IPART Independent Pricing and Regulatory Tribunal | NSW

Monitoring NSW energy retail markets 2022-23

Annual Report

November 2023

Energy »

Acknowledgment of Country

IPART acknowledges the Traditional Custodians of the lands where we work and live. We pay respect to Elders both past and present.

We recognise the unique cultural and spiritual relationship and celebrate the contributions of First Nations peoples.

Tribunal Members

The Tribunal members for this review are:

Carmel Donnelly PSM, Chair
Sandra Gamble

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The Independent Pricing and Regulatory Tribunal

IPART's independence is underpinned by an Act of Parliament. Further information on IPART can be obtained from IPART's website.

Contents

1 Overview

IPART is required to report annually to the Minister for Energy on the performance and competitiveness of the retail gas and electricity markets for small customers.[1]

When competition is working well, it can benefit consumers in several ways, such as through lower prices, improved customer service and more diverse product offerings. However, even when retail competition is effective, prices can rise if the underlying costs of supply are increasing.

1.1 Large retail price increases in 2022-23 reflected a surge in wholesale costs

Leading up to the beginning of 2022-23, there were unprecedented increases in the wholesale costs of supplying energy. Average monthly wholesale prices in the electricity market increased by over 400% between January 2022 and June 2022, due to a combination of high international prices for coal and gas, an unusually cold start to winter and energy generation outages.[a] Similarly, gas prices increased by slightly less than 400% due to international price increases driven by the Ukraine war.

These increases resulted in retail prices reaching historic highs. Electricity and gas retail energy prices increased by around 20% in 2022-23 and retail electricity prices increased by a further 14% between June 2023 and November 2023. On average, customers are currently paying between $500 and $600 more for their electricity than they were 18 months ago before the rapid increases in wholesale costs.

Since they peaked in mid-2022, electricity wholesale prices have come down significantly.

1.2 The impact of the higher prices differs across customers

The timing of the energy price rises has coincided with a number of other cost of living pressures, including inflation, interest rate rises and ongoing supply chain issues. Increases in the cost of energy bills have added to cost of living pressures facing customers across the state.

However, the impact on customers is likely to vary depending on their individual circumstances. There are measures in place to reduce the impact of price rises for some customers. There are also actions that customers themselves can take to lower their bills. However, these are not available to everyone.

Many NSW households are eligible for assistance to help manage the impacts of increasing retail prices. In addition to the existing NSW rebates, around 1.6 million households and 300,000 small businesses in NSW are eligible to receive a bill relief payment of $500 (for residents), or $650 (small businesses) over 2023-24.[2]

[a] Wholesale costs make up over half of a customer's electricity bill.

During 2022-23, customers could have made a relatively small bill saving by switching to a cheaper retail offer. Depending on which area they live in, a typical customer could have saved somewhere between $215 and $247 (around 13% on average across the state) by switching from the median standing offer for electricity to one of the lowest price offers in the market, for the full 2022-23 year.

Some customers may have been able to reduce their bills by lowering their energy usage and/or installing solar panels. However, this is not possible for all customers. Some customers are less able to pay bills before they fall due, and as a result, are more likely to pay more. They may also find it more difficult to reduce their usage. There are several potential reasons for this including not having access to energy efficient housing, not being able to afford to purchase newer, more energy efficient appliances and living in larger households.[3] In other cases, significant energy usage is required to avoid adverse health outcomes. For example, insufficient cooling can lead to illness ranging from mild conditions such as a heat rash or cramps to very serious conditions such as heatstroke.[4]

1.3 The level of competition is similar to previous years

The high and sudden wholesale price rises saw the number of electricity retailers active in the market fall from 35 to 25. During 2022-23, 7 electricity retailers exited the market (that is, by the end of June 2023, they had no NSW retail customers) and 5 electricity retailers ceased to be active in the market (that is, they retained some existing customers but stopped making new offers). Two new retailers also entered the market. The number of gas retailers did not change.

Customer switching rates have remained relatively stable in 2022-23, with 19.4% of electricity customer switching retailers compared to 18.8% in 2021-22.[b] Similarly the switching rates for gas customers remained consistent with other years, at around 15%.

1.4 Access to a broader range of information would improve understanding of market outcomes for customers

Since 2015, IPART has been required to report to the Minister each November on the performance and competitiveness of NSW retail electricity and gas markets for the most recent financial year. Our role is set out in section 234A of the National Energy Retail Law (NSW) (the Act) and summarised in Box 1.1. The Act limits the information that we can consider in carrying out this role.

We are concerned that there are signs that the energy retail market is not delivering the level of competition which customers might expect in a competitive retail market. It appears to be difficult for customers to find and move to better offers. If customers cannot engage in and navigate the market easily, they will not benefit as much from energy retail competition as they could. The publicly available data is not sufficient to make a full assessment of these issues.

[b] Switching rate data may not fully reflect actual switching rates. The data captures customers moving homes and signing new contracts, even with the same retailer (overstating switching rates), but does not otherwise capture customers signing a new contract with their existing retailer (understating switching rates).

Box 1.1 IPART's role and the information we may consider

IPART, as Market Monitor, must report on the following matters:

- the participation of small customers in each market and, if the Market Monitor thinks it appropriate, particular groups of small customers;
- prices of electricity or gas for small customers in regional areas;
- any barriers to entry to or exit from, or expansion, in each market;
- the extent to which retailers are competing to attract and retain small customers;
- whether price movements and price and product diversity in each market are consistent with a competitive market;
- if the Market Monitor is of the opinion that it is required, steps necessary to improve the competitiveness of each market;
- whether there is a need for a detailed review of retail prices and profit margins in each market;
- any other matters the Market Monitor thinks appropriate.

We must do this, by considering only the following:

- information provided by the Australian Energy Market Commission and the Australian Energy Regulator
- information provided by energy retailers on specific pricing outcomes and customer numbers
- information that is publicly available.

Source: Section 234A of the National Energy Retail Law (NSW)

The data we are permitted by law to consider in this report provides some insights into these questions but there are gaps. For example, we currently have access to some publicly available complaints data. This data provides insights into customer interactions with retailers, particularly any issues with the experience, but is limited to situations where a customer has escalated an issue into a formal complaint, either to their retailer or the Energy and Water Ombudsman. As a result, the available data may not capture customers frustrations with the market more generally, for example, the switching process, or access to certain types of products and offers.

Additional transparency around customers' experience in the market and the outcomes it is delivering for them is needed if we are to fully understand whether the energy retail market is functioning as intended. We also consider that there would be value in assessing whether the incentives that govern how retailers act in the market are sufficiently aligned with the interests of consumers. We would be able to obtain a more nuanced understanding of customer experiences if we could incorporate a wider range of data and surveillance information. It would also help us to determine what steps would help improve the competitiveness of the market. If IPART could publish more of this type of information, it may increase transparency and competition in the market.

Findings

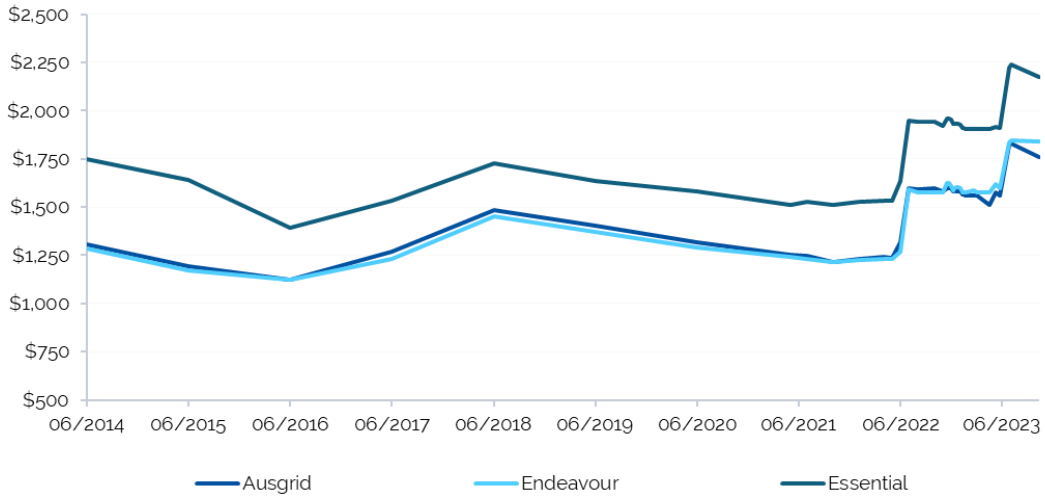
Recommendations

2 Price movements and competition

2.1 Retail energy prices reached historic highs in 2022-23

In 2022-23, NSW customers experienced large increases in their energy prices (Figure 2.1). Electricity and gas prices for residential customers increased by around 20% between June 2022 and June 2023.

Figure 2.1 Average median residential electricity bills (for 4,215 kWh per year) (nominal including GST)

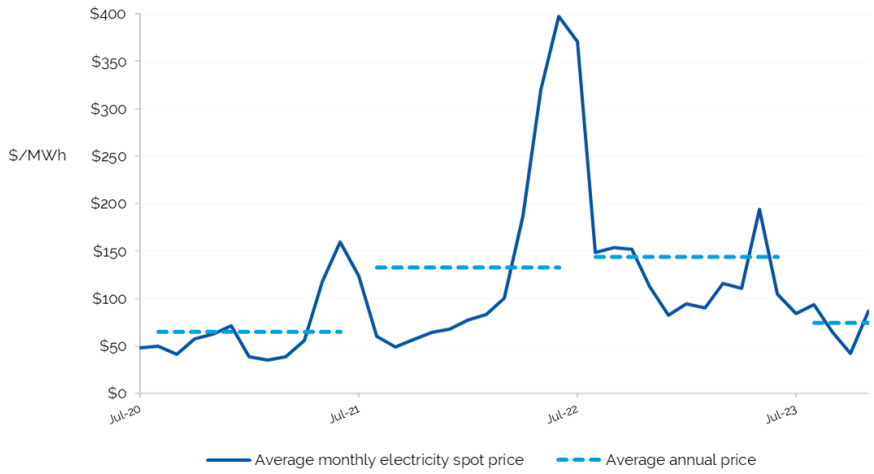


Source: Energy Made Easy.

These increases in retail prices were due to very high and volatile prices in the wholesale energy market in 2022. A combination of high international prices for coal and gas, an unusually cold start to winter and energy generation outages caused electricity wholesale prices to increase from an average of $70 MWh in 2021 to almost $400 MWh in June 2022. Wholesale gas prices increased from $10 GJ to $40 GJ in the same period. Figure 2.2 shows changes in average monthly wholesale spot prices for electricity over time.

Wholesale electricity prices in the spot market have reduced since July 2022. This has been in part due to government caps on coal and gas prices that were introduced in December 2022. From January to June 2023 electricity spot prices averaged $118 MWh, which is significantly below the mid-year peak in 2022. Average wholesale gas prices also reduced to $13 GJ – 67% lower than levels in June 2022.

Figure 2.2 Average monthly wholesale spot prices (nominal including GST)



Source: Australian Energy Market Operator

2.2 Energy retail markets remain highly concentrated

The high and sudden wholesale price rises saw the number of electricity retailers active in the market fall from 35 to 25. During 2022-23, 7 electricity retailers exited the market (that is, by the end of June 2023, they had no NSW retail customers) and 5 electricity retailers ceased to be active in the market (that is, they retained some existing customers but stopped making new offers). Two new retailers also entered the market. However, the market concentration did not change materially.

The number of gas retailers remained stable. In 2022-23, there were 13 retailers operating in the Jemena distribution network (where most gas customers are located).

The NSW retail electricity and gas markets are both concentrated markets. In 2022-23, approximately 78% of electricity customers and 85% of gas customers were supplied by one of the three largest retailers: AGL, EnergyAustralia and Origin Energy. The total market share of smaller energy retailers has been rising steadily in recent years and continued to increase slightly in 2022-23.

For gas, the number of retailers varies significantly by geographic region. Across regional areas, the number of retailers in the market is lower than across the Jemena network, as the size of some regional areas limits the number of retailers that can viably compete. In some regions there is just one retailer operating in the market (we have not observed that these customers pay more than customers in other regions – see below).

The tables below show information on the market structure for electricity and gas and how it has changed over time.

Table 2.1 Indicators of competition in the electricity retail market

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Market structure								
Number of retailers actively making offers in the market	22	22	24	25	33	40	35	25
Combined market share of small retailers	10%	12%	14%	17%	18%	19%	21%	22%
Customer engagement								
% of customers on market offers	74%	78%	84%	87%	87%	89%	90%	90%
Customer switching rates	16%	17%	19%	21%	17%	19%	19%	19%

Note: 2022-23 numbers for customers on market offers reflects data for quarter 3.
Source: Analysis based on data from AER.

Table 2.2 Indicators of competition in the gas retail market

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Market structure						
Number of retailers actively making offers in the market	7	8	12	11	12	13
Combined market share of small retailers	6%	8%	10%	11%	13%	15%
Customer engagement						
% of customers on market offers	86%	87%	88%	89%	90%	91%
Customer switching rates	14%	15%	14%	15%	14%	15%

Note: 2022-23 numbers for customers on market offers reflects data for quarter 3.
Source: Analysis based on data from AER.

The Appendix to this report contains further information.

Findings

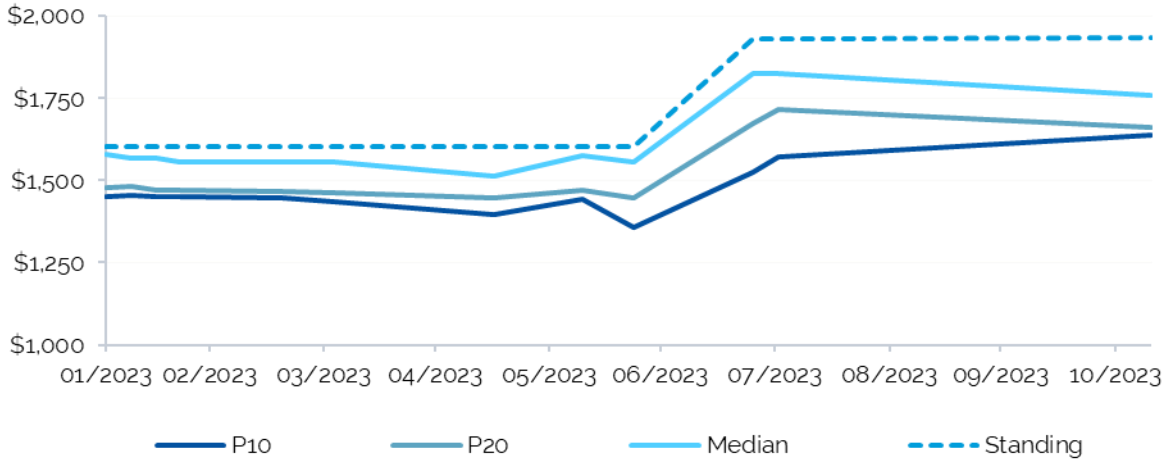
1. The Energy markets are concentrated, with most customers being supplied by one of the three largest retailers: AGL, Origin, and EnergyAustralia. However, the market share of smaller retailers has grown steadily over time. This trend continued in 2022-23, despite the number of active retailers in the electricity market falling from 35 to 25.

2.3 Retail prices have continued to rise since 1 July 2023 but the cost pressures on retailers are easing

Even though there has been a significant reduction in wholesale spot prices, electricity retail prices increased by a further 14% from June to November in 2023. One reason for this may be that retailers entered into new wholesale contracts during 2022, when wholesale prices were at their peak (see Appendix for more information). The Australian Energy Regulator's wholesale markets quarterly report for Q2 2023 indicated that electricity price expectations for 2024 increased in NSW but remained below levels observed in 2022.[5]

On average, customers are currently paying between $500 and $600 more for their electricity than they were in May 2022, before the rapid increases in wholesale costs. Over the current financial year to date, the median market offer for November has reduced from the August peak, however the lowest 10% of offers are higher. This is illustrated for the Ausgrid network region in Figure 2.3.

Figure 2.3 Distribution of electricity retail offers in the market over 2023 (Ausgrid, 4,215 kWh per year) (nominal including GST)

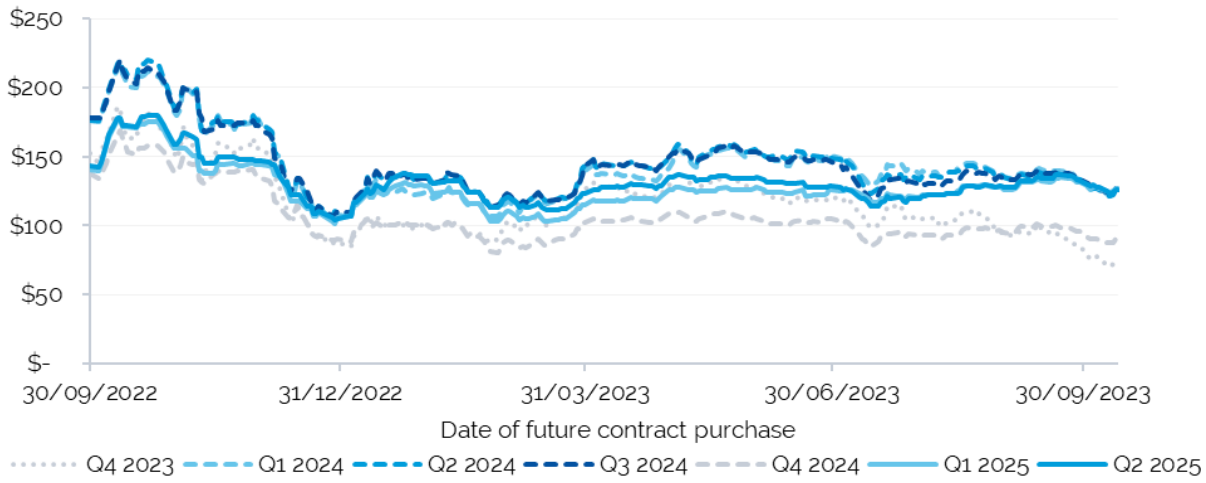


Source: Energy Made Easy data, IPART Analysis

The most up-to-date information suggests that wholesale prices will be lower in the foreseeable future. Wholesale spot prices have fallen further during the September Quarter 2023 and wholesale contract prices for 2024-25 are trending downward below $150/MWh (Figure 2.4).

However, over the medium and longer term there are many factors that will influence wholesale prices that make it more difficult to forecast. For example, the NSW Electricity Infrastructure Roadmap aims to create investment by running competitive tenders for long-term service agreements and access to renewable energy zones (Box 2.1).

Figure 2.4 Daily prices for NSW futures contracts (base quarters) (nominal including GST)



Source: ASX Base Quarter Futures from Refinitiv and IPART analysis

Box 2.1 The NSW Electricity Infrastructure Roadmap

The Electricity Infrastructure Roadmap was released in 2020 by the then NSW Government as a plan to transform the NSW electricity system into one that is cheap, clean and reliable. The Roadmap aims to deliver 12 gigawatts (GW) of renewable energy and 2 GW of long duration storage by 2030, in response to the retirement of ageing coal-fired generation plants and a congested transmission system. This generation and storage is expected to be concentrated within declared Renewable Energy Zones (REZs) where there is the greatest potential for renewable energy sources, such as wind and sunshine. The Roadmap also aims to ensure investment by businesses and the Government to support new jobs and industries for the regions, including employment and income opportunities for Aboriginal and Torres Strait Islander people.

The Roadmap is a 20-year plan to create investment by running competitive tenders for long-term service agreements and access to renewable energy zones. Delivery of the Roadmap is continuing with the completion of three tender rounds for generation and long duration storage, and firming infrastructure. A fourth round for generation infrastructure is currently open and to be completed in 2024.

Source: NSW Government

Findings

2. Retail electricity and gas prices increased by around 20% in 2022-23 due to high costs and volatility in the wholesale energy market. The increases in retail costs broadly reflect the changes in the underlying costs of supply.

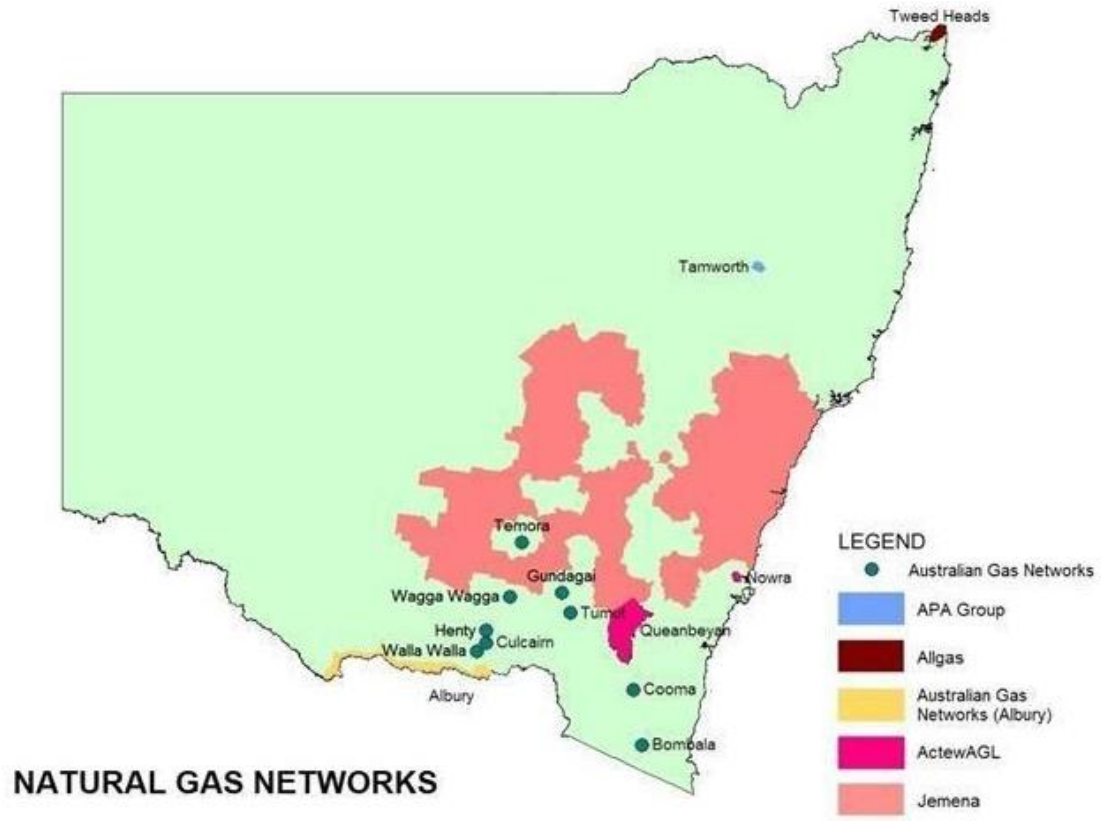
3. Retail electricity prices increased by a further 14% between June 2023 and November 2023. This means that a typical bill for a residential customer is around $500 to $600 higher than 18 months ago.

2.4 Energy prices vary by network distribution area

There are 3 different electricity network areas in NSW – Ausgrid, covering most of Sydney and Newcastle, Endeavour in South Sydney and the Illawarra, and Essential Energy, which covers the rest of the state. Retail electricity prices in the Essential Energy network area are around 20% higher than in metropolitan areas. This reflects the higher costs of distributing electricity in the Essential Energy network area (these costs are paid for by retailers through network charges).

There are also a wide range of prices in the different gas network areas. Most customers in NSW are located in the Jemena area (Figure 2.5).

Figure 2.5 Gas distribution networks in NSW

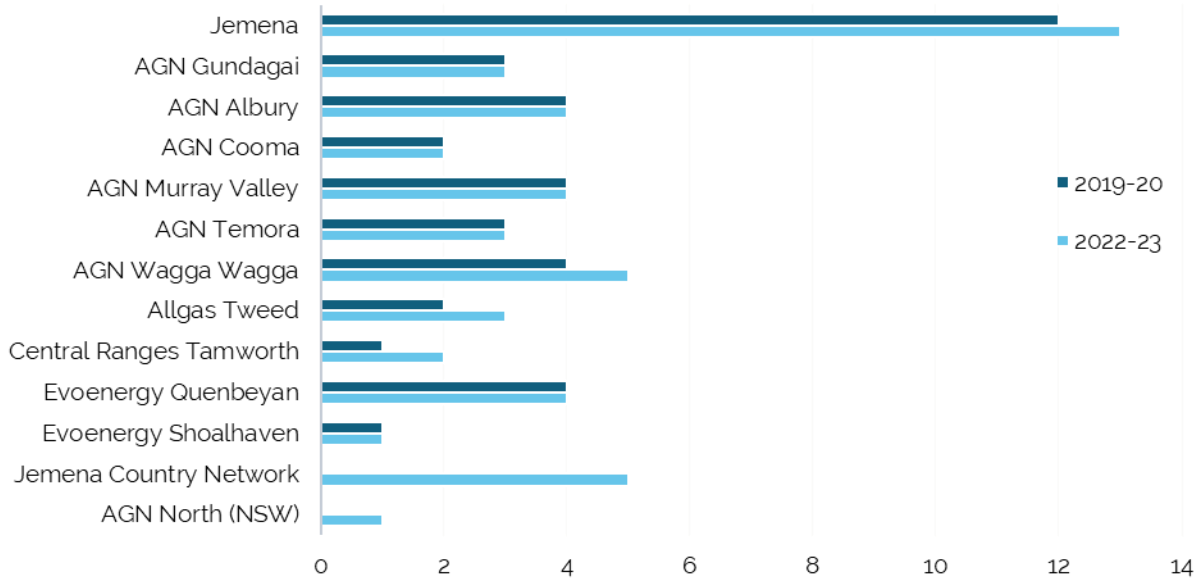


Source: NSW Government, Gas network operators, accessed 25 August 2023

There are more gas networks than there are electricity networks. Some of the gas network areas are very small. The small size of some regional gas networks may limit the number of retailers that can viably compete in these markets.

Figure 2.6 shows that most regional areas have more than one gas retailer operating in their region. However, Shoalhaven and AGN North only have one retailer operating.

Figure 2.6 Number of retailers for each gas distribution network in NSW



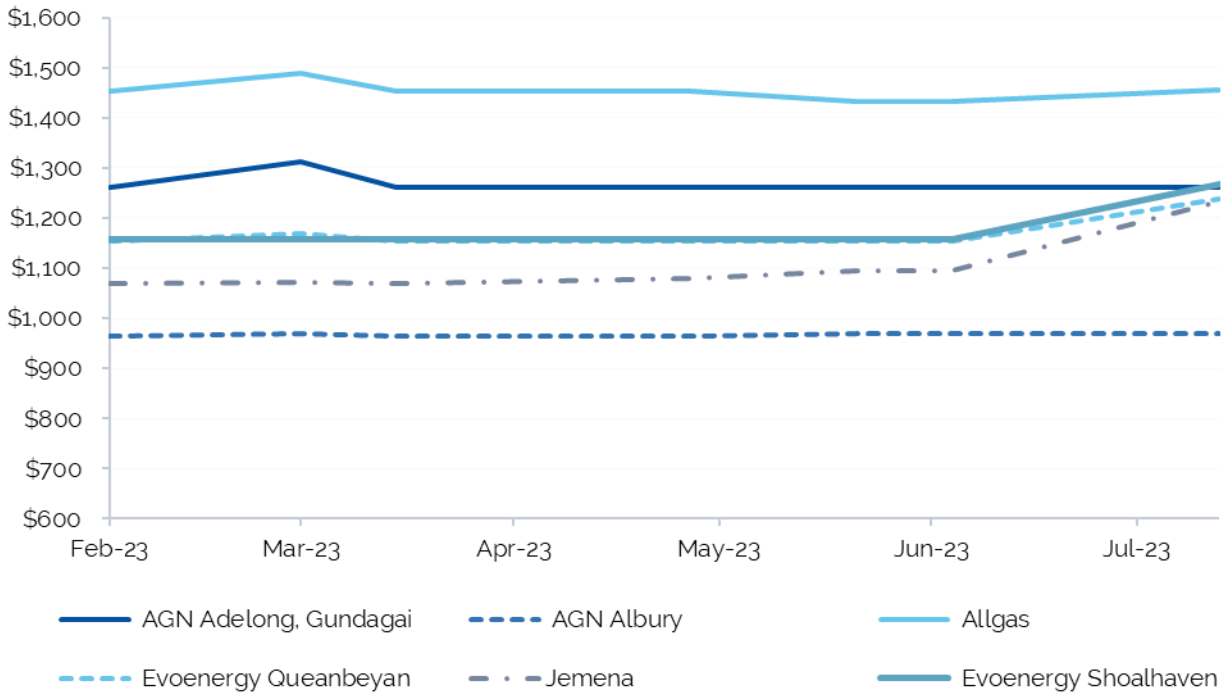
Source: Energy Made Easy data

A single retailer without competitive pressure may have the opportunity to exert some monopoly power, for example, by increasing prices without any cost basis. However, these markets can still deliver competitive outcomes for customers as long as potential competitors can enter the market and start competing for customers. In addition, the availability of electricity as an alternative fuel may also help constrain gas prices. Although there are high switching costs, some customers may be financially better off replacing their gas appliances with electric ones if gas prices remain relatively high over a sustained period.

Figure 2.7 shows the price movements for one of the small gas networks with only one retailer – the Shoalhaven, which is served by Evoenergy – compared to other networks.[c] It shows that the prices are similar to those in other network areas. While price levels vary significantly between gas network areas in NSW (mainly reflecting the different network charges in different areas), prices in the EvoEnergy Shoalhaven area are comparable to other regional areas.

[c] We have limited data available for the other network, AGN North.

Figure 2.7 Comparison of Evoenergy Shoalhaven median gas market offers against select distribution areas (nominal including GST)



a. Data for Evoenergy Shoalhaven is incomplete prior to February 2023.

Note: The AGN Albury regions is part of the cheaper Victorian distribution network, while the "Allgas" network in the Tweed is part of the Queensland distribution network.
Source: Energy Made Easy data and IPART analysis.

4. Retail electricity prices in regional NSW are around 20% higher than they are in the metropolitan areas. This reflects large differences in network charges (which cover the cost of distributing electricity).

5. The prices for residential gas customers vary across different network areas. Smaller network areas with fewer retailers have not experienced retail prices that are materially above those in regions served by a higher number of retailers.

3 Customers can save by switching

3.1 There are a range of offers in the market

As indicated in chapter 2, there are a range of offers in the market. This means that the outcomes for individual customers will vary depending on which particular offer they are on.

Market offers are set by retailers with limited restrictions on the structure of the electricity plans. This is in contrast to standing offers, which customers may be on by default if they have not signed on to a market offer. Standing offers cannot exceed the 'Default Market Offer' set by the Australian Energy Regulator (AER). This cap on standing offers has been in place since July 2019.

Historically, there has been a wide range of offers in the market, and there has been a significant difference between standing offer prices and prices advertised in the market. Figure 3.1 uses the Ausgrid network to illustrate these differences for a sample of dates in the period 30 June 2019 to 30 November 2023. It shows the spread of offers in the market (light blue) compared with the equivalent standing offers (dark blue) at 30 June each year. For comparison, it also includes this information at 31 July 2022, 31 July 2023 and 30 November 2023.

Between June 2020 and June 2022, the difference between the median market offer and the median standing offer was around $235 (in 2022) and $156 (in 2022). Figure 3.1 shows that market offers began to rise over June and July. However, the standing offers did not increase to the same extent, because they were capped by the regulated default market offer which had not factored in the sudden changes in wholesale costs.

By July 2022, the range of market offers had reduced and the median market offer was only slightly lower than the median standing offer.

As at June 2023, customers in Ausgrid's network area could save around:

- $46 (3%) by switching from the median standing offer to the median market offer
- $247 (15%) from switching from the median standing offer to the lowest offers (in the bottom 10% of market offers) in the market
- $200 (13%) by switching from the median market offer to the lowest offers (in the bottom 10% of market offers) in the market.[d]

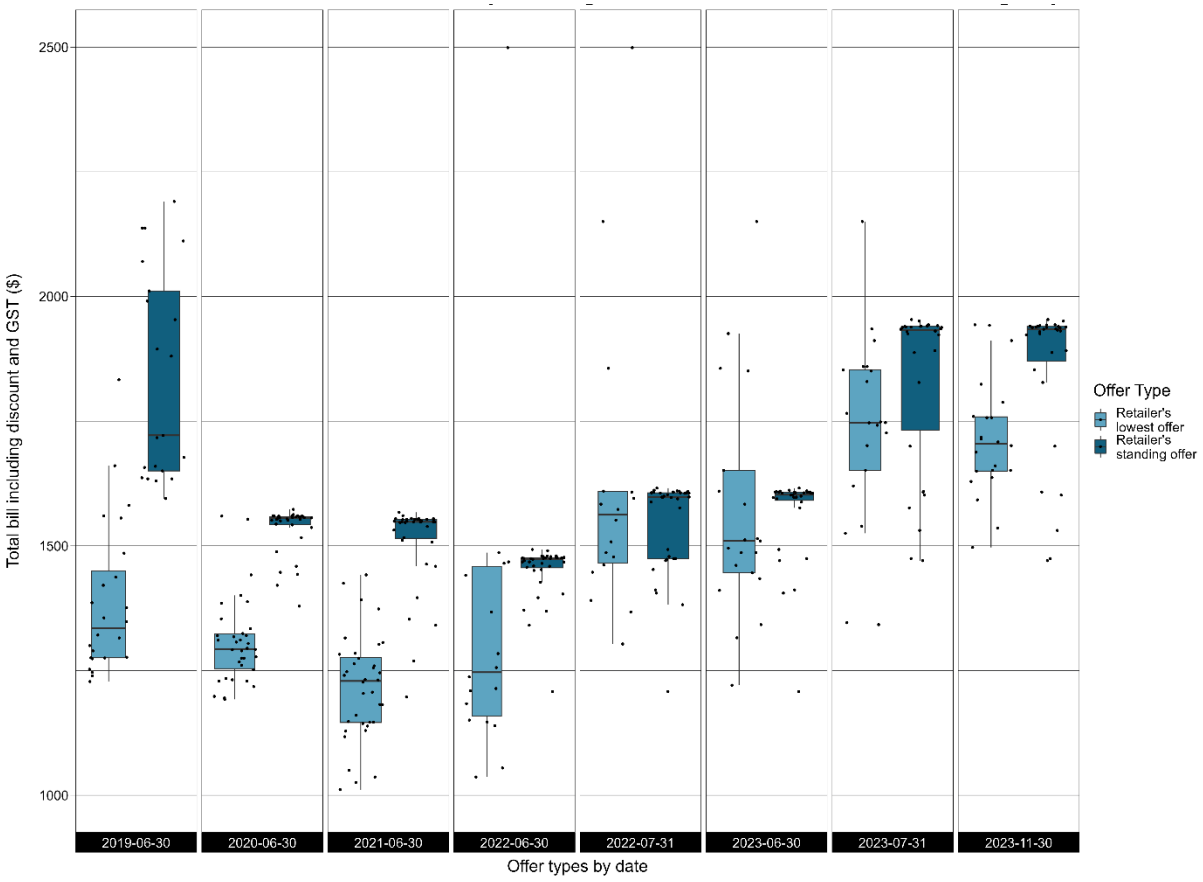
Depending on which area they live in, a typical customer could have saved somewhere between $215 and $247 (around 13% on average across the state) by switching from the median standing offer for electricity to one of the lowest price offers in the market, for the full 2022-23 year.

In July 2023, the AER put in place a new Default Market Offer which reflected the increase in wholesale costs. Figure 3.1 shows both the market offers and standing offers increased in July, and the difference between them has widened since then.

Customers in Ausgrid's network area can now save around $300 or 18% by switching from the median market offer to the lowest market offers.

[d] These figures are calculated based on Ausgrid data.

Figure 3.1 Distribution of electricity offers by date (Ausgrid, 4,215 kWh per year)

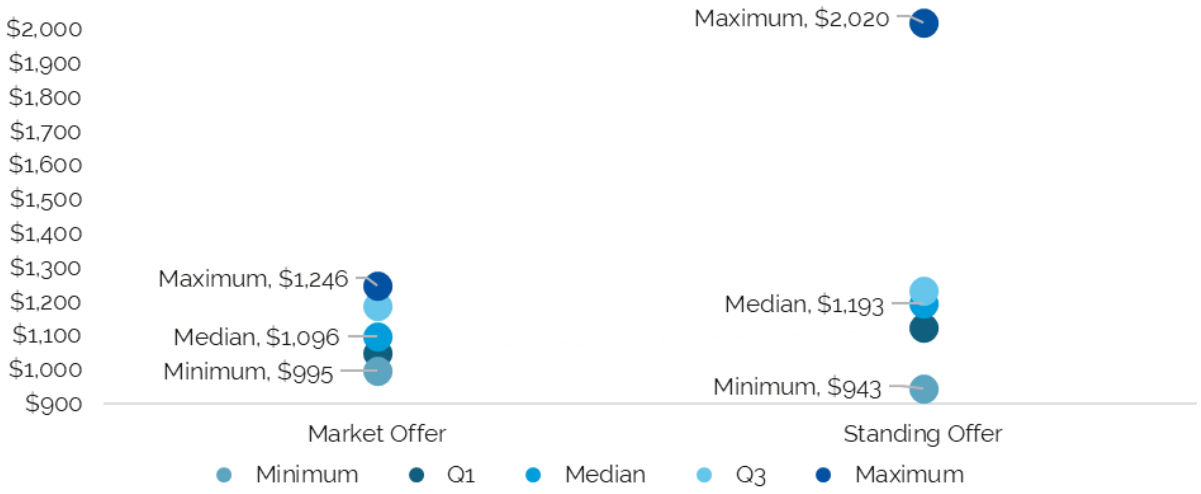


Source: EnergyMadeEasy data

For gas, the range of offers in June 2023 was larger for standing offers than market offers. This reflects that, unlike for electricity, there is no regulated maximum price for gas standing offers. As at June 2023, customers could save around:

- $97 (8%) by switching from the median standing offer to the median market offer
- $178 (15%) by switching from the median standing offer to one of the lowest offers (in the bottom 10% of market offers) in the market
- $80 (7%) by switching from the median market offer to one of the lowest offers (in the bottom 10% of market offers) in the market.

Figure 3.2 Distribution of gas offers (Jemena, 24,400 MJ per year) (nominal including GST)



Source: EnergyMadeEasy data

Findings

6. In 2022-23, a typical electricity customer in Ausgrid's network area could have made an annual saving of $200 or 13% by switching from the median market offer for electricity to one of the lowest price offers in the market.

7. In 2022-23, a typical residential gas customer in the Jemena area could have made an annual saving of around $80 or 7% by switching from the median market offer to one of the lowest price offers in the market.

3.2 Miscellaneous charges lead to higher bills for some customers

Different tariffs for different offers are not the only reason that customer outcomes may vary. Some offers also have a range of fees that may be charged under different circumstances. Fees are usually in place because retailers can incur one-off costs in different circumstances. For example, a connection fee to reflect the cost of connecting a property or a fee for sending paper statements to customers. However, there is significant variation in these fees between retailers. For example, some retailers on the Ausgrid network charged a disconnection fee of $207.03 while others charged $14.70. This may indicate that the fees do not always reflect the reasonable cost of the service.

Large differences in fees between retailers can lead to big differences in customer outcomes. We agree with the Public Interest Advocacy Centre (PIAC) that the additional fees charged by retailers can add to the cost of energy bills and may disproportionally impact certain customer groups. PIAC wrote to us, stating that:

> Examining retail offers does not necessarily capture what people actually pay for energy. Late fees; missed conditional discounting (generally pay on time discounts); membership fees; dishonour fees; payment processing fees; disconnection/reconnection fees; and interest and credit product fees charged by credit providers, can add considerably to the bills of people who can least afford it, and for whom the underlying bill may have been unaffordable. For some people, multiples of these fees can be applied to a single energy bill.[6]

We will conduct additional analysis on the number of different retailer fees, the levels of these fees, and the impact on customers' bills in a future market monitoring report.

Box 3.1 Abolishment charges for gas

The Australian Energy Regulator is currently reviewing Jemena's proposed access arrangements for 2025-30. Jemena has not yet provided its proposed tariffs, but it has retained an abolishment charge as an ancillary reference service.

Abolishment is the permanent disconnection of a customer from the main pipeline, unlike a disconnection service which is only temporary.[e] Permanently disconnecting a customer involves greater costs than a temporary disconnection, so abolishment fees are typically higher. For example, the Australian Energy Regulator previously approved an abolishment charge of $1038 for the Jemena network and a disconnection charge of $182.[7]

Some stakeholders are concerned that the difference in fee size will influence customer behaviour. Red Energy and Lumo Energy (Red and Lumo) submitted to the Australian Energy Regulator that they support a permanent abolishment charge as it minimises safety risks when consumers choose to stop using gas.[f] However, they are concerned that customers will choose a temporary disconnection instead if the abolishment charge is too high (e.g. if it is fully cost reflective). This reflects their experience with AusNet in Victoria:

> Since its [the abolishment charge's] inception, our customers have complained about this charge and have consistently objected to its payment, particularly given the broader discussion of the future of gas in Victoria. Furthermore, it has been the basis for numerous complaints to the Energy and Water Ombudsman of Victoria.[8]

[e] The exact method of abolishing the connection is up to the service provider to ensure they can leave the property in a safe state.

[f] Red Energy and Lumo Energy made a joint submission to the AER in response to Jemena's proposal as they are both subsidiaries of Snowy Hydro Limited.

Box 3.1 Abolishment charges for gas

Red and Lumo instead propose customers pay the same charge for both disconnection and abolishment, and the remainder of the abolishment cost be socialised across the customer base. This would be consistent with the approach the Australian Energy Regulator adopted in its final decision for AusNet's 2023-28 gas access arrangements.[9] We note that this would help incentivise households to stop using gas but late movers would bear a greater cost of abolishing gas connections through higher network fees, as the customer base decreases. We consider that this is likely to become more of an issue in coming years.

3.3 Around 15% to 20% of customers are switching each year

Even with the relatively low savings available to customers in 2022-23, customer switching remained stable. 19.4% of electricity customers switched retailers in 2022-23 compared to 18.8% in 2021-22.[9] Similarly the switching rates for gas customers remained consistent with other years, at around 15%.

Energy Consumer Australia's June 2023 Sentiment Survey found that price changes and value for money were the primary initial reasons NSW households considered switching retailers.[10] The survey showed similar national results for small businesses (state level results are not available).[11] Some switching occurs because customers are having a poor experience with their existing retailer. However, the more customers are willing and able to shop around, the greater the incentive for retailers to provide value to new and existing customers.

Energy bill data is collected under the NSW Governments social programs for the Energy Code. Retailers must provide billing data for all custromers receiving rebates. We plan on publishing a separate information paper that compares this billing data to current offers on Energy Mase Easy.

8. Switching rates in 2022-23 of almost 20% for electricity and 15% for gas remain in line with the trend of the past 5 years.

[9] Switching rate data may not fully reflect actual switching rates. The data captures customers moving homes and signing new contracts, even with the same retailer (inflating switching rates), but does not otherwise capture customers signing a new contract with their existing retailer (understating switching rates).

3.4 Offers listed on Energy Made Easy are not always available

Energy made Easy is a comparator website provided by the Australian Energy Regulator. "Energy Made Easy is a free Australian Government energy price comparison service for households and small businesses in New South Wales, Queensland, South Australia, Tasmania and the Australian Capital Territory, that can be used to find and compare home and small business electricity and gas plans."[12]

We previously found in our 2021-22 Energy Market Monitoring report some evidence that suggested not all live offers on Energy Made Easy are made available to customers.[13] We considered that this presents a barrier to customer switching, and could undermine consumer trust in the Energy Made Easy service as an accurate information source.

PIAC has told us that this continued to be a problem in 2022-23.[14] We remain of the view that retailers should be required to honour any offer that is live on Energy Made Easy at the time a customer requests it, if that customer is otherwise eligible for the offer under the published terms and conditions. We urge the AER to investigate the issue and investigate what potential solutions are available in the short term. For example, by requiring more timely updates by retailers on Energy Made Easy.

There are also opportunities to improve the information available to customers on Energy Made Easy so that they can make fully informed decisions when comparing offers. Currently the Energy Made Easy bill calculator does not estimate demand charges so they are not taken into account in their bill estimates. This reflects the difficulty in accurately estimating a demand charge. However, it also prevents customers from comparing all offers available in the market and identifying the best offer for their circumstances.

Key conditions and restrictions on energy offers could also be mandatorily disclosed on the Energy Made Easy website. For example, many single-rate offers are only available to customers with advanced meters for a transitional period (i.e. if the new meter has only recently been installed). This eligibility requirement should be clearly disclosed on the offer. This will make it easier for customers to determine if they are eligible for an offer and if it will suit their circumstances.

Findings

9. Evidence suggests that not all live offers on Energy Made Easy are made available to customers. This can undermine consumer trust in the service as an accurate information source and present another barrier to customer switching.

Recommendations

1. The Australian Energy Regulator is continuing to improve the operation of Energy Made Easy as a switching service. As part of this improvement, Energy Made Easy should disclose upfront key conditions and restrictions on offers so that customers can make informed decisions.

3.5 Consumer confidence in the energy market has fallen

The recent price increases appear to be impacting consumer sentiment. According to the Energy Consumers Australia 6-monthly survey, the results for December 2022 and June 2023 indicate that consumer confidence in the energy market has fallen from the relatively high levels of the past two financial years, with customers' view of the overall value for money for the energy services they receive reducing. However the survey still reports that most customers are happy with the energy service they received, and the consumer confidence that the energy industry and regulators are working in the long-term interest of consumers remains in line with previous years.[15]

4 Addressing energy affordability

4.1 Accessing energy rebates

Many NSW households and small businesses are eligible for financial assistance. In response to rising retail prices, the NSW Government and Commonwealth Governments are jointly funding up to $3 billion in relief through the Energy Bill Relief Fund for the year 2023-24.[16] Approximately 1.6 million households, including low-income families, pensioners, self-funded retirees, and carers, can receive a one-off payment of up to $500 towards their electricity bills, paid in quarterly instalments of $125. Small businesses consuming less than 100 megawatt hours (MWh) per year are also eligible for a one-off bill relief payment of $650 (also paid in installments).[17] Further details are available on the Energy Bill Relief Fund website.

4.2 Hardship programs

Hardship programs are assistance schemes designed to help customers who are struggling to pay their utility bills due to financial difficulties. Some examples of hardship programs include:

- Flexible payment plans
- Payment extensions
- Debt and payment assistance
- Energy efficiency advice
- Financial counselling
- Protection from disconnection

In 2022-23, there was an increase in customers entering hardship programs, with around 11,000 (31%) more electricity customers and about 2,250 (27%) more gas customers compared to 2021-22. Although the average electricity debt for customers in these programs rose by $163 (10%), new participants entered with approximately $500 (-32%) less debt than the previous year. Despite an overall increase in utility debts, the total number of disconnections remained below pre-COVID-19 levels. However, those disconnected had higher debt levels than in previous years. Full-year figures for 2022-23 are pending, but data from June 2022 to March 2023 shows a 3% decrease in the average debt level.[18]

We note that the Public Interest Advocacy Centre (PIAC) is concerned that the increase in number of customers in debt may be an indicator of higher disconnections in future.[19] As PIAC also explains the rapid rise and widespread availability and popularity of payment advances, Buy Now Pay Later (BNPL) and other unregulated credit products is also likely to have impacted people's payment behaviour shifting debt from the energy sector.[20] We will continue to monitor this issue in future Market Monitoring Reports as increasing debt levels are a sign of financial stress that may lead to more customers experiencing vulnerability.

Findings

10. The number of customers in debt increased, as did the number of customers entering hardship programs. However, disconnection rates remain low compared to pre-Covid levels.

4.3 Increasing energy efficiency can reduce bills

There are incentives for NSW consumers to access more energy efficient equipment and appliances in households and businesses through the NSW Energy Savings Scheme and Peak Demand Reduction Scheme. Under these schemes, approved suppliers are incentivised to install energy efficient equipment. Activities include upgrades to lighting, water heaters, air-conditioners, amongst others. Details on these programs are available on our website.

4.4 Households experiencing disadvantage are more likely to live in homes which are more expensive to heat and cool

Some customers may be able to reduce their utility bills by installing higher efficiency technology or by supplementing their electricity usage with home solar power. However, there is often a large capital cost for energy efficiency upgrades and is not feasible for all customers.[21]

Some people can struggle to lower their electricity or gas usage due to existing inefficient appliances within their homes. For instance, PIAC has noted that disadvantaged households are often housed in poorly insulated homes leading to higher electricity consumption to maintain liveable temperatures.[22] Without access to energy efficiency upgrades, it can become too costly to cool or heat homes and can lead to a variety of health impacts such as heat rash or heat stroke from inadequate cooling, which highlights the need for affordable and accessible energy.[23]

A recent Better Renting report highlighted the challenges faced by renters in NSW during winter. Despite the most densely populated parts of NSW not being exceptionally cold, over half the renters experienced average indoor temperatures below 16˚C. This was only marginally warmer than outdoor temperatures, often colder indoors than outdoors for about five hours a day. These conditions, compounded by the absence of minimum energy efficiency standards for rentals, led to issues like social isolation and mould.[24]

Households which currently receive the Low Income Household Rebate may be eligible for a free 3 kilowatt solar system installed on their home, in exchange for not receiving the rebate for 10 years. The NSW Government website has further details.

5 Smart meters and tariff reform

5.1 Network tariff reform may reduce network charges over the medium and long term

Network tariff reform involves moving away from the previous flat rate structures to more innovative tariff structures that are designed to change the behaviour of consumers. Such tariffs are designed to provide customers with incentives to reduce energy use at peak times by offering cheaper prices during the off-peak. Tariff reform is intended to encourage more efficient use of the electricity network to help reduce the need for additional investment and the associated ongoing costs of maintaining this infrastructure. This would lead to lower cost for customers as network costs are a significant component of customer bills.[25]

Demand tariffs are one price structure that is intended to better inform customers about the network costs of using electricity during peak periods and incentivise behavioural change. They do this by charging customers a peak usage rate in a designated period (demand charge) in addition to consumption charges for their total electricity consumption (energy charge). If customers are able to respond to the demand charge, they may reduce their consumption during peak times, alleviating pressure on the electricity grid.

Customers can only be charged a demand charge if they have a smart meter, which records energy consumption in at least 30-minutes intervals (Box 5.1).[26] These meters are being progressively rolled out, with around 25% of residential customers in NSW, south-east Queensland and South Australia having a smart meter.[27] To date, a large part of smart meter roll-out has been driven by solar customers, who are required to have a smart meter when the panels are installed.[28]

Table 5.1 shows that around 6% of NSW customers are currently on demand tariffs, with most of these customers in the metro regions.[29] It is expected that the number of customers on demand tariffs will grow with the increasing roll out of smart meters[h]. Customers can opt-out of a demand network tariff to a time-of-use tariff, however they cannot opt back to a traditional flat rate tariff. In the Endeavour and Essential network regions, time-of-use tariffs are the default tariff, with customers having to opt in to demand tariffs.

[h] The Australian Energy Market Commission has set a target of 100% smart meter coverage by 2030 as part of their Review of the Regulatory Framework for Metering Services.

Table 5.1 Number of customers currently on demand tariffs, by network

Network	Current Customers	Total network Customers	Percentage of total Customers
Ausgrid	196,919	2,240,166	8.8%
Endeavour	89,795	1,415,221	6.3%
Essential Energy	2,244	1,357,045	0.2%
Total	288,958	5,012,432	5.8%

Source: Ausgrid 2023-24 Annual SCS pricing model, Endeavour Energy 2023-24 pricing model, Essential Energy 2023-24 pricing model.

Box 5.1 What is a smart meter?

A smart meter is a device with a digital two-way communication system that measures when you use electricity and how much.

It records your energy use in at least 30-minute intervals and transmits the information to your retailer daily. Your retailer can read the meter remotely.

In contrast, a traditional, manual read meter only records your total electricity use. You are typically sent a bill every three months or so.

Retailers are gradually replacing manual read meters with smart meters. Some retailers have an active meter replacement program in certain areas. If there is nothing wrong with your existing meter, it could be some time before it is replaced, unless you seek out a new meter. If your meter is faulty or stops working, your retailer must replace it with a smart meter.

Source: NSW Climate and Energy Action, Using Smart Meters

5.2 The impact of demand network tariffs on customer bills is unclear

The demand tariff structures that have been adopted by each of the three networks are very similar. They each charge for demand by measuring consumption over a 30-minute window and charging residential customers a monthly fee based on their highest demand during peak periods in a given month depending on the network and demand tariff. The peak periods generally occur in the afternoons or evenings on business days and can vary by the time of year.

Retailers can choose whether and how to pass network demand charges onto the customer. For example, they can choose not to pass on the demand charge at all (and instead allocate these costs to standard fixed and variable tariffs), or they can charge more than the network tariff.

There is very little visibility over the network charges paid by customers. The AER's Energy Made Easy website does not currently provide customers a bill estimate that includes the impact of network demand tariffs, and the AER's default market offer price cap does not apply to customers on a demand tariff.[30]

The ACCC reports that on average, customers on demand tariffs pay less than other customers (Box 5.2), however the report may understate the impact of demand tariffs for customers on standard demand tariffs because:

- The analysis does not differentiate between standard demand tariffs, and transitional demand tariffs. Transitional demand tariffs are likely to be significantly lower than standard demand tariffs reflecting that the underlying network demand transitional tariff is set at a 95% discount to the standard tariffs.
- The analysis does not differentiate between network areas. There are very few customers on demand tariffs in the Essential Energy region, where all tariffs are significantly higher (reflecting the higher network costs in this network). This means that it is likely that the demand tariffs in the relatively lower cost areas are being compared to flat-rate tariffs in a high cost area.

As the pace of the smart meter roll-out to customers increases, we consider that regulators such as IPART need access to additional information so they can monitor the range of customer outcomes for different tariff types. This would allow us to provide more information to customers.

The following information would allow IPART to estimate the impact of demand tariffs on customer bills:

- Information on demand tariff prices. Currently retailers must provide their tariff information for their generally available offers to the AER's Energy Made Easy website, however the data is not provided in a consistent or easily accessible format.
- A statistically significant sample of deidentified customers' half hourly consumption information for a year. The networks could provide this information on their websites. This would allow maximum peak demand to be calculated for each customer, so the tariffs can be applied.

Box 5.2 ACCC findings on customer bills by tariff type

The ACCC's inquiry into the National Electricity Market reports that residential customers on demand tariffs can benefit from lower prices if they manage their electricity demand effectively, especially during peak periods.

Across the National Electricity Market, typical residential customers on a demand tariff pay less than those on other types of tariffs. A customer can save on their electricity bill whether their annual electricity use is small, average, or high. This means that demand tariffs offer an opportunity for cost savings for anyone who can adapt their electricity usage.

However, the ACCC reports that customers who can't manage the time and volume of their electricity usage may face the risk of higher bills under demand tariffs. The ACCC expressed concern that fast adoption of demand tariffs could disproportionately impact customers who are less able to adjust their usage based on the demand tariff's peak and off-peak times.

Box 5.2 ACCC findings on customer bills by tariff type

Ultimately, how much a customer can save on a demand tariff depends on how and when they use electricity.

Source: ACCC, Inquiry into the National Energy Market, June 2023.

5.3 The AEMC have recommended improved information disclosure for customers

Because of the complexity involved in the tariff structure, it is important that customers are fully informed of the charges and how their behaviour will affect their energy bill, so that they are able to respond to any incentives they provide.

We have found that some customers have not been given sufficient notice of what changes will be made to their energy prices before they have a smart meter installed. Customers who are not informed of how their bills may change under the new prices or what they can do to reduce them, may experience bill shock or frustration that they are unable to return to their old tariff structure (e.g. a flat tariff instead of time of use).

For example, a customer may install a smart meter in order to access a new product. They are currently on a flat tariff structure but are required to move to a demand or time-of-use tariff once they have installed their smart meter. They are not advised of this in advance of the installation. They then receive their new bill and find they have been charged based on a new tariff structure. The customer makes a complaint but is advised limited action can be taken as their bill is correct and they are required to be on the new tariff due to the meter change.

The Australian Energy Market Commission (AEMC) has considered this issue as part of its review of the regulatory framework for metering services. It has recommended requiring retailers to notify customers 30 business days when transitioning to a new tariff structure (recommendation 4).[31] The AEMC has also recommended providing customers with additional information on how to understand and monitor their usage, and how to manage change – including allowing the customer to request an estimate of what their historical bill would have been under any new tariff structure. These changes will allow customers to make informed decisions as part of the change to smart meters.

5.4 Retailers should provide customers with choice of tariff structures

As discussed in Section 5.2, retailers have flexibility over the prices that they charge. This means that they can decide how they recover their costs (including any network costs) from customers.

It appears that many retailers are choosing to pass on demand tariffs through their retail tariffs. We have found that as of October 2023, 12 retailers were offering demand tariffs to residential customers (Table 5.2).

Table 5.2 Number of plans with a demand charge by network and retailer

Retailer	Ausgrid	Endeavour	Essential Energy	Total
Red Energy	27	36	36	99
Sumo	30	20	10	60
EnergyAustralia	28	28		56
Energy Locals	36	6	12	54
Alinta Energy	36	12		48
OVO Energy	30	15		45
Momentum Energy	23	14	6	43
CovaU	14	8		22
AGL	2	2	12	16
Powershop	6	3		9
Amber	2	2		4
Tango Energy	4			4
Globird Energy	2	1	1	4
All	**240**	**147**	**77**	**464**

Source: EME data export for published offers as of 19 October 2023.

The Public Interest Advocacy Centre (PIAC) considers retailers should not require consumers to be on retail products which reflect network tariffs, and that doing so is an unreasonable curtailment of consumer choice that contravenes key assumptions of the market framework which underpins the NEM. PIAC submits that the effectiveness of cost-reflective network tariffs is not influenced or impeded by the end retail price paid by consumers. A cost-reflective network tariff efficiently reflects costs at a connection point. This ensures a usage at a connection point cannot be 'cross-subsidised' by other connections, and visa-versa. It is then the responsibility of the retailer to create products which present the relevant consumer with the products that allow them to choose to either pay the efficiently reflected cost of their usage or change their behaviour or make other decisions to mitigate or avoid that cost.[32]

Even though there is no requirement for retailers to adopt the same tariff structure as the network tariffs for the site, anecdotal evidence suggests that retailers prefer to mirror the underlying network tariff structures through their retail tariffs.

Where customers are assigned to network time-of-use network tariffs, we have not found any retailers offering flat rate tariffs to these customers.

There is little evidence on whether the same trend is occurring in relation to demand tariffs.

We agree with the AEMC that allowing customers to opt-out of cost reflective tariffs may better promote customer choice and trust – and puts the onus on the market bodies and industry to demonstrate the benefits to customers of new and innovative access and pricing options. It could provide stronger incentives for Distribution network service providers to design cost-reflective tariffs that create customer value, which could also encourage customers to voluntarily request smart meters, increasing the pace of the rollout.

Similarly, innovative pricing options should be able to be understood by all customers. IPART has not conducted analysis on customers on demand tariffs because there is not sufficient information to enable us to easily and accurately calculate bills. Customers may also have similar difficulties understanding demand tariffs. This could also undermine the rollout of smart meters, and the effectiveness of any intended price signals.

5.5 More analysis is needed to determine whether the demand tariffs drive the behaviour change intended

The 3 electricity networks have put forward their proposals for the 2024-29 network determinations that are currently being considered by the Australian Energy Regulator. This involves, amongst other things, setting their network tariff structures for the next 5 years. Each of the networks has proposed maintaining demand tariffs as part of their tariff structures with little modification from their current approach.

We consider that further research needs to be undertaken to develop and implement a network tariff structure that would effectively drive changes in residential customer behaviour.

More needs to be done to assess whether demand tariffs are efficient or effective in allowing customers to reduce their energy usage at higher-priced times and as a result, lower their bills.

Demand tariffs may be more complex for a residential customer to understand than a standard flat rate or time of use tariff.[i] For demand tariffs to provide a price signal effective in influencing customer behavour, customers need to understand how they will impact bills.

[i] A time of use tariff chrges different usage rates for different times of the day (typically the day is divided into: off peak, shoulder and peak periods).

[1] *National Energy Retail Law (NSW)*, ss234A(3).
[2] National Energy Bill relief
[3] Australian Competition and Consumer Commission, *Inquiry into the National Electricity Market*, June 2023, p 64.
[4] Better Health, Heat-related illness, December 2022
[5] Australian Energy Regulator, Wholesale markets quarterly – Q2 2023
[6] Public Interest Advocacy Centre, Letter to IPART on Energy Retail Market Monitoring, November 2023, p 7.
[7] Access Arrangement, JGN's NSW gas distribution network 1 July 2020 – 30 June 2025, June 2020, p 54.
[8] Red Energy and Lumo Energy, *Submission on Jemena Gas Network's Reference Service Proposal for the 2025-30 access arrangement*, August 2023, p 2.
[9] Australian Energy Regulator, *Final Decision - AusNet Gas Services Gas distribution access arrangement 1 July 2023 to 30 June 2028 – Overview*, June 2023, pp. 26-29.
[10] Energy Consumers Australia, Energy Consumer Sentiment Survey – June 2023, accessed 14 November 2023.
[11] Energy Consumers Australia, Energy Consumer Sentiment Survey – June 2023, accessed 14 November 2023.
[12] Energy Made Easy website
[13] IPART, Monitoring NSW energy retail markets 2021-22 – Final Report, November 2022, p 56.
[14] Public Interest Advocacy Centre, Letter to IPART on Energy Retail Market Monitoring, November 2023, p 2
[15] Energy Consumer Sentiment and Behaviour Sruveys, Sentiment Survey, June 2023
[16] NSW Government, Budget 2023-24, June 2023
[17] NSW Government, National Energy Bill relief, November 07, 2023
[18] Australian Energy Regulator, *State of the Energy Market 2023*, October 2023 p 238-239.
[19] Public Interest Advocacy Centre (PIAC), Community groups call for energy hardship relief package as household energy bills jump, March 28, 2020
[20] Public Interest Advocacy Centre (PIAC), Paying to pay: Using credit products to afford energy, December 14, 2022, p 2.
[21] Australian Competition and Consumer Commission, *Inquiry into the National Electricity Market*, June 2023, p 64.
[22] Public Interest Advocacy Centre, Letter to IPART, 9 November 2023
[23] Better Health, Heat-related illness, December 2022
[24] Better Renting, Power Struggles: Renting in Winter (2023), 14 September 2023
[25] Network tariff reform | Australian Energy Regulator (AER)
[26] For example, see EnergyAustralia
[27] ACCC, Inquiry into the National Electricity Market - May 2022 report, p 6.
[28] Australian Energy Market Commission, *Review of the Regulatory Framework for Metering Services – Final Report,* August 2023, p 11.
[29] Australian Energy Market Commission, *Directions paper - Review of the regulatory framework for metering services*, September 2021, p i.
[30] AER, Default market offer prices 2023–24 Final determination, p 2.
[31] Australian Energy Market Commission, *Review of the Regulatory Framework for Metering Services – Final Report,* August 2023, p 19.
[32] Public Interest Advocacy Centre, Letter to IPART on Energy Retail Market Monitoring, November 2023, p 7.

Appendix

See separate slide pack

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