



2017 Retail Energy Competition review - Victoria

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 Victoria

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 generally improving in Victoria's retail electricity and gas markets. A summary of the trends in each of these measures is provided below.

Summary of measures: 2016-2017

	Measure	Trend (electricity)	Trend (gas)
Structure	Barriers to entry, expansion & exit	Stable but barriers to expansion rising	Stable
	Market concentration/share	Improving	Improving
Market conduct	Consumer activity	Improving	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	Increases to retailers but decreases to Ombudsman	Increases to retailers but decreases to Ombudsman
	Retailer margins	Increasing in 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 concentration improving although barriers to expansion increasing

- In December 2016, there were 22 electricity retailers serving approximately 2.78 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 27 per cent in 2015 to 29 per cent in 2016.
- Retailers commented on the increasing regulatory divergence from national arrangements that is increasing operating and compliance costs for retailers operating at a national level. Retailers noted that this also be a barrier for newer retailers seeking to expand into the Victorian market.

Consumer engagement and activity still remain higher than other jurisdictions

- 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.
- Victorian residential electricity consumers have the highest awareness in the NEM about their ability to choose their retailer (97 per cent) or their plan (90 per cent).
- Around 81 per cent of residential consumers and 76 per cent of small business consumers said they actively chose their electricity plan they are currently on.
- In 2017, 32 per cent of residential consumers and 37 per cent of small business consumers actively investigated their energy options. However, when prompted around 25 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, 25 per cent of Victorian residential and small business consumers changed their electricity retailer during 2015-16.
- Over the past five years, 57 per cent of residential consumers and 48 per cent of small business consumers changed their energy (electricity or gas) retailer or plan. 66 per cent of residential consumers cited price as the main reason for switching.
- 23 per cent of residential consumers and 25 per cent of small business consumers were aware of the Victorian Government's Victorian Energy Compare service.
- Around 54 per cent of 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, 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. The majority of the growth in embedded network registrations in Victoria is in the Melbourne metropolitan region, with some embedded networks in the major Victorian cities of Geelong, Bendigo and Ballarat.

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

Larger discounts and savings available by shopping around regularly

- Consumers who shop around can potentially save around 38 per cent or \$507 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 the highest potential savings available in the NEM where consumers have an active choice of retailer.
- The median annual bill across standing offers is \$1,339, whereas the median annual bill across market offers is \$1,055, and the cheapest annual bill from a market offer is \$833.²
- The degree of price dispersion is slightly higher in market offers than in standing offers. The spread of bills under market offers in CitiPower supply area is \$494 (\$833 - \$1,327), compared to the spread for standing offers of \$488 (\$1,069 - \$1,556).³
- The average price paid by Victorian customers of the Big 3 retailers (AGL, EnergyAustralia, and Origin) is moving closer to the best available market offer, indicating that consumers are selecting discounted market offers. This is consistent with the finding that only 10 per cent of Victorian customers remain on standing offers, which is a reduction from 22 per cent in 2015.
- 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
- There has been an increase in discounting activity in the past year, including larger discounts offered by the Big 3 retailers to residential customers. This has happened in a number of NEM jurisdictions, but the discounting has increased the most in Victoria.
- There are an increasing number of innovative pricing plans in the retail market. For example, Powershop sells electricity in a variety of power-packs to suit different consumer requirements. Additionally, Origin and Sumo 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 generally stable, but small business satisfaction with the value for money provided by their retailer has decreased.

- Our 2017 consumer survey indicated high levels of residential consumer satisfaction:
 - 75 per cent were very or somewhat satisfied with their current retailer.
 - 62 per cent rated their retailer as good to excellent value for money.
 - 76 per cent who rated their retailer's level of customer service as good to excellent. This was an increase from 70 per cent in 2016.
- 63 per cent of small business consumers rated the level of customer service provided by their electricity retailer as good to excellent. However, there was a significant decrease in the proportion of small business consumers who rated value for money provided by their electricity retailer as good to excellent, from 62 per cent in 2016 to 44 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:

¹ Based on a representative consumer in the CitiPower distribution area with annual consumption of 4,026kWh, as at 15 February 2017.

² As at 15 February 2017.

³ As at 15 February 2017.

- 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 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 Victoria has improved

- In December 2016, there were 10 gas retailers serving approximately 2.1 million small gas consumers. In some regional areas, a smaller number of gas retailers were operating.
- Market concentration, as measured by the Herfindahl-Hirschman index (HHI) improved as second tier retailers increased their market to 30 per cent in 2017 from 28 per cent in the 2016. Victoria has the lowest level of market concentration and highest market share of second tier retailers in the NEM.
- Consistent with comments in relation to the electricity market, retailers indicated the divergence of regulatory arrangements between Victoria and other jurisdictions are creating barriers to market entry and expansion. Retailers also identified logistical issues with entry and expansion in Victorian gas markets, including access to pipeline capacity in some regional areas and difficulties in setting up agreements with other gas market participants.

Consumer engagement and activity remains stable

- Victorian residential gas consumers have high awareness of their ability to choose their retailer (95 per cent) or their plan (85 per cent).
- Based on data from AEMO and the AER, 16 per cent of Victorian residential and small business consumers changed their electricity retailer or plan during 2015-16, a decline from a switching rate of 21 per cent during 2014-15.
- Over the past five years, 49 per cent of residential consumers and 37 per cent of small business consumers changed their gas retailer or plan. For residential consumers this is a slight increase from 46 per cent reported in last year's survey. For small business consumers this is an increase from 14 per cent reported in last year's survey.

Consumers can save by switching offers

- Bills for a representative gas consumer in Melbourne vary considerably depending on the offer they select, although the range of bill outcomes is comparable across all three supply areas (Multinet Metropolitan, AusNet Central, AGN Central).⁴
- Savings available to consumers who switch to market offers can range from 24 to 30 per cent across all three Victorian distribution network supply areas. The level of savings will differ with energy consumption, discount eligibility and type of contract.

Consumer satisfaction with their retailer remains stable, although some decreases in satisfaction with value for money

- Most consumers are satisfied with their outcomes in the gas market. 73 per cent of residential consumers said they were very or somewhat satisfied with their current retailer, which is consistent with 2016. 65 per cent of small business consumers were satisfied with their retailers, which was a 4 per cent reduction from the previous year.

⁴ A representative residential Victorian gas consumer uses 24,000 MJ of gas.

- 73 per cent of residential consumers rated the quality of customer service they receive as good to excellent, whereas 58 per cent of small business consumers gave a similar rating. This represented a 7 per cent improvement for residential consumers, but a 3 per cent decline for small business consumers.
- In relation to consumer perceptions about value for money, 59 per cent of residential consumers gave a rating of good to excellent, which is a reduction from 66 per cent in 2016. For small business consumers 44 per cent gave a rating of good to excellent, which was 5 per cent lower than in 2016.

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 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 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 consumers 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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25 July 2017