEM consumers require savings of over 20 per cent on energy bills to seriously consider switching.** Sixty-five per cent of residential consumers and 75 per cent of small business consumers who had switched at least once in the past five years cited the offer of a discount, a better

price, or wanting a cheaper price, as reasons for switching. NEM-wide residential consumers and small business consumers required an average quarterly bill saving of 23 per cent on electricity to seriously consider switching. The corresponding figures for gas were 26 per cent for residential consumers and 30 per cent for small business consumers.

- **Residential consumer satisfaction is generally stable for electricity, but there have been declines for small business customers, and residential gas customer satisfaction has declined slightly.** Across the NEM, satisfaction of residential electricity consumers with their current retailer, customer service and value for money, remains stable. However, residential gas consumer satisfaction decreased by 6 per cent and is now at 60 per cent. Consumer satisfaction for small business gas consumers remained stable. Consumer satisfaction for small business electricity consumers decreased. In particular, value for money decreased by 11 per cent to 48 per cent across the NEM, with Victoria experiencing the largest decrease of 18 per cent.

Growing diversity of products and services available

Shifts in consumer preferences and attitudes about how energy is consumed, coupled with rapidly evolving technology, have created opportunities for retailers and new energy service providers to diversify their product and service offerings.

This increasing competitive pressure from retailers with different business models is forcing traditional retailers to compete not just on price, but also on value-added product and service offerings.

There is a range of new energy service providers that have entered the market. These service providers use technology, digital platforms and software solutions to create simple service offers for consumers. They had done so independently or in partnership with retailers. Examples of such service providers and their offerings include, but are not limited to:

- Home energy management services such as *Telstra's* smart home product, which allows consumers to manage energy use remotely through a secure mobile phone application.
- *Reposit* and *Evergen* services, which optimise consumers' investment in solar and batteries by monitoring solar generation, battery use and energy costs in real time.
- *Greensync* and *Power Ledger* services, which focus on optimising and aggregating distributed energy resources back to the market. This allows retailers and other service providers to manage wholesale market risk and use demand response when needed.

Traditional retailers are also reconsidering their value proposition to consumers, and making some changes, including:

- Investment in information technology platforms, such as AGL's digital transformation project
- Ergon's partnership with new energy service provider *Habidapt* to offer home energy management and energy efficiency products and services
- EnergyAustralia's partnership with *Redback Technologies* to integrate and optimise solar and battery use for consumers.

Embedded networks represent a new way of providing retail energy products and services to consumers. They are increasingly being provided by non-traditional energy suppliers, such as property developers or intermediaries that are associated with property developers. Rather than promoting the sale of energy services, these providers often market the lifestyle benefits associated with environmentally sustainable infrastructure.

There has been significant growth in embedded networks over recent years, especially for supplying residential consumers. Between 2010 and 2016, the number of registered residential embedded network exemptions rose from virtually zero to over 1,300. Most of this growth has occurred in Queensland since 2014. While there are potential benefits for consumers being in embedded networks, there are also issues with ability of these consumers to access competitive retail market offerings and consumer protections.

Embedded networks highlight the need to consider whether existing regulatory frameworks are fit for purpose for each new product or service. The AEMC has a review underway looking at the impacts of embedded networks and potential changes that may be required to regulatory arrangements.

Market structure, retail prices and gross margins

Market structure

In terms of the retail market structure:

- Market concentration has decreased, with the market share of customers of the 'Big 3' retailers – i.e. AGL, Origin and EnergyAustralia, which together supply 70 per cent of customers in the NEM – decreasing, and the market share of second tier retailers increasing.
- Second tier retailers have become increasingly diverse – some have generation assets, such as Lumo-Red and Simply, and others do not have generation assets, such as Sumo and Mojo.
- Some retailers have begun to offer battery and solar products that allow a customer to vertically integrate behind the meter.

The retailer survey revealed that economies of scale and scope are not seen to be significant barriers to entry. Further, a number of retailers noted that while vertical integration could be beneficial, it was not essential *where there was access to a liquid hedge contract market to manage wholesale market risks*.

A lack of liquidity in the contract market was identified by retailers as creating a barrier to entry and expansion, and increasing the benefit of owning generation assets. Retailers observed that the cost of hedge contracts has increased, and it was expected this would increase retail prices. Limited access to competitively-priced risk management contracts was also seen as a significant barrier to entry, particularly in South Australia. It highlights the degree to which a competitive, reliable supply of energy depends not only on investment in capacity, but also on the need for that capacity to supply hedge contracts. This in turn will be affected by how generation capacity is financed.

Given the importance of the wholesale contract market in driving market structure and retail market outcomes for consumers, concerns have been raised that there is now very limited visibility of the overall level of contracting. This has been the case since a voluntary survey conducted by the Australian Financial Markets Association, which reported on the overall level of ASX and over the counter contracts was discontinued in 2015.

Retail prices

The diversity of retailers has been accompanied by differentiated price offers for consumers. Examples of such offers include:

- Sumo's "all you can eat offer", which provides the ability to pay a fixed amount for a period of time.
- Mojo's subscription model, where consumers pay a flat subscription fee that depends on the services consumers choose. This is akin to a pay television subscription.
- Powershop's offer of packaged deals, which include options for managing home energy use or purchasing Green Power.

Of the Big 3 retailers, Origin has also introduced a predictable plan. The plan allows consumers to pay a fixed amount for a year based on analysis of three months of usage, paid in instalments.

Despite these new price offers, there remains limited innovation in the retail tariff structures on offer. The reforms related to cost-reflective distribution network tariffs and expanding competition in metering, which take effect on 1 December 2017, should increase incentives for retailers to provide different retail tariff structures in the future. These structures will potentially provide consumers with greater flexibility with how they manage their energy use and bill. For now, the predominant form of price-based competition still involves discounting off the standing offer rate. Providing market offers based on conditional discounts, such as pay on time discounts off a varying standing offer, contributes to the challenges consumers face in comparing retailer offers.

Discounting by competing retailers is resulting in higher levels of price dispersion over time in NEM jurisdictions where there is an active choice of retailer. Higher levels of price dispersion are often associated with markets with more effective competition. This is because in such markets retailers differentiate plans to better meet consumer preferences. While there is a question about whether discounting rather than different tariff structures truly targets consumer preferences, the level of price dispersion is also greatest in jurisdictions where price deregulation has been in place the longest.

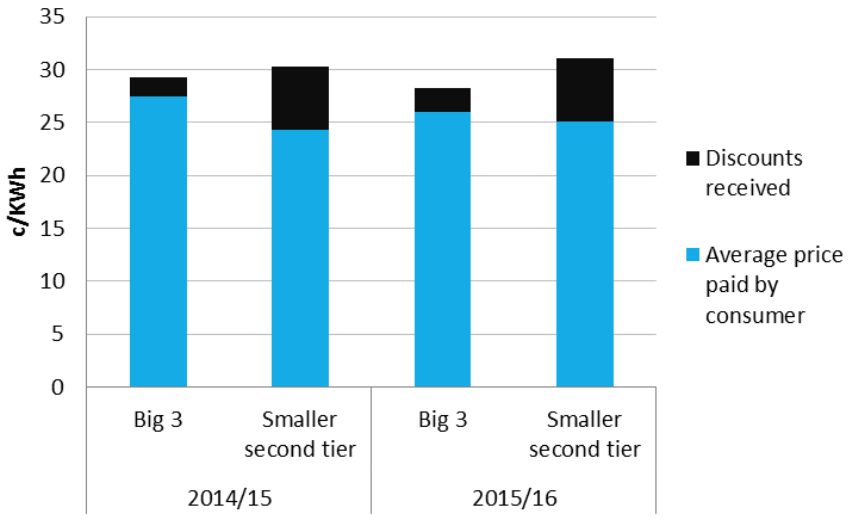
Analysis of standing and market offers shows that discounts available in 2017 are higher than those in 2016. Across NEM jurisdictions with an active choice of retailer, and for the representative consumer that moved from the median standing offer to the best market offer, the discounts as at 5 January 2017 ranged from:

- 12 to 38 per cent, or $170 to $507 per annum, for electricity bills
- five to 30 per cent or $44 to $241 per annum, for gas bills.

Data provided by the Big 3 retailers also shows that the average residential price paid for electricity from 2014-2015 and 2015-16 across New South Wales, Victoria, South Australia and South East Queensland has decreased. From 2014-15 and 2015-16, the average prices for New South Wales and Victoria is closer to the best available market offer than the standing offer. This is a result of higher discounts being offered over time and a growing share of Big 3 retailers' customers selecting discounted market offers.

Figure 1 shows that over the same period in New South Wales and Victoria, smaller second tier retailers provided higher discounts than the Big 3 retailers, and charged customers a lower average price.

Figure 1: Retailer data - average price paid and discounts received by Big 3 and smaller second tier customers



Source: Confidential data provided by retailers. Annual data for one retailer is by calendar year. Prices shown are the weighted-average based on customer numbers. Data for smaller second tier retailers represents a subset that offered data.

There are some consumers paying standing offer rates who may find it difficult to switch to lower priced offers. There are also some vulnerable consumers, who find it difficult to pay their bills on time. They may subsequently be paying closer to standing offer rates, as they do not receive the conditional pay on time discounts. AGL has recently addressed this issue. It moved around 26,000 of its concession card-holder customers in Victoria from paying higher priced standing offer rates to cheaper rates. Origin and EnergyAustralia have also announced assistance related to vulnerable customers on their hardship support programs.

Retail Margins

A number of papers have raised concerns about the margins earned by retailers. Significantly though, neither the gross nor net margins used in these studies captures the cost to retailers from managing the non-trivial balance sheet risks associated with wholesale spot market, which reflects the characteristics of the power system. A more meaningful assessment of profitability would involve measuring a risk-adjusted net margin, which also accounts for the return of and on a retailer's capital.

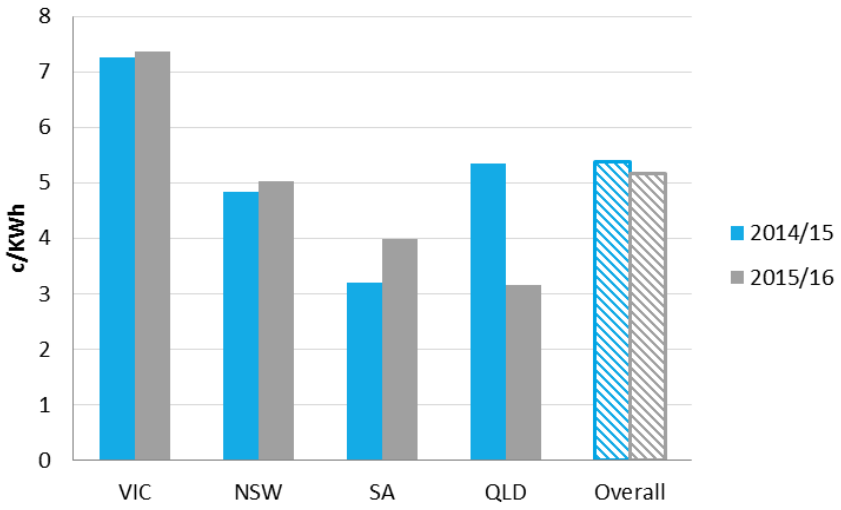
For this year's review, the information voluntarily provided by the Big 3 retailers and some smaller second tier retailers, made it possible to assess gross margins, but not net margins.

Between 2014-15 and 2015-16 the gross margins for 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.
- decreased overall across New South Wales, Victoria, South Australia and South East Queensland. However, as shown in Figure 2, this is due solely to the decrease in gross margin in South East Queensland, which had regulated prices prior to July 2016.

- were higher in Victoria than in other jurisdictions (as shown in Figure 2). 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.

Figure 2: Retailer data - average gross margins for Big 3 retailers by jurisdiction



Source: Confidential data provided by retailers. Annual data for one retailer is by calendar year. Price shown is the weighted-average price across retailers based on customer numbers. Data for Queensland refers only to South East Queensland.

Upward pressure on retail prices

There is currently increasing upward pressure on retail energy prices. This is largely driven by factors outside the retail energy sector.

In recent years, retail pricing outcomes have become increasingly dependent on outcomes in the wholesale energy market. The AEMC's price trends reports show that nationally for electricity, the wholesale component's share of residential prices increased from an estimated 19.6 per cent in 2014-15 to an estimated 28.6 per cent in 2016-17.

The increases in electricity wholesale costs have been due to a combination of:

- generator retirement, combined with increases in gas prices
- the distortionary impact of having an emissions reduction policy mechanism not properly integrated with energy policy, in the form of the large scale renewable energy target (LRET).

Each of these is discussed below.

Generator retirements and gas price increases

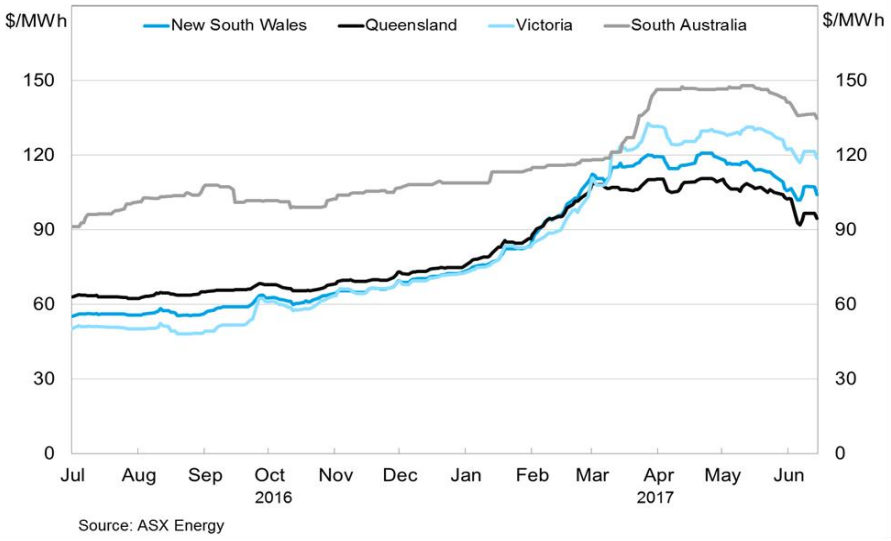
Retailers are reliant on hedging contracts to underwrite their fixed-price retail offerings. Thus, a reduction in the supply of these contracts and higher hedging costs place upward pressure on consumer prices. Standalone retailers, such as new entrants that offer more innovative prices and products, rely more heavily on contracts than vertically-integrated retailers such as the Big 3, or 'gentailers', who have a physical internal hedge.

In November 2016 it was announced that the Hazelwood generator in Victoria, with generation capacity of 1600 MW would be retired in March 2017. This came on the back of the retirement of the Northern Power Station in South Australia in May 2016, with

generation capacity of 546 MW. Since the announcement of the retirement of Hazelwood there have been large increases in forward contract prices for electricity across the NEM. This has been due to the expectation that the electricity supplied by Hazelwood is replaced by more expensive black coal and mid-merit gas generation in New South Wales and Queensland. The cost of gas-fired power generation has recently been affected by higher gas prices and concerns about the availability of future gas supply.

Figure 3 shows the increases in hedging contract prices using average quarterly baseload forward contract prices for 2017-18. The graph shows that if a contract was purchased to fix the wholesale price for the entire 2018 financial year (i.e. 2017-18) at the start of October 2016, prior to the announced closure of Hazelwood, it would cost just over $60/MWh in New South Wales, Victoria, and Queensland, and around $100/MWh in South Australia. However, by the start of May 2017, after Hazelwood was retired, the same contract cost over $100/MWh in New South Wales, Victoria, Queensland (an increase of over 60 per cent) and just under $150/MWh in South Australia (an increase of around 50 per cent). This outcome means that, despite any improvements in the effectiveness of retail competition in past year, wholesale contract market outcomes are likely to continue to increase retail electricity prices for consumers in the near term.

Figure 3: Prices of 2017-18 baseload swap electricity futures contracts



In June 2017, large retail standing offer price increases were announced for residential and small business customers from 1 July 2017 across a number of states. Based on the announced price increases by the Big 3 retailers, the bill increases for representative consumers of the Big 3 retailers in:

- New South Wales, are in the range of 15 to 21 per cent
- South Australia, are in the range of 16 to 21 per cent
- Queensland, are between 4 to 9 per cent.

The results are summarised in Table 1.

In Victoria, while most retailers announced standing offer price increases in January 2017 of around 10 per cent, there were no further increases in standing offer prices in 1 July 2017 announced by either the Big 3 retailers or the vertically-integrated retailers Simply and Lumo/Red Energy. There were, however, very large increases in standing offer rates announced by a number of the second tier retailers with more limited or no generation

assets. Table 2 summarises the bill increase for representative consumers of these retailers, which shows a range of 3 to 43 per cent.

Table 1: Representative consumer bill increases of Big 3 from 1 July 2017

Retailer	State	Network	% increase in standing offer from 2017
AGL	NSW	Ausgrid	18
	SA	SAPN	21
	QLD	Energex	5
EnergyAustralia	NSW	Ausgrid	21
	SA	SAPN	21
	QLD	Energex	9
Origin Energy	NSW	Ausgrid	15
	SA	SAPN	16
	QLD	Energex	4

Source: AEMC analysis based on data from Energy price sheets on retailer websites. The following annual consumption levels were assumed: Ausgrid - 4036kWh + 1900kWh controlled load, Energex – 3621kWh +1552 controlled load, SA Power networks – 5000kWh. Analysis is based on changes in standing offer tariffs. We note that price increases were also announced for the other distribution network areas of NSW.

Table 2: Representative consumer bill increases in Victoria from 1 July 2017

Retailer	Network	% increase in standing offer from 2017
Dodo	Citipower	18
Powershop		19
Click Energy		10
Commander		16
GloBird		11
Alinta		3
BluNRG		21
Qenergy		41
Sumo Power		43

Source: AEMC analysis based on data from Victorian energy compare and Energy price sheets on retailer websites. The following annual consumption level was assumed: Citipower – 4026kWh. Analysis is based on changes in standing offer tariffs. We note that price increases were also announced for the other distribution network areas of Victoria.

Emissions policy

The LRET has resulted in an increasing penetration of renewable energy generation in the wholesale market. Due to the design of the LRET, the new generators do not have the same incentives to enter into firm capacity hedge contracts as a means for financing their investment. They can instead finance investment through the separate source of revenue derived from generating certificates. The result is that the new generation adds to the physical capacity in the system, but due to the design of the LRET scheme, results in no corresponding increase in the supply of firm capacity hedge contracts. Further, the new generation incentivised by the LRET contribute to the retirement of the older generation plants that were supplying the firm-capacity hedge contracts. Consequently, the supply of firm capacity contracts is diminished, increasing the cost of contracts, which affects retail competition.

In particular, a decrease in the supply, and increase in the cost of contracts is likely to negatively impact the competitive position of the standalone new energy retailer businesses. These are the businesses currently partnering with the new energy service providers and driving the value-added product and service competition that enable consumers to better manage energy use and bills. These emerging competitors are more reliant than gentailers on hedging contracts to manage their risk exposure.

With a sustained high price of hedging contracts, there is the potential that some retailers may exit the market. This is either because they are unable to remain competitive in light of these higher hedging costs, or that they do not want to bear the risks associated with not being fully hedged. Alternatively, some retailers may seek to manage the risk of sustained higher prices by vertically integrating. Both of these will create higher levels of market concentration over time, resulting in less effective competition, higher retail prices and less choice for consumers.

Any emission reduction policy that is introduced must consider the enduring effects it may have on the energy market. In particular, how it affects not only the level of investment in physical capacity, but also how that investment in generation is financed. Emission reduction policy mechanisms that incentivise investment in electricity generation capacity without incentivising the ongoing supply of hedge contracts, risk adversely distorting wholesale and retail market outcomes. They will inadvertently lessen the emerging competition from innovative new retail energy businesses, and place upward pressure on consumer prices. Conversely, where an emissions reduction policy is effectively integrated and aligned with the design of the NEM, it is likely to lead to a higher degree of investment certainty in the energy market and more availability of contracts. This will reduce pressure on the wholesale electricity market, and result in lower retail prices for consumers.

The 2017 report findings

The retail competition reviews were initially established to support the commitment made by jurisdictions in 2004 to remove retail price regulation where effective competition could be demonstrated. Since the last review, most NEM jurisdictions now have deregulated retail energy markets. Given the extent of deregulation, this year's review focuses on the evolution of competition and the outcomes for residential and small business consumers.

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.

Tables A and B summarise the results of each market measure and indicator for the retail electricity and gas markets across all NEM jurisdictions. The tables highlight that while this year there are the expected retail price increases from wholesale market impacts, there appear to be improvements across most measures of the effectiveness of competition in both the electricity and gas retail markets.

A particular improvement in the retail energy market has been the emergence of the new retail energy businesses and new energy service providers. These are offering innovative product and services to electricity consumers. Given this emergence, governments and policy makers must consider that poorly designed interventions that either directly or indirectly affect the retail market, could stifle this emerging innovation, limiting their benefits to consumers. Poorly conceived direct and indirect policy interventions of the past that affect retail market outcomes must be avoided, such as:

- the price re-regulation in the UK, which restricted price discrimination, but ultimately resulted in less choice and higher retail prices for consumers
- the design of the LRET scheme, which has limited the ability of the new retail businesses to access hedge contracts.

Table A: Summary of trends for measures and indicators - electricity

	Measure	Trend	Comment
Structure	Barriers to entry, expansion & exit	Stable	- Barriers to entry, expansion and exit relate to the ongoing wholesale market volatility, contract liquidity in South Australia and the divergence of jurisdictional regulatory arrangements from national arrangements, particularly in Victoria. - For Tasmania and the Australian Capital Territory retail price regulation and the nature of small market size continue to be barriers to entry and expansion.
	Market concentration/ share	Improving	- Market concentration is declining across all states where consumers have active choice of retailer. - Between 2010-16 second tier electricity retailers' market share increased by between 5.7 per cent in South East Queensland to 14.6 per cent in Victoria. - There are now 28 retail energy companies operating in the retail electricity market.
Market Conduct	Consumer activity	Improving	- The proportion of residential consumers that investigated options (33 per cent) and changed retailer or plan over last 12 months (19 per cent) has remained stable. - The proportion of consumers surveyed who changed plan in last five years increased to 54 per cent in 2017 compared to 49 per cent in 2016. - There is increasing residential and small business consumer interest in adopting technologies that can allow them to manage their energy use. Willingness to adopt solar panels is 8 per cent higher than previous years, while adoption of storage batteries is five to nine per cent higher.
	Retail pricing strategy	Improving	- There is some diversity emerging in pricing offers and plans. - The size of discounts has increased from previous years. They now range from around 12 to 38 per cent. - Price dispersion is improving, particularly in those jurisdictions where deregulation has been in place the longest. - More consumers on market offers and most paying closer to market offer prices than standing offer rates.

	Measure	Trend	Comment
	Retail energy prices	Increases	- There are increases in standing and market offer rates compared with the 2016 Retail Competition Review. There are largely due to increasing wholesale costs.
	Product and service innovation	Improving	- There is a growing diversity of product and service offers by both traditional retailers and new energy service providers - The diversity of service providers and offerings to consumers is expected to continue and evolve rapidly. - The number of embedded networks serving residential markets has grown considerably, from near zero in 2010 to over 1300 registered sites in NEM jurisdictions.
Market outcomes /performance	Consumer outcomes: - satisfaction	Stable	- Residential consumer satisfaction with their retailer remains stable at 73 per cent, and 68 per cent for small business consumers. - There were some decreases in small business satisfaction with their retailer (to 67 per cent) and value for money (to 89 per cent).
	- complaints	Decreases to Ombudsman, but increases to retailers	- The total number of customer complaints increased by around 15 per cent from the previous financial year. - Complaints handled directly by retailers increased by around 20 per cent, while the number of complaints escalated for Ombudsman review fell by around 30 per cent.
	Retailer margins	Varied	- Overall gross margins for Big 3 retailers declined - Gross margins increased for NSW, Victoria and South Australia over the period of 2014-15 to 2015-16. - Victoria gross margins are above other states

Table B: Summary of trends measures and indicators – gas

	Measures	Trend	Comment
Structure	Barriers to entry, expansion & exit	Stable	- Barriers to entry, expansion and relate to wholesale market volatility, divergence of regulatory arrangements from national arrangements, and ability to obtain distribution/transmission gas supply agreements for some regional areas in New South Wales and Victoria - The small market size of Tasmania and Australian Capital Territory remain as issues
	Market concentration/ share	Slight improvements	- Market concentration declined across all jurisdictions where consumers have active choice of retailer. - The market share of second tier retailers increased slightly in all jurisdictions
Market Conduct	Consumer activity	Stable but decreasing switching	- The proportion of residential consumers that investigated options (33 per cent) remained stable, while the proportion of consumers that changed retailer or plan over last 12 months declined (13 per cent). - The proportion of consumers surveyed who changed plan in last five years increased to 43 per cent in 2017 from 38 per cent in 2016. - 92 per cent of residential gas consumers were also more aware of their choices, a slight increase from the previous year.
	Retail pricing strategy	Slight improvements	- There were small increases in the size of discounts in gas offers, ranging from 5 to 30 per cent for a representative consumer in the various jurisdictions in 2017, an increase from 9 to 15 per cent in 2016.
	Retail energy prices	Moderate	- The level of both standing and market offers increased in some jurisdictions.
	Product and service innovation	Stable	- There is some diversity of product and service offerings by both traditional gas retailers and new energy service providers.

	Measures	**Trend**	**Comment**
Market outcomes /performance	Consumer outcomes: - Satisfaction	Stable but decreases for value for money	- Residential satisfaction with retailer (74 per cent), customer service (70 per cent) has remained fairly stable since 2016. - Residential satisfaction with value for money decreased to 60 per cent in 2017compared to 66 per cent in 2016. - Small business consumer satisfaction has remained stable across a range of measures including value for money, customer service, and satisfaction with current retailer.
	- Complaints	Decreases to Ombudsman	- Ombudsman reported a steady number of customer complaints about their gas retailer in the 2015-16 financial year, noting that retailers are handling more complaints leaving fewer for the Ombudsman.

Note: For the review we did not assess retail margins for gas retailers.

RECOMMENDATIONS

The report makes a number of recommendations that relate to enhancing competition in NEM retail energy markets and improving consumer outcomes. The recommendations propose action by a range of stakeholders, including COAG Energy Council, jurisdictional governments, the AEMC, AER, Energy Consumers Australia (ECA), retailers and consumer advocates.

The recommendations have been made taking into account recent reviews related to the energy market and reforms that have been made or are underway by the COAG Energy Council and the relevant market bodies.

Recommendation 1: A broad information program is developed by 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 be supported by applying the AEMC consumer blueprint. The blueprint highlights and identifies the various channels needed to effectively communicate across and within consumer segments and also the broader community.

The information program would as a minimum raise awareness of the:

- **Cost savings available in the market.** The publically available discounts range from 12 per cent or $170 to 38 per cent or $507 for electricity and 5 per cent or $44 to 30 per cent or $285 for gas. These discounts are based on moving from an average standing offer to the best market offer available in each relevant jurisdictional distribution area as at January/February 2017. Retailers have noted that there may even be higher discounts available than those that are publicly listed on comparator websites.

- **Tools available to consumers to compare offers and the support programs that can assist with bill payments.** These tools include the independent government comparator websites and the hardship and concession schemes that are available in each jurisdiction. Consumers trust and use the independent government comparator websites when they know about them. Research also reveals that there are some segments of the community that are not aware of the hardship programs or concessions schemes that are available. These consumers tend to be in the middle income bracket, and have lower savings buffer due to their personal/financial circumstances.[1]

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.

1 Newgate Research, *Understanding vulnerable customer experiences and needs*, report to the AEMC, June 2016.

There is a clear consumer desire for independent (government-run) price comparison websites. Awareness of the AER's Energy Made Easy and the Victorian Government's Victorian Energy Compare sites remains extremely low.

Recent consumer research commissioned by the AER has reinforced the perceived benefits of Energy Made Easy. Respondents identified two positive features: the site's completeness (that is, the inclusion of offers from all retailers), and the fact it does not result in follow-up sales calls. The AER has also undertaken some targeted outreach activities and social media promotions to raise awareness of the site. Consumer awareness is expected to remain low, unless there is a commitment and resourcing to run ongoing and high profile campaigns. Ongoing low awareness would be a highly undesirable outcome, particularly in the current environment of significant price increases over the coming months.

Recommendation 3: The AER consider opportunities to improve the:

1. Information provided by retailers to consumers related to the comparison of retail market offers.

2. 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 made to the AEMC.

1. The basis for comparison of offers

Consumers currently compare energy market offers based on the effective or conditional discounts applied to market offers, rather than on the underlying pricing rates that are applied to their offers. This is contributing to the difficulty that consumers face in comparing offers. To make it easier for consumers to compare offers, there may be value in considering if simpler pricing options could be used or improvements to pricing fact sheets.

2. Transparency of information provided to consumers on the expiry of the fixed benefit period of market offers

Around 50 per cent of consumers have not switched retailer or energy plan in the past five years. Market offer benefit periods typically apply for around 12 months **from when consumers sign up with a retailer,** whereas most consumers generally stay with their retailer for longer periods.

The level of information provided to consumers may be adding to consumer inertia in accessing the benefits available in the retail market. For example, while retailers are required to contact consumers ahead of the end of a fixed term retail market contract to advise them of the arrangements that will apply if they do not act to enter into a new market contract, the same requirement does not apply to the end of a fixed benefit period within an ongoing market contract. Consumers who are not actively monitoring their energy contract may not realise the benefit period has ended until the time when they experience a higher bill than expected.

We consider the minimum information that retailers should provide to customers on contracts with fixed benefit periods includes:

- the pricing rates that will apply to a consumers offer once its fixed benefit period expires, and

- clearer information on the benefits that will or will not be available upon sign up of a new offer.

As well as this information being given to consumers when they sign up to new contracts with fixed benefit periods, there would be benefit in providing it before the end of the fixed benefit period.

These recommendations were also highlighted as part of the Finkel panel *Independent review into the future security of the National Electricity Market*.[2]

Recommendation 4: As a priority, retailers and distributors make it easier and limit delays for consumers (and their agents) to access their metering data. In particular, retailers and distribution network businesses must 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.

In light of the advances in digital communication, consumers are seeking to link pricing options to their generation and consumption decisions. For this to occur, easy and timely access to their metering data is required.

There is an existing concern relating in part to the informed consent arrangements that every distribution network service provider and retailer has in place to ensure that the relevant consumer has consented to the provision of information to an authorised representative. It is considered that a streamlined process could be developed and used by the relevant parties. We understand that Energy Consumers Australia is working with distribution network businesses on this issue to develop a solution.

This recommendation was also highlighted as part of the Finkel panel *Independent review into the future security of the National Electricity Market*.

2 Finkel 2017, *Independent Review into the Future Security of the National Electricity Market: Blueprint for the Future*, June 2017, http://www.environment.gov.au/energy/national-electricity-market-review

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.

Research suggests that there are some:

- Consumer segments that are on higher-priced standing offers who may prefer a cheaper offer. These consumers however face difficulties in switching for a range of reasons. For example, many do not have the confidence to find the right information and feel they do not have time given other pressures.

- Vulnerable consumers who find it difficult to pay their bills on time. Research conducted in 2016 found these consumers tend to be in the middle income segment and miss on average 2.7 bill payments a year. Where this occurs, these consumers are potentially not receiving their conditional pay on time discounts and hence may pay closer to standing offer rates. They will not be in this case accessing the savings available to them from market offers.

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.

There are segments of consumers that may be missing out on obtaining support from energy concession schemes because they do not know the schemes exist or feel embarrassed to ask for assistance. Research undertaken in 2016 revealed that these consumers tend to be those in the middle income segment who are more likely to miss bill payments, and are not accessing better market offers. They are also generally less aware of the existence of such schemes than consumers in the most vulnerable segment.

There are some consumers who are more financially secure who are receiving energy concession schemes but may not need them – around four in ten consumers in the "financially secure retired" segment may be accessing rebates on their energy bills.

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.

There are currently a range of differences in the application of the existing national retailing and customer protection arrangements. These are creating costs and barriers for existing retailers to operate and for new retailers to enter the market.

For example, where a retailer operates in New South Wales and Victoria, that retailer needs to obtain a retail authorisation from the AER and a retail licence from Victorian Essential Services Commission. This means that a retailer needs to comply with two sets of conditions which may vary. Further, in some circumstances, the timeframes to obtain these licences/authorisations may be different causing delays for market entry. The complexity in applications and delay may increase where new retailers have different business models to that of the traditional retail model because the basis on which the company operates is not aligned with existing authorisation/licencing requirements.

In regards to the application of late payment fees, there are differences that exist between the jurisdictions. In New South Wales, Tasmania and Queensland, late fees can be applied, based on certain conditions In South Australia, late fees may be imposed but must be reasonable and not exceed retailers' costs to recover such fees. In Victoria, no late payment fees can be applied.

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.

Regulatory frameworks must remain fit-for-purpose, up to date and consistent with market developments to reduce the overall regulatory burden. This is particularly the case for the NECF.

Consideration must be given to the nature of energy specific protections that are applied to consumers irrespective of whether a consumer receives their electricity supply from solar panels behind the meter, an interconnected electricity system, stand-alone energy system or embedded network. Any reforms to NECF resulting from this consideration should aim to reduce any material regulatory costs and barriers that currently exist in the market, and also aim to improve consumer confidence in taking up alternative options to manage energy use.

We note **the existing work related to review of arrangements for behind the meter and stand-alone systems and** that this recommendation was also highlighted as part of the Finkel panel independent Review into the Future Security of the National Electricity Market.

Embedded networks

This Review considered the issue of embedded networks. This segment of the retail energy market has experienced strong growth in recent years, and this growth is likely to continue going forward. The focus of the analysis for this report was to highlight the various drivers and incentives behind this growth, and the issues that have arisen for customers in embedded networks including being able to access competitive retail market offers and

consumer protections. No recommendations have been proposed on how to address some of these issues. This is the purpose of an existing review by the AEMC on embedded networks.[3]

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.

AFMA has discontinued its survey on trading in electricity derivatives and this means that there is minimal information regarding liquidity in the electricity hedge contract market. This lack of information could lead to incorrect inferences about the risk-management practices and financial resilience of NEM participants. The lack of information about the price and availability of derivative contracts may create a barrier to new, smaller retailers entering the retail market.

3 For more information on the embedded networks review, see: AEMC, *Review of regulatory arrangements for embedded networks,* consultation paper, 11 April 2017, Sydney.