

23 May 2017



WHAT

This Information Paper explains the role of the Independent Pricing and Regulatory Tribunal (IPART) as the Market Monitor for the NSW retail electricity market, and sets out our proposed approach to carrying out this role for the 2016-17 financial year.



WHY



Following deregulation of the NSW retail electricity market in 2014, the NSW Government tasked IPART with monitoring the performance and competitiveness of the electricity retail market for small customers. Our role is set out in the National Energy Retail Law (NSW) (the Act).

As the Market Monitor, we are required to report annually to the Minister for Energy and Utilities on the performance and competitiveness of the NSW retail electricity market. Our 2017 report will be our third annual monitoring report on the retail electricity market.

NSW has had retail price deregulation for less than three years, but in our previous reports we found that competition is working and is delivering better outcomes for customers than if prices remained regulated. For example:

- ▼ While AGL, Origin and EnergyAustralia remain the dominant providers, smaller retailers continue to increase their market share.
- ▼ Customers can find significant savings by shopping around for better electricity offers.
- ▼ Customers are generally aware of their ability to switch retailer or electricity plans.
- ▼ Most customers are satisfied with their electricity provider, and satisfaction has been stable or improving.
- ▼ The majority of customers consider electricity offers to be fair value or better.
- ▼ Product innovation is increasing, with smaller retailers leading the way.

We also found that for some, the cost of their time to search for and switch to a cheaper deal outweighs their potential benefit from a lower bill. For these customers, not participating in the market is a rational choice. Others find it difficult to compare energy offers. There is an opportunity for retailers and third-party service providers to encourage and assist customers in seeking out better electricity offers.



WHO

Our role as market monitor is focused on the retail electricity market for **residential** and **small business** customers.



HOW

In assessing the NSW electricity retail market, we are to have regard only to the following:

- ▼ information provided by the Australian Energy Market Commission (AEMC), such as its annual competition review, including findings from its consumer and retailer surveys
- ▼ information provided by the Australian Energy Regulator (AER), such as its reports on the State of the Energy Market and the performance of the retail energy market
- ▼ any publicly available information, such as: retail offers available on the AER's Energy Made Easy website; findings from the Commonwealth Independent Review into the Future Security of the National Electricity Market (the Finkel review); and complaints data published by the Energy & Water Ombudsman NSW (EWON).
- ▼ information obtained from the NSW electricity retailers, including information on standing and market offers during 2016-17.

Table 1 provides an overview of the competition indicators and the information we will use to assess the market.

Table 1 Indicators for assessing competition in the NSW retail electricity market

Competition indicator	Information we will consider for assessment
Barriers to entry, exit or expansion	<p>We will examine changes in market structure and concentration, including the number of retailers and their market shares. We will also seek to understand whether regulatory or non-regulatory costs and impediments might be acting as barriers, for example:</p> <ul style="list-style-type: none"> ▼ ability for retailers to hedge (in particular smaller retailers) ▼ economies of scale ▼ economies of scope ▼ exit costs.
Customer participation and outcomes	<p>We will examine how customers are engaging with the market, and the outcomes for customers. Among other things, we will consider:</p> <ul style="list-style-type: none"> ▼ data on customers switching retailers or switching plans with the same retailer ▼ customers' views on the ease of comparing market offers and of switching retailer or plan ▼ customers' satisfaction with their current plans, or their decisions to switch retailer or plan ▼ data on customer complaints ▼ outcomes for vulnerable customers.
Price of electricity in regional areas	<p>We will compare prices between regional areas and urban areas, including price differences between:</p> <ul style="list-style-type: none"> ▼ standing vs market offers ▼ different network areas.
Rivalry and price and product diversity	<p>We will assess the extent of rivalry to attract and retain customers, including competition on price and product offerings. We will consider:</p> <ul style="list-style-type: none"> ▼ changes in retailer market shares ▼ data on customers switching retailers or plans with the same retailer ▼ innovation and diversity in prices, products and services offered ▼ key areas of customer concern and retailers' responses to them.
Price movements	<p>We will consider whether price movements are consistent with a competitive market, and we will determine whether there is a need for a detailed review of retail prices and profit margins in the NSW retail electricity market. We will consider:</p> <ul style="list-style-type: none"> ▼ price movements of standing and market offers, and price differences across retailers ▼ fluctuations in wholesale energy costs ▼ pass through of network prices.^a

^a Distribution network prices during 2016-17 and again in 2017-18 were/will be set under enforceable undertakings between the AER and the NSW electricity distributors, due to the Australian Competition Tribunal's (ACT) decision to set aside and remit to the AER for further consideration the distribution network determinations. The AER appealed the ACT's decision to the Federal Court, and a decision is expected during 2017. The decision will affect future network prices.



WHAT NEXT

How can stakeholders be involved?

We invite comments from stakeholders on our proposed approach as outlined in this Information Paper. We also seek stakeholder views on:

- ▼ What other issues/indicators should we have regard to in assessing the performance and competitiveness of the NSW retail electricity market?
- ▼ What other sources of information may be relevant to our assessment?



Stakeholder submissions on our Information Paper are due by 30 June 2017. We prefer to receive them electronically via our online submission form:

<www.ipart.nsw.gov.au/Home/Consumer_Information/Lodge_a_submission>

You can also send comments by mail to:

Retail Electricity Market Monitoring
Independent Pricing and Regulatory Tribunal
PO Box K35,
Haymarket Post Shop NSW 1240

Late submissions may not be accepted.

What is the timetable for the review?

We will release our preliminary findings on the state of competition in the NSW retail electricity market in our Draft Report in September 2017. Stakeholders will have an opportunity to comment on our draft findings. We will submit our Final Report to the Minister by 30 November 2017.

The indicative timetable for the 2017 retail electricity market monitoring review is outlined in Table 2.

Table 2 Indicative timetable for the 2017 retail electricity market monitoring review

Date	Stage of review
23 May 2017	Release Information Paper
30 June 2017	Submissions close on Information Paper
September 2017	Release Draft Report
October 2017	Submissions close on Draft Report
By 30 November 2017	Submit Final Report to the Minister for Energy and Utilities