

29 May 2018

WHAT

IPART has commenced its annual review of the performance and competitiveness of the retail electricity and gas markets in NSW for the most recent financial year. We must report to the Minister for Energy and Utilities by 30 November 2018.

Our 2017-18 report will be our fourth annual monitoring report on the retail electricity market. But this is the first time that we have reviewed competition in the retail gas market since gas prices were deregulated on 1 July 2017.

As part of this review, we have also been asked to report on whether retailers are delivering acceptable levels of customer service in relation to their metering services (see separate fact sheet).

WHY

IPART used to regulate retail prices for gas and electricity customers. However, now that prices are deregulated, IPART reviews the performance of the market each year to assess how competition is working.

WHO

We are looking at outcomes for residential and small business customers in **NSW**.

WHAT NEXT

Last year we found competition in the NSW retail electricity market continued to develop. However, there was scope to

improve customer engagement in the market, particularly for vulnerable and disadvantaged customers. We recommended that further measures be introduced to make it easier for customers to compare market offers and identify the best offer for their circumstances.

Since we completed last year's review, the Australian Energy Regulator (AER) is reviewing the information that retailers must provide to customers to help them compare offers, and its price comparison website, energymadeeasy.gov.au.

The Australian Energy Market Commission (AEMC) has also made new rules to protect customers. From 1 July 2018 retailers will be required to notify customers when any discounts end, and they will no longer be able to offer misleading 'discounted' deals that are effectively higher than equivalent standing offers. The AEMC is also considering whether to require retailers to give advance notice to customers of price changes.

This year, we are particularly interested in stakeholders' views on the following:

1. Are there other measures that would make it easier for customers to shop around?
2. Do customers have particular concerns about competition between gas retailers, or outcomes for gas customers?
3. Are there other information sources to consider in assessing costs and cost drivers, particularly in the gas industry?

We invite interested parties to make a submission to this information paper by **Friday 29 June**.

What is IPART's role?

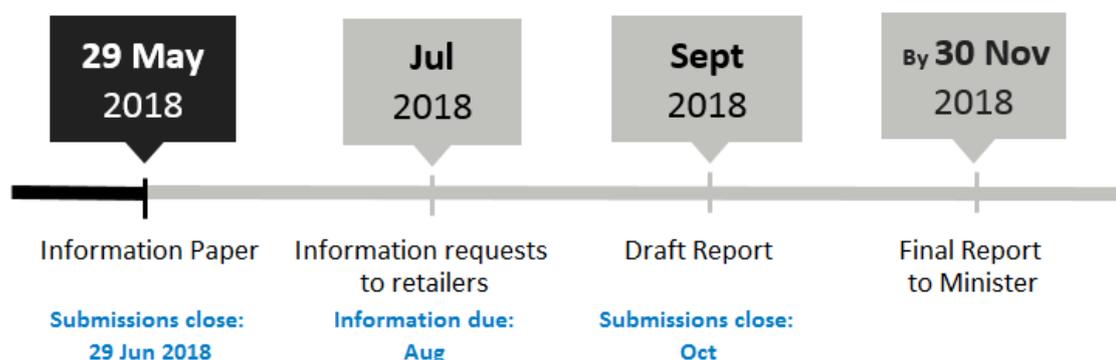
Following deregulation of the NSW retail electricity market in 2014, the NSW Government tasked IPART with monitoring the performance and competitiveness of the retail electricity market for residential and small business customers in NSW. When the NSW Government deregulated retail gas prices from 1 July 2017, the Government expanded our role to include monitoring the performance and competitiveness of the gas market.

Our role is set out in the *National Energy Retail Law (NSW)* (the Act). This specifies how we must carry out our role, the matters we must consider, and what information we may consider in making our findings and recommendations.

Our 2018 report to the Minister will be our fourth annual monitoring report on the retail electricity market and our first for the gas retail market.

What is the timetable for this review?

We will release our preliminary findings in our Draft Report in September 2018. Stakeholders will have an opportunity to comment on our draft findings before we submit our Final Report to the Minister by 30 November 2018.



How will we assess competition in the retail markets?

As we have done in previous years, we propose to assess competition in the retail gas and electricity markets against four key indicators including, barriers to entry, exit or expansion, customer participation and outcomes, rivalry and price and product diversity, and whether changes in prices reflect changes in costs (Table 1).

Section 234A of the Act limits the information that we can use for this assessment. We are only able to consider publicly available information, information provided by retailers, and information provided by the Australian Energy Market Commission (AEMC), and the Australian Energy Regulator (AER). In addition to seeking feedback from all stakeholders, including consumers, we will review and assess:

- ▼ Any publicly available information, such as: retail offers available on the AER's energymadeeasy.gov.au website, St. Vincent de Paul Society's NSW Tariff-Tracking Report, findings from the ACCC's Electricity Supply and Prices Inquiry, the ACCC gas inquiry,

complaints data published by the Energy and Water Ombudsman NSW (EWON), AEMO data on customer transfers, published network tariffs, and AER determinations on network pricing.

- ▼ Information obtained from NSW electricity and gas retailers, including tariffs and customer numbers for standing and market offers during 2017-18.
- ▼ Information provided by the AEMC, such as its annual competition review, findings from its consumer and retailer surveys, and its annual price trends report.
- ▼ Information provided by the AER, such as its 'State of the Energy Market' report, its annual report on compliance and performance of the retail energy market, the wholesale electricity market performance monitoring reports, and its performance statistics (such as retailer customer numbers).

We are also required to report on the price of electricity and gas in regional areas when we are assessing the performance of the energy market. To do this, we will consider price data from retailers, network tariffs in each region, energymadeeasy.gov.au, and St. Vincent de Paul Society's NSW Tariff-Tracking Report.

Table 1 Indicators for assessing competition in NSW retail electricity and gas markets

Indicator	Factors we will consider
Barriers to entry, exit or expansion	<ul style="list-style-type: none"> ▼ Changes in market structure and concentration, including number of retailers and market shares. ▼ Whether regulatory or non-regulatory costs and impediments might be barriers, eg: <ul style="list-style-type: none"> – ability for retailers to hedge at a reasonable cost (in particular smaller retailers) – economies of scale, – economies of scope, and – exit costs.
Customer participation and outcomes	<ul style="list-style-type: none"> ▼ How customers are engaging with the market, and customer outcomes, including: <ul style="list-style-type: none"> – number of 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 – key areas of customer concern and retailers' responses to them – number of customer complaints – outcomes for vulnerable customers – customers on time-of-use tariffs, and – customer applications for digital meters.
Rivalry and price and product diversity	<ul style="list-style-type: none"> ▼ Extent of rivalry to attract and retain customers, including competition in price and product offerings. We will consider: <ul style="list-style-type: none"> – changes in retailer market shares – data on customers switching retailers or plans with the same retailer, and – innovation and diversity in prices, products and services, including emerging technologies in digital metering, solar, embedded networks and stand-alone energy storage.
Price movements	<ul style="list-style-type: none"> ▼ Whether price movements are consistent with a competitive market. ▼ Whether there is a need for a detailed review of retail prices and profit margins. ▼ We will consider: <ul style="list-style-type: none"> – price movements of standing and market offers, and price differences across retailers, including time of use tariffs and any other innovative pricing offerings, and – changes in cost components.

How will we assess price changes from July 2018?

In addition to reviewing the price changes that occurred in 2017-18, the Minister has also asked us to review electricity and gas price movements in **July 2018** (after the 2017-18 review period) to determine whether they reflect efficient costs in a competitive market.

Retailers face a number of different costs to supply energy to customers. They must recover wholesale energy costs (the costs of buying electricity or gas from producers), network costs, and retail operating costs. These are influenced by a number of factors, including demand changes, fuel costs, export markets, and regulatory decisions on network costs. Electricity retailers must also recover the costs of meeting its obligations under green schemes, which includes purchasing a certain amount of electricity from renewable sources and from rooftop solar panels.

In previous years we have engaged a consultant with energy industry expertise to estimate the change in the total cost of supplying small retail customers for an efficient retailer (using reasonable ranges), by:

- ▼ identifying cost components and their proportion of total costs,
- ▼ reviewing potential drivers of changes in each of these cost components, and
- ▼ estimating reasonable ranges for the changes in these cost components for an efficient retailer supplying small customers.

We are not limited to considering publicly available information to review changes in costs in July 2018, because the Minister requested that we review these under Section 234B of the National Energy Retail Law (NSW). Unlike Section 234A, which sets out how we assess competition in the market, Section 234B does not limit the information we can consider.

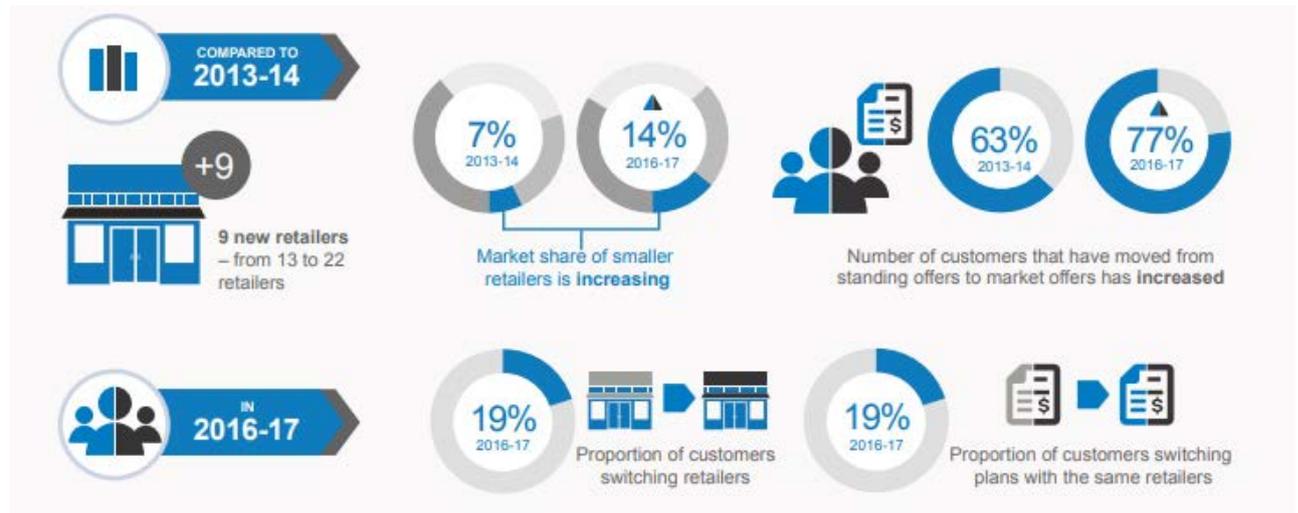
We welcome submissions from interested parties on relevant sources of information to consider in our assessment of these costs and cost drivers, particularly in regard to the gas industry where there is limited publicly available information.

What did we recommend in our 2017 review?

Last year we found that competition in the retail electricity market continued to develop, with more retailers entering the market and the market share of smaller retailers increasing, more than three-quarters of customers on market offers, and a substantial portion of customers switching retailers or offers (Figure 1).

We found that many customers were benefiting competition, with the average annual customer bill in NSW around the same level as it was in 2013-14, and that the changes in electricity retail prices were reflecting the changes in the costs of supply. We found no strong evidence that the margins being earned by electricity retailers in NSW suggest that the level of competition is not developing effectively, or higher than appropriate for the systematic risk they face.

Figure 1 Key findings from our 2017 review



Data source: IPART, *Fact Sheet: Performance of the NSW retail electricity market*, November 2017.

In our view, competition should deliver the best outcomes for customers. However, we considered that retailers, third parties, and governments could take additional measures to improve customer engagement, given our findings that:

- ▼ around 23% of customers do not participate in the market, and
- ▼ the trend in increasing price variation was particularly pronounced last year.

We recommended that the AER's energymadeeasy.gov.au price comparison tool should be promoted and improved, and that the NSW Government should work with the COAG Energy Council to make changes to the National Energy Retail Law and rules to require retailers to provide advance notification of price changes to customers. We note that the AEMC has recently started a rule change process to consider this.

A number of other reviews have been completed or are currently underway. The AER is reviewing the information that retailers must provide to customers to help them compare offers, and is reviewing its price comparison website energymadeeasy.gov.au.

The AEMC has also made new rules to protect customers. From 1 July 2018 retailers will be required to notify customers when any discounts end, and will no longer be able to offer misleading 'discounted' deals that are effectively higher than equivalent standing offers.

How does our review complement other energy market reviews?

IPART's role is to review outcomes for residential and small business customers in NSW. However, a number of other organisations play a role in ensuring effective competition and performance in electricity and gas markets, both nationally and in NSW. Table 2 provides a list of some of the relevant organisations and their roles. We will consider the outcomes of these reports and inquiries as part of our review.

Table 2 Other relevant organisations and reviews

Organisation	Responsibilities
Australian Energy Regulator (AER)	<ul style="list-style-type: none"> ▼ Responsible for setting network prices. ▼ Publishes the State of the Energy Market annual report. ▼ Implements the (Retail Law) Performance Reporting Procedures and Guidelines. ▼ Publishes an annual report on compliance and performance of the national retail energy market. ▼ Undertakes wholesale electricity market performance monitoring.
Australian Energy Market Commission (AEMC)	<ul style="list-style-type: none"> ▼ Makes energy market rules changes including relevant changes to retail operations. These include advance retail price notification, preventing discounts on inflated energy rates and maximum timeframes for retailer responses to metering issues. ▼ Publishes an annual retail energy competition report. ▼ Publishes an annual price trends report.
Australian Competition and Consumer Commission (ACCC)	<ul style="list-style-type: none"> ▼ Undertaking an inquiry into Australia's wholesale gas supply arrangements. ▼ Undertaking an inquiry into electricity supply and prices.
Energy Security Board	<ul style="list-style-type: none"> ▼ Developing a National Energy Guarantee to require retailers to meet reliability requirements and emissions reduction targets.
Australian Energy Market Operator (AEMO)	<ul style="list-style-type: none"> ▼ Operates the National Electricity Market and wholesale and retail gas markets in NSW and other states. ▼ Provides system planning, forecasting, power systems information and security advice.

How can stakeholders get involved?

We invite comments from interested parties on our proposed approach as outlined in this Information Paper. We are particularly interested in stakeholders' views on:

1. Are there other measures that would make it easier for customers to shop around?
2. Do customers have particular concerns about competition between gas retailers, or outcomes for gas customers?
3. Are there other information sources to consider in assessing costs and cost drivers, particularly in the gas industry?

Submissions are due by **Friday 29 June 2018**. 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.