



2017 Retail Energy Competition review - QLD

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 Queensland¹

The AEMC’s 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 analysis of key measures and indicators considered for the review, competition is effective and improving in the South East Queensland retail electricity market. It is less effective in the smaller retail gas market. It is not expected that the level of competition in the retail gas market will change significantly, due to the small size of the market and tightening demand-supply conditions in the wholesale gas market.

In **Regional Queensland**, competition continues not to be effective in both electricity and gas retail markets.

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	Consumer outcomes: - satisfaction	Stable	Stable, but decrease for value for money
	- complaints	Increase to retailers, but decrease to the Ombudsman	Increase to retailers, but decrease to the Ombudsman
	Retailer margins	Decreased between 2014-15 and 2015-16	N/A

¹ Unless it is stated specifically that Regional Queensland is being referred to, all references in this section are to South East Queensland.

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

Retail electricity market

Market structure measures remained stable

- In December 2016, there were 15 electricity retailers operating in South East Queensland serving 1.4 million residential and small business consumers and three in **Regional Queensland** serving approximately 723,000 consumers.
- Market concentration fell slightly, and second tier retailers increased their market share from 8 per cent in 2015 to 11 per cent in 2016.
- In South East Queensland, volatile wholesale prices and the cost of hedging products has meant that some retailers are not actively pursuing customers, given the limited margins.
- In **Regional Queensland**, the Uniform Tariff Policy remains a barrier to entry.

Consumer engagement and activity In South East Queensland has improved since 2016

- 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
- 92 per cent of residential electricity consumers are aware of their ability to choose their retailer (unchanged from 2016) and 81 per cent are aware they can choose their plan, an increase from 77 per cent in 2016.
- Around 74 per cent of residential consumers and 73 per cent of small business consumers said they actively chose their plan.
- Around 34 per cent of residential consumers did not know whether they were on a market or standing offer contract.
- Around 33 per cent of residential consumers actively investigated options in the last 12 months, an increase of seven per cent from 2016. Small businesses investigating offers or options in the past 12 months increased by six per cent to 36 per cent.
- Based on data from AEMO and the AER, over the past 12 months approximately 17 per cent of residential consumers' switched retailer.
- Over the past five years, around 49 per cent of residential consumers and 40 per cent of small business consumers changed their retailer or plan. Residential consumers' main reasons for switching were price related.
- Awareness of the AER's Energy Made Easy comparator website in South East Queensland is higher than the NEM average but still low at 13 per cent.
- In **Regional Queensland**, 67 per cent of residential and 74 per cent of small business consumers felt that they did not have enough choice.
- Around 36 per cent of residential consumer indicated that they were definitely or probably will adopt new energy technologies in the next two years is around 36 per cent. These technologies include smart meters, solar panels, solar hot water systems, home energy management systems and batteries.

There is an increasing diversity of products and services

- There are a range of new energy service providers that have entered the market utilising technology, digital platforms and software solutions to create simple service offers for consumers. For instance, Ergon partnering with new energy service provider Habidapt to offer home energy management and energy efficiency products and services.
- The popularity of embedded networks continues to grow in Queensland. The jurisdiction has the highest concentration of registered and individual network exemptions in the NEM. The majority of Queensland's residential embedded networks are located in the Brisbane city area, the most highly concentrated embedded network region nationally. The Gold Coast and Sunshine Coast are also highly concentrated regions, and embedded networks have been established along the Pacific coast and further north to Cairns.

Larger discounts and savings are available

- Consumers who shop around can save 12 per cent or \$175 on their electricity bills when moving from a median standing offer to the cheapest market offer.²
- The extent of price dispersion between market and standing offers is greater than price dispersion within both standing and market offers. The difference between the most expensive standing offer and the cheapest market offer is \$591, the spread of bills for standing offers is \$481 and the spread of bills for market offers is \$355.
- Based on retailer data, the average price paid by customers of the Big 3 retailers in South East Queensland remained stable between 2014-15 and 2015-16 at around 28c/kWh. However over this period, the best market offer price fell and the best standing offer increased.
- Solar offers are lower in South East Queensland compared to other jurisdictions with the ability to choose between retailers, despite the high penetration of solar.
- There are an increasing number of innovative pricing plans in the market. For example, Origin offers 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 and small business consumer satisfaction remained relatively stable

- Around 73 per cent said they were satisfied with their current retailer, a slight increase from 70 per cent from last year. Small business satisfaction remained stable with 70 per cent saying that they were very or somewhat satisfied.
- Residential consumer satisfaction with the customer service provided by their retailers remained stable at around 72 per cent. There was a slight decrease in the proportion of residential consumers who rated the value for money provided by their retailer as good to excellent, 58 per cent in 2017 compared to 56 per cent in 2016.
- Small business consumer satisfaction with the customer service and value for money provided by their retailer also remained stable at 67 and 51 per cent respectively.
- In **Regional Queensland**, satisfaction with electricity companies was lower in 2017, with 47 per cent of residential consumers surveyed indicating that they were either very or somewhat satisfied.

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
 - 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.

² These figures are as applied to representative customer in the Energex distribution area with annual consumption of 5,173kWh where 1,552kWh is controlled load, as at 5 January 2017.

Retail gas market

Independent rivalry and retail gas market structure in Queensland has slightly improved.

- Market concentration fell slightly and second tier retailers increased their market share slightly to 3 per cent in 2017 from 1 per cent in 2016.
- While no retailers explicitly mentioned the existence of material barriers to entry, expansion or exit, previous reports identified the small demand base as a barrier to entry.
- A number of retailers made some general comments in relation to the outlook for the gas market over the next two years given the impact of Queensland LNG exports. With a trebling in the demand for gas, the expectation is for pressure on domestic supply quantities and higher wholesale prices. The level of retail competition will most likely reflect the availability of, and retailer access to, competitively priced gas.

Consumer engagement and activity fell slightly.

- Residential awareness of their ability to choose their gas company fell slightly to 88 per cent in 2017 from 89 per cent in 2016.
- Based on AEMO/AER data, over the past 12 months, the switching rate among small gas consumers decreased to eight per cent this year.
- Over the past five years, 30 per cent of residential consumers changed their gas retailer or plan, an increase from 27 per cent for residential consumers reported in last year's survey.

Consumers can save by switching offers.

- Consumers who shop around can save approximately 8.5 per cent or \$93 on their gas bills.³ The level of possible savings differs with energy consumption, discount eligibility and type of contract.

Residential consumer satisfaction with their retailer has decreased slightly.

- 68 per cent of residential consumers said they were very or somewhat satisfied with their current retailer, a decrease from 79 per cent in the 2016 survey.
- 70 per cent of residential consumers rated the quality of customer service they receive as good to excellent.
- In relation to consumer perceptions about value for money, 55 per cent of residential consumer gave a rating of good to excellent, which is a significant decrease from 70 per cent in 2016.

Note: due to small sample size gas results for small business not reported.

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:

³ As applied to residential customers as at 27 January 2017, and based on consumption of 24,000 MJ.

- 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 offerings 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 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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**The 2017 retail
competition
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is evolving and
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small business
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