



Monitoring the NSW retail gas market 2020-21

October 2021

This information paper provides our draft findings on how competition has developed over 2020-21 for the retail gas market in NSW.

We found that the price offered to most small customers decreased in 2020-21. Most small customers in NSW (about 95%) are located in Jemena's network and the median market price offered in this region decreased by 6%.

However, there were mixed outcomes in regional areas. The median market offer for residential customers in some regions decreased by 5% and in others increased by 2%. The increase in the median market offer for small businesses was up to 11% in the Cooma region. Rather than all offers increasing, the increase was driven by Origin Energy raising its offers, whilst Red Energy maintained its. In prior years, bills based on the median market offers have been relatively stable in this region.

In 2020-21, we also saw a decrease in the number of competitors as a result of AGL acquiring Amaysim/Click Energy (Table 1). However, we found that there were more offers in regional areas as Red Energy began supplying these regions for the first time.

Overall, we observed a general trend of competition improving, as the market share of smaller retailers increased, more customers were on market offers and satisfied with their gas service.

Table 1 Indicators of competition

	2017-18	2018-19	2019-20	2020-21
Market structure				
Number of retailers	7	8	12	11
Market share of small retailers	6%	8%	10%	10%
Customer engagement				
% of customers on market offers	86%	87%	88%	89%
Customer switching rates	14%	15%	14%	15%
Customer outcomes				
Customer satisfaction	64%	60%	70%	74%
Complaints to EWON	4,881	4,197	3,007	2,954

IPART acknowledges the Traditional Custodians of the lands where we work and live. We pay respect to Elders, past, present and emerging. We recognise the unique cultural and spiritual relationship and celebrate the contributions of First Nations peoples.

Gas is considered a secondary product to electricity for small customers, rather than a stand-alone service. Retailers provide gas to around 1.5 million residential customers and 50,000 small business customers in NSW. This compares to around 3.3 million residential electricity and around 336,000 small business electricity customers.

Residential and commercial gas consumption in NSW represents about 3% (51 PJ) of total gas demand (1,942 PJ) in the East Coast market each year. About 80% of gas supplied each year in the East Coast market is exported.

1 Overview of the gas market

The gas industry on the East Coast of Australia has undergone a structural change over the last decade, with gas exports starting in 2015. The Queensland-based LNG export industry has increased the demand for gas and linked East Coast gas prices to international prices.

The main components of the gas supply chain are:

- Gas production – Gas wells and coal seam gas wells source natural gas and ship to a processing plant to meet technical specifications. NSW produces little of its own gas, so is highly dependent on gas from other states. The new Port Kembla LNG import terminal is currently under construction and could supply 75% of NSW' gas demand from 2023.¹
- Gas transmission – High pressure pipelines transport gas to large industrial customers, LNG plants, gas powered electricity generators and city gates.
- Gas distribution – At city gates, gas pressure is lowered and injected into local distribution networks for transport to customers. There are six authorised natural gas network operators in NSW.
- Gas retailers – Buy gas from producers and pipeline capacity from gas transmission and distribution businesses to supply gas to residential and business customers.

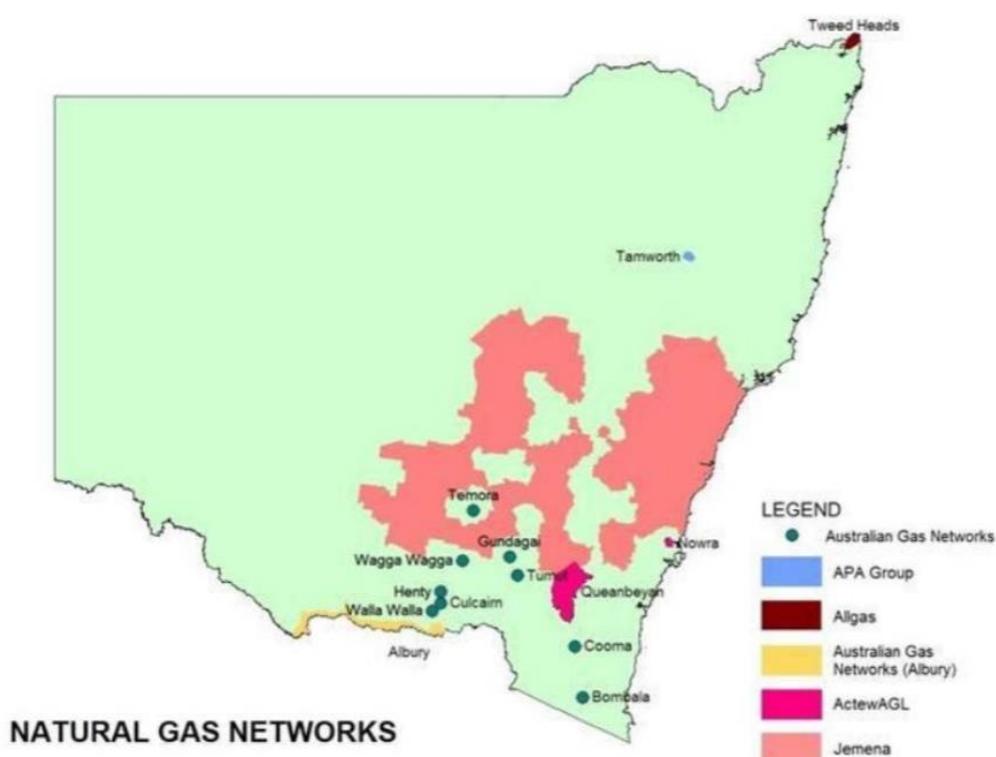
Retailers buy wholesale gas from two markets. Most is purchased from producers under confidential bilateral gas supply agreements. Traditionally these agreements have locked in prices, terms and conditions for long periods (15-20 years), however more recently there has been a trend to shorter contracts. The other market for wholesale gas is the spot market. The spot market is mainly used by retailers to balance their contract positions.

There are six authorised natural gas network operators in NSW and the distribution networks are shown in Figure 1 below.

Consumption of gas by residential and small business customers in NSW represents 45% (51 PJ) of total gas consumption in NSW (113 PJ). The largest use of gas in NSW is for industrial purposes in manufacturing, mining and agriculture.

Around 95% of residential and small business gas consumers (about 1.4 million) in NSW are located in Jemena's gas distribution network area.² There are far fewer consumers in regional gas network areas. The largest of these regional networks are the Australian Gas Network (AGN) Wagga Wagga (around 24,000 customers) and AGN Albury areas (around 28,000) customers.³

Figure 1 Natural gas distribution networks in NSW



Source: NSW Government, [Gas network operators](#), accessed 27 September 2021.

2 Retailer behaviour and outcomes

This section discusses our findings on retailer behaviour in the retail gas market in 2020-21, including changes in standing offers, market offers and retailers' costs.

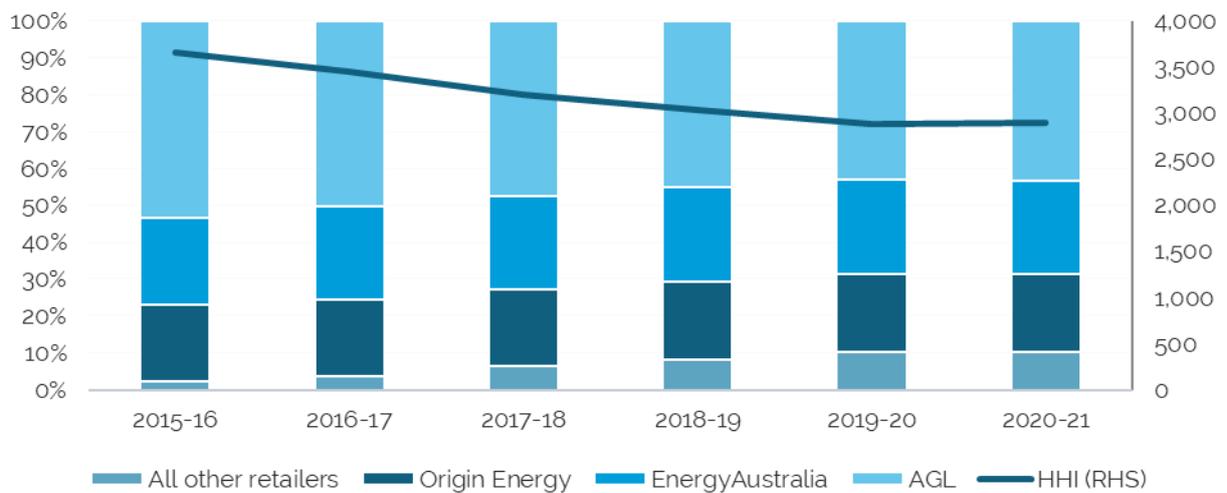
2.1 No new retailers but offers have increased in regional areas

Potential retailers entering the NSW gas market need to be able to access wholesale gas and pipeline capacity to move it from its source to major population centres. This requires them to separately negotiate gas supply agreements for wholesale gas, and for capacity on transmission and distribution pipelines. These factors make entering the retail gas market relatively more difficult than the retail electricity market where retailers can readily purchase wholesale electricity from the NEM and access network services without the need to contract capacity.

The number of retailers in the NSW gas market fell from 12 to 11 in 2020-21, as a result of AGL acquiring Amaysim/Click Energy in September 2020.⁴ The market share of the 'big three' retailers continue to dominate at about 89% (Figure 2).

The retail gas market can be considered highly concentrated as measured by the Herfindahl-Hirschman Index (HHI) at 2,900 (an index greater than 2,500 generally indicates a highly concentrated market).^a The market concentration has decreased over time, in line with the increasing market share of smaller retailers. However, this trend was subdued in 2020-21 as a result of AGL's acquisition of Amaysim/Click Energy.

Figure 2 Market share for small gas customers in NSW

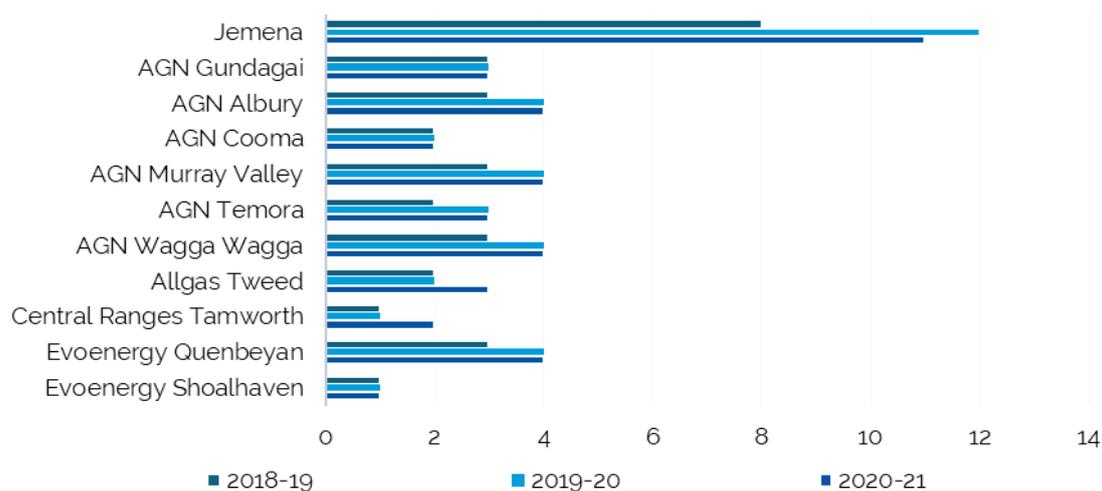


Source: <https://www.aer.gov.au/retail-markets/performance-reporting/retail-energy-market-performance-update-for-quarter-3-2020-21>

No new retailers entered the NSW market 2020-21. However, we saw Red Energy continuing to expand into smaller regional areas (Tweed and Tamworth) to offer gas where it already retails electricity (Figure 3). Previously in 2019-20, Red Energy expanded its gas offerings to Albury, Murray Valley and Wagga Wagga.

^a The HHI is defined as the sum of the squares of the market shares of the firms within the market.

Figure 3 Number of active retailers by network area



Note: The reduction in 1 retailer in Jemena's network is due to AGL acquiring Amaysim/Click Energy.

Source: IPART analysis of data in EnergyMadeEasy, accessed August 2021.

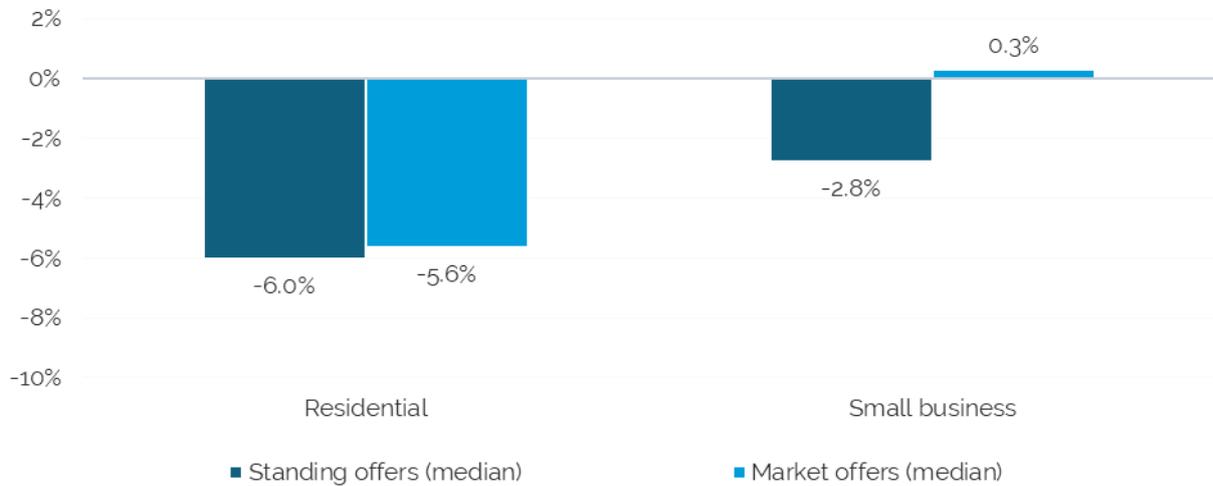
2.2 Offers have generally fallen for small customers in the Jemena region

We assessed annual price changes over 2020-21 using the median standing offers and median market offers available on the Australian Government's EnergyMadeEasy website (www.energymadeeasy.gov.au). This provides an indication of changes in prices generally available in the market.

However, changes in offers available in the market may not be representative of price changes that consumers have experienced over the same period. Only around 15% of consumers switch between retailers each year (see Section 3.1). We also do not have information about how many consumers, if any, are on the EnergyMadeEasy offers.

Based on EnergyMadeEasy, standing offers and market offers generally decreased in June 2021 in the Jemena region compared with June 2020 for small customers. The exception is market offers for small businesses which increased slightly (Figure 4).

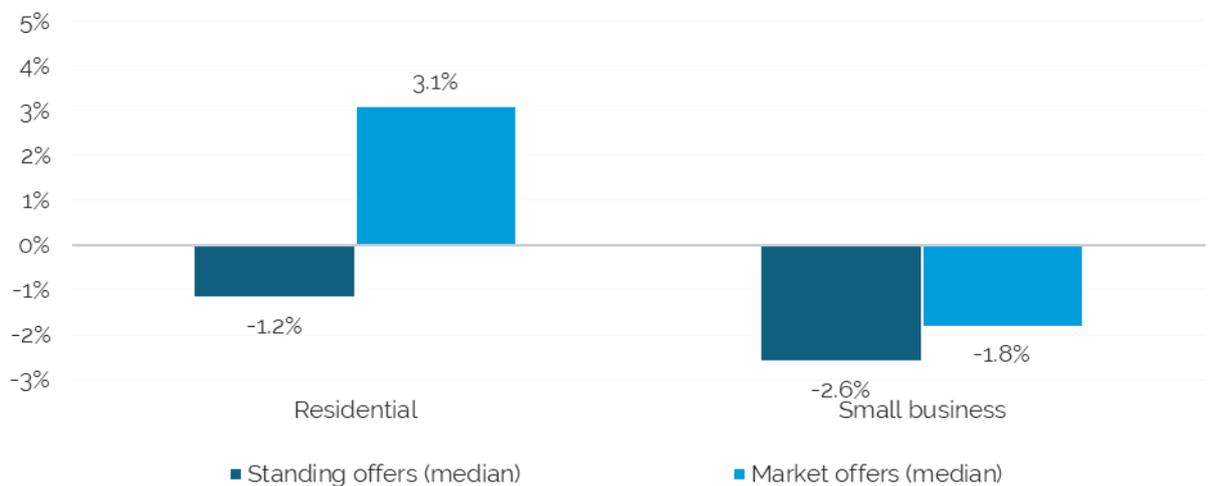
Figure 4 Retail offer changes in Jemena region – June 2020 to June 2021



Source: IPART analysis of data in EnergyMadeEasy, accessed August 2021.

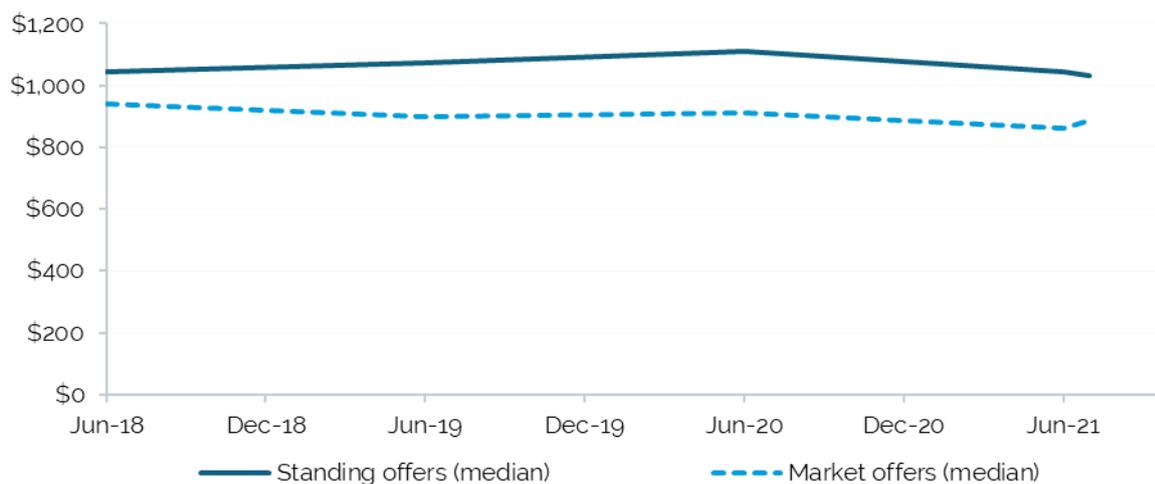
We also examined offers in July 2021. Retailers often change prices in July when the network prices (which are the largest cost component) change. We found that market offers for residential customers had increased by 3.1% (Figure 5). However, a typical residential bill on the median market offer from 1 July 2021 is slightly still lower than years prior to 2020-21 (Figure 6).

Figure 5 Retail offer changes in Jemena region – June 2021 to July 2021



Source: IPART analysis of data in EnergyMadeEasy, accessed August 2021.

Figure 6 Residential annual bill offers in Jemena region – June 2018 to July 2021 (24,400 MJ, including GST, \$nominal)



Source: IPART analysis of data in EnergyMadeEasy, accessed August 2021.

For residential customers in the Jemena network region, the difference between a retailer's lowest market offer bill and standing offer averaged 34% in June 2021, which is significantly larger than the gap in June 2020 (about 25%). Over the past year, the lowest market offers have decreased by 11% on average, whereas the median standing offer has decreased by 6%.^b A typical customer on a standing offer could save around \$370 per year by switching to the lowest market offer available (Figure 7).

^b Retailers have not decreased all their market offers by the same amount they have decreased their lowest market offer over the past year. While the median market offer decreased by 5.6%, the lowest market offers have decreased by 11% on average.

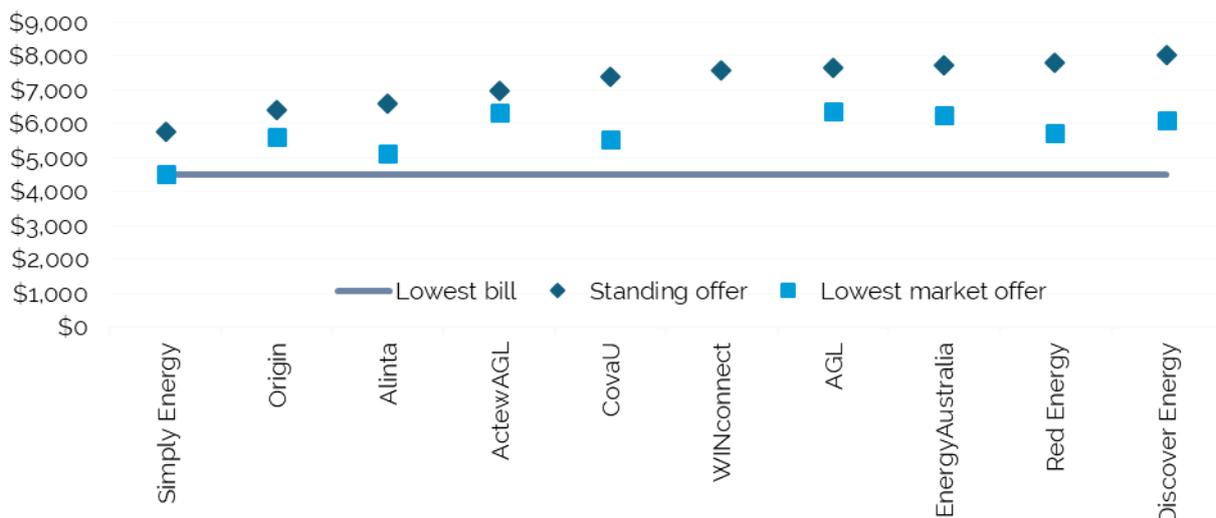
Figure 7 Residential annual lowest and standing offer bills by retailer Jemena region – June 2021 (24,400 MJ, including GST)



Source: IPART analysis of data in EnergyMadeEasy, accessed August 2021.

Similarly, for small business customers in the Jemena region, the average spread between a retailer's lowest market offer bill and standing offer was 37% in June 2021, which is larger than the gap in June 2020 (about 26%). Over the past year, the lowest market offers for small businesses have decreased by 7.0% on average, whereas the median standing offer decreased by 2.8%. These customers could save an average of around \$2,700 per year from switching from a standing offer to the lowest market offer available (Figure 8).

Figure 8 Small business annual lowest and standing offer bills by retailer Jemena region – June 2021 (250,000 MJ, including GST)



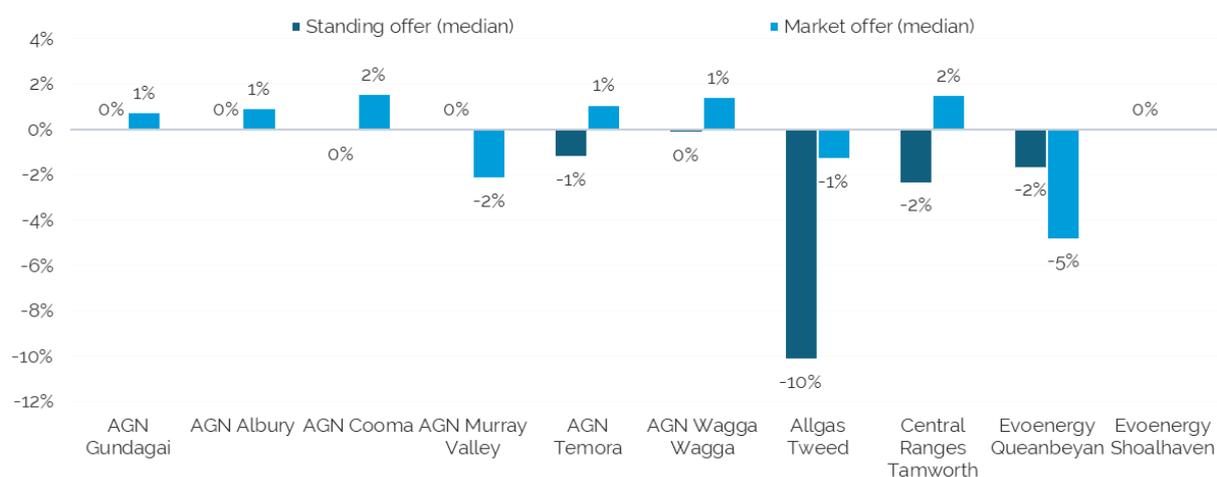
Source: IPART analysis of data in EnergyMadeEasy, accessed August 2021.

2.3 Mixed outcomes in offers in regional areas

In regional areas there were far fewer offers available on EnergyMadeEasy. The offers for residential customers increased by up to 2% in some areas and fell by up to 10% in others (Figure 9).

The largest price decrease was in the median standing offer in the Allgas Tweed region. Red Energy started to offer retail gas in the region and provided a standing offer (\$1,217 bill for 24,400 MJ) lower than the other two retailers (AGL: \$1,573 and Origin Energy: \$1,238)^c.

Figure 9 Price changes based on offers in regional areas for residential customers June 2020 to June 2021



Source: IPART analysis of data in EnergyMadeEasy, accessed August 2021.

For business customers, the increases in median market offers were larger (up to 11%):

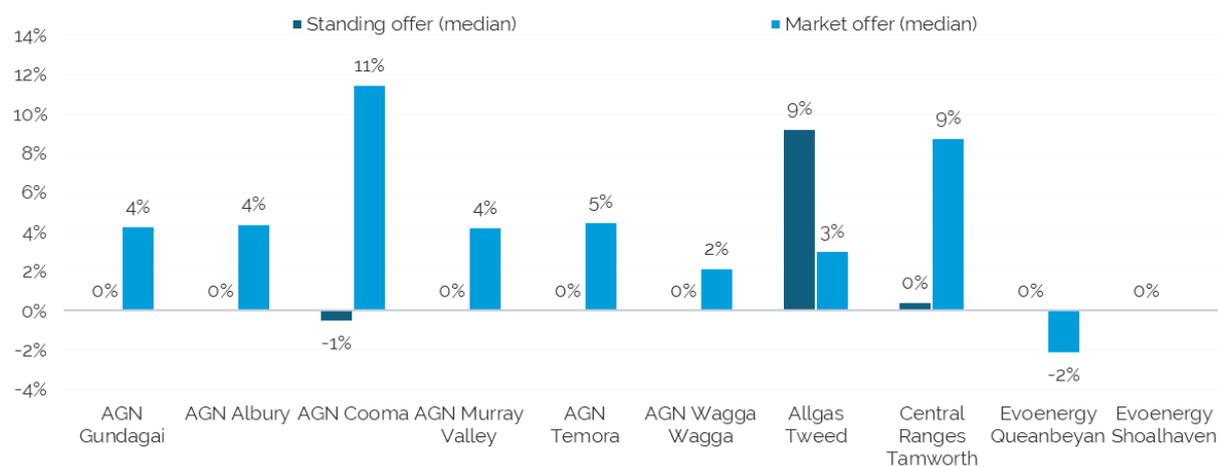
- In the AGN Cooma area, the median market offer increased by 11% resulting from Origin Energy increasing its offers. Despite the increase, Origin Energy's highest market offer was still lower than Red Energy's market offer which did not change over the year.
- In the Central Ranges Tamworth area, there was increase in the median market offer of 9%. Origin Energy increased its market offers and Red Energy entered this market providing a similar higher offer.

Despite these increases in market offers over 2020-21, the median market offers for small business customers from June 2018 to June 2021 have remained relatively stable over this period (Figure 10).

^c Excluding Red Energy's standing offer, the median standing offer in Allgas Tweed would have increased by 2% in 2020-21 (using only AGL and Origin's standing offers).

While market offers increased for business customers, standing offers were relatively stable. The exception was in the Allgas Tweed area, where the median standing offer rose by 9%. There was an increase in AGL's standing offer and Red Energy entered this market offering a similarly priced standing offer.

Figure 10 Price changes based on offers in regional areas for small business customers June 2020 to June 2021



Source: IPART analysis of data in EnergyMadeEasy, accessed August 2021.

2.4 Overall costs have been relatively stable over 2020-21

To assess the costs of gas retailing over 2020-21 we have referred to the ACCC's monitoring of gas wholesale contracts for NSW retailers and retailer margins as part of its Gas Inquiry. We have also observed changes in gas network prices from the AER or gas distributor's websites.

Overall, we consider that costs have been relatively stable in 2020-21. We found that:

- For wholesale costs (which comprise around one-third of a typical customer gas bill):
 - the prices for retailers under gas supply agreements for supply in 2021 were about \$6-8/GJ on average.⁵ This is lower than 2020 (range was between \$10 - \$11/GJ).⁶

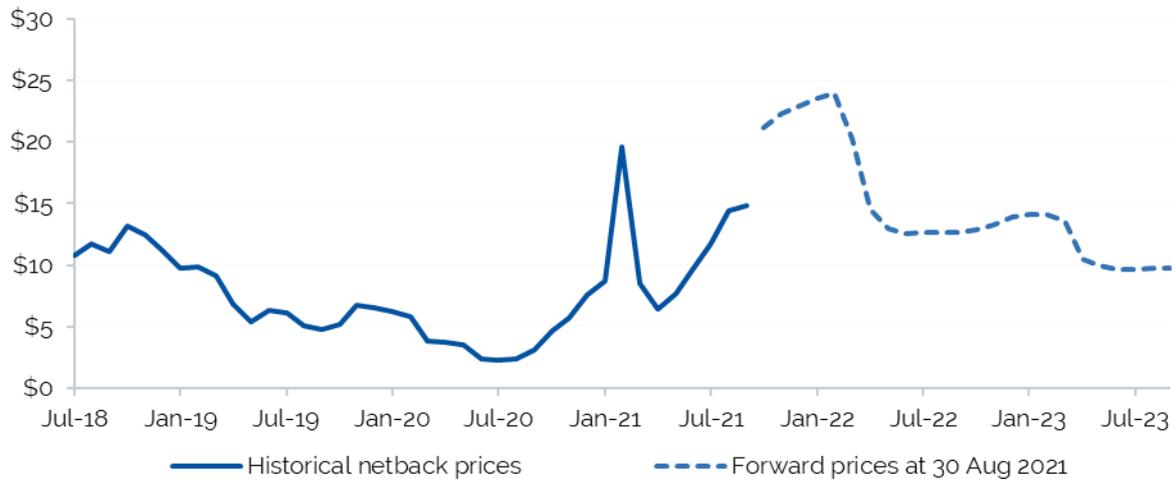
- However, retailers that have gas supply agreements where prices are index-linked (e.g. Asian LNG spot prices or Brent Crude Oil) would have faced increasing wholesale costs in the second half of 2020-21. The ACCC publishes the LNG netback price series^{d, 7} based on Asian LNG spot prices to improve the transparency of gas prices in the east coast market. It shows that prices have increased in the second half of 2020-21. They are likely to continue to increase (Figure 11) which would place upward pressure on retail gas prices in 2021-22.^e
- For network costs (which comprise around half of a typical customer gas bill):
 - The ACCC's July 2021 report showed that gas transmission costs (firm forward haul prices) had generally increased in line with inflation since July 2020. Specifically, prices on the Moomba to Sydney Pipeline, Eastern Gas Pipeline and the Culcairn to Sydney pipeline either decreased or increased by no more than 1.4% over July 2020 to January 2021.^{8, 9}
 - Distribution costs increased by less than inflation in most areas, with decreases in Jemena's distribution charges decreasing retail gas bills for an average coastal residential customer by \$55 (8.3%) and average small business customer by \$289 (6%).¹⁰
- While we do not have any specific information on retail operating costs, the impact of COVID-19 will likely increase retailing costs once the Greater Sydney lockdown ends (e.g. bad debt expenses).
- Previously, the ACCC found that major retailers in eastern states were achieving high average margins, and that these were largely due to legacy gas supply agreements entered into before 2010 at prices of \$3-4/GJ. However, it has since found that a large portion of these legacy agreements were beginning to expire and would contribute to less than 20% of retailers' gas portfolios from 2021 onwards. It also found that the major retailers' average commodity costs increased from around \$4/GJ in 2015 to around \$6.50/GJ in 2018. As major retailers recontract for supply at recent market prices their profit margins are likely to fall further.^f

^d The LNG netback price is calculated by taking the price that could be received for LNG (Asian LNG spot prices) and subtracting or 'netting back' the costs incurred by the supplier to convert the gas to LNG and ship it to the destination port. The LNG netback price represents the price that a gas supplier would expect to receive from a domestic buyer to be indifferent between selling the gas to the domestic buy and exporting it.

^e There was a spike in the Japan Korea Marker spot price between January 2021 mainly due to increased demand from severe winter temperatures in north-east Asia. S&P Global Platts, [Feature: JKM spike again shows extent of gas exposure to winter uncertainty](#), January 2021, accessed 13 September 2021.

^f For example, Origin Energy's Annual Report for 2021 attributes part of its underlying profit decreasing by \$705 million (or 70%) to roll-off of legacy contracts and higher gas supply costs. Origin Energy, [Full year results 2021](#), August 2021, p 6. AGL also made similar comments in its [Annual Report 2021](#) (p 6).

Figure 11 ACCC LNG netback prices – as at August 2021 (\$/GJ)



Source: ACCC, LNG netback price series, accessed 7 September 2021.

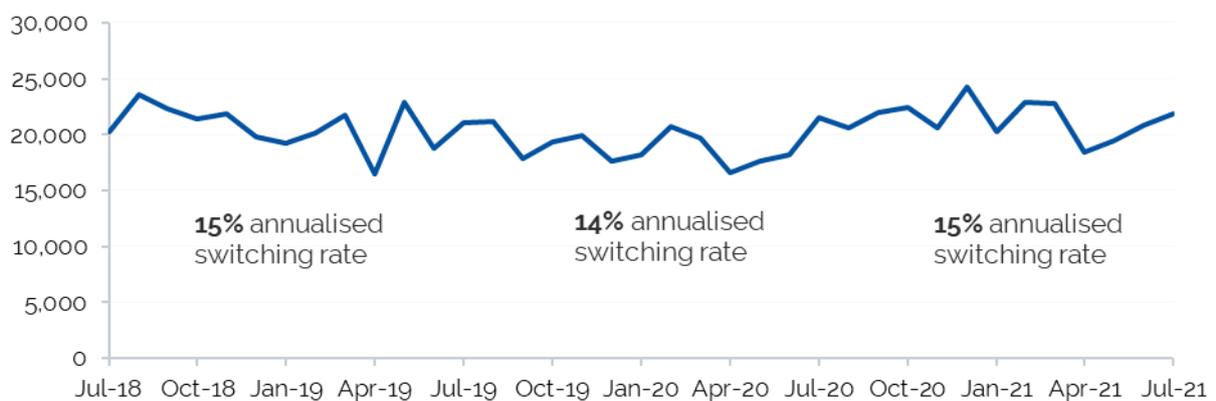
3 Consumer behaviour and outcomes

This section discusses our findings on consumer behaviour in the retail gas market in 2020-21, and consumer perceptions on market outcomes.

3.1 Switching between retailers is broadly consistent with previous years

The level of switching in NSW in 2020-21 was similar to previous years. The proportion of customers that switched as a proportion of total customers was 15% in 2020-21 (Figure 12) and has been around this level over the past 5 years.

Figure 12 Number of gas consumers switching each month

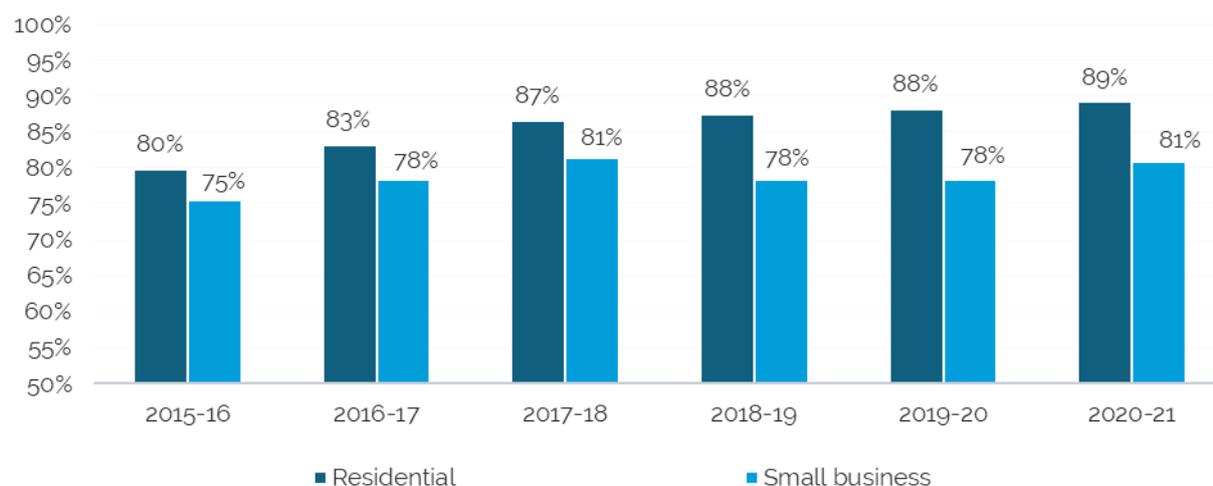


Source: AEMO, Gas monthly retail transfer statistics, June 2021, accessed 7 September 2021; IPART, Energy market monitoring report 2019-20, November 2020, p 29.

3.2 More gas customers moving onto market offers

As small gas customers switch between offers, an increasing proportion are moving from standing offers onto market offers. The proportion of residential and small business customers on market contracts are generally increasing each year (Figure 13).

Figure 13 Proportion of small gas customers on market contracts



Source: AER, Retail energy market performance update – quarterly reports, accessed 7 September 2021.

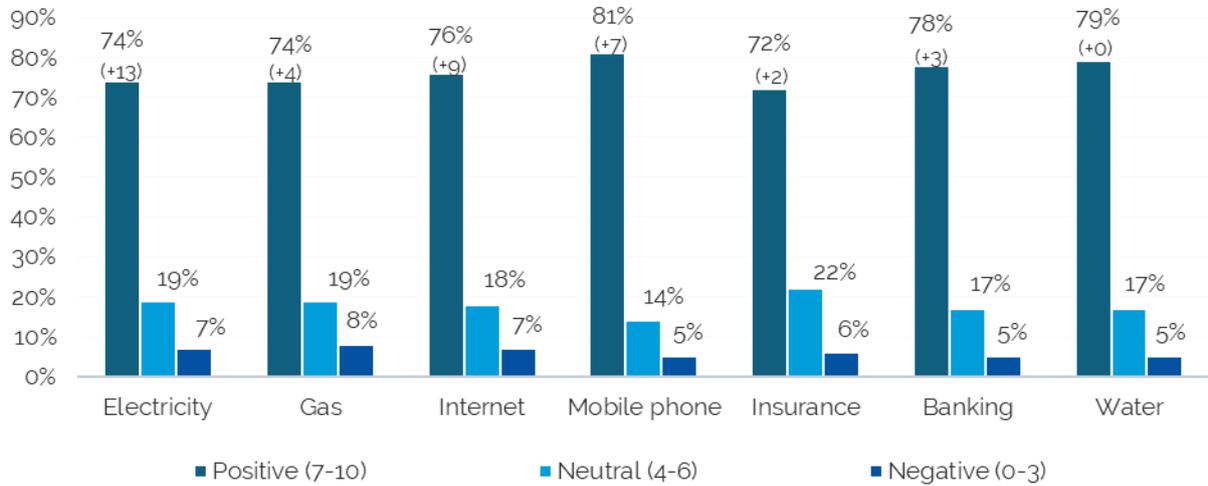
3.3 Gas customers have reported increased satisfaction with their service

Energy Consumers Australia (the ECA) conducts sentiment surveys assessing the attitudes and activity of residential and small business energy consumers across Australia. The June 2021 survey of NSW gas customers found that:

- 74% are satisfied with the value for money of their gas service (up 4 percentage points from the previous year)
- 85% are satisfied with the reliability of their service (up 6 percentage points from the previous year)
- 76% are satisfied with their billing and account options (up 1 percentage point from the previous year).¹¹

More customers considered that their gas services represented value for money in 2021 – 74% compared to 70% last year. However, customers considered that most other services such as mobile phone, water and banking service provided better value (Figure 14).

Figure 14 NSW consumer satisfaction with utilities and services – value for money (June 2021)

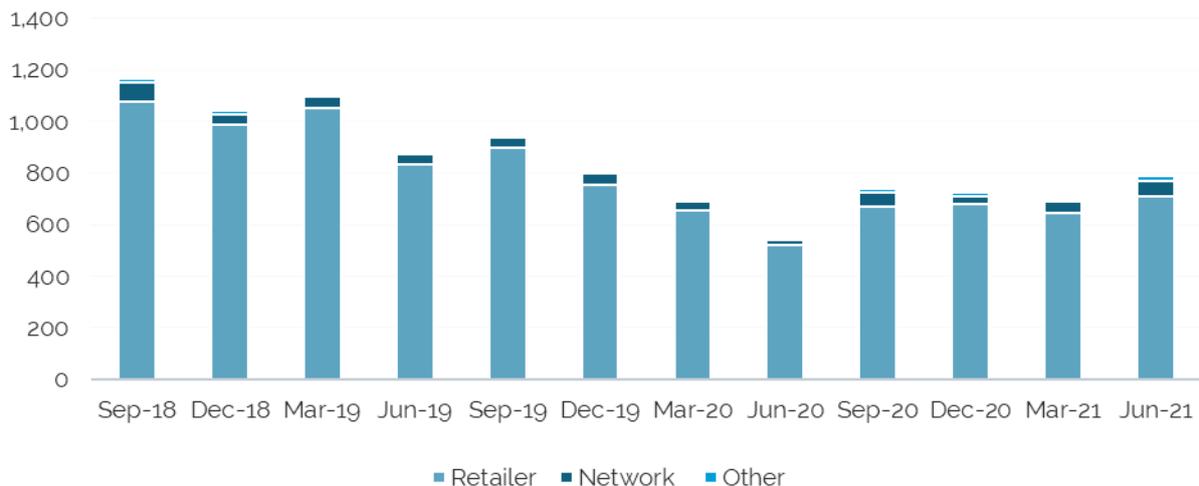


Source: Energy Consumers Australia, *Sentiment survey*, Jun 2021, accessed 7 September 2021.

3.4 Gas complaints have been trending down over the past few years

EWON publishes quarterly statistics on the number of complaints for electricity, gas and water. Over the past few years, the number of gas complaints has trended down (Figure 15). Most complaints relate to retailers and are about billing and customer service.

Figure 15 Quarterly number of gas complaints reported by EWON



Source: EWON, *EWON Insights*, September 2018 to June 2021, accessed 7 September 2021.

A IPART's statutory role

Our assessment of the retail gas market follows a traditional structure-behaviour-outcomes approach. Table A.1 maps the legislative requirements to the relevant sections in this report.

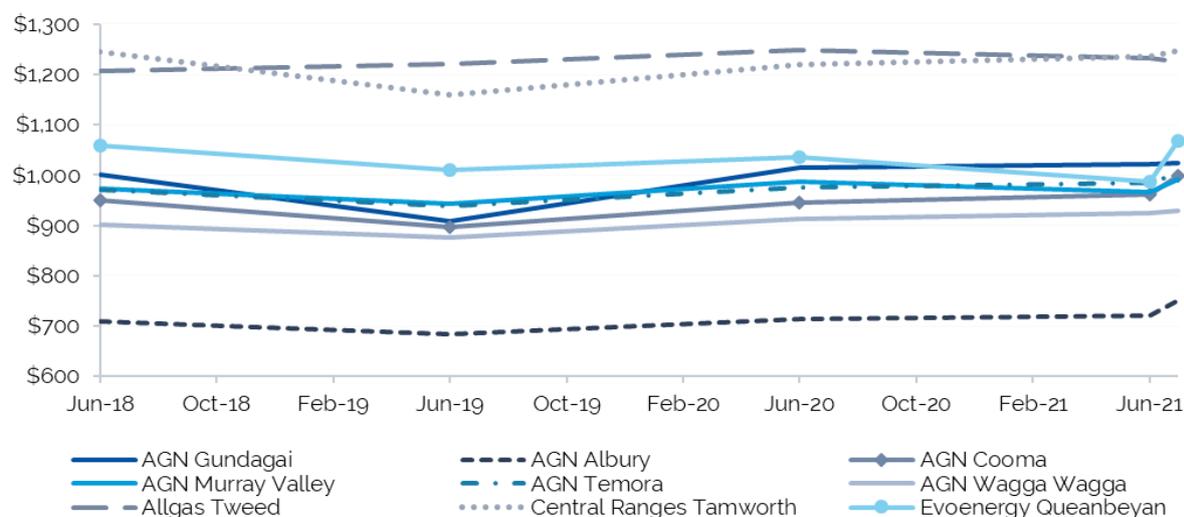
Table A.1 Legislative requirements and the structure of our assessment

	Factor in National Energy Retail Law (NSW) s 234A (3)	Section
a	The participation of small customers in the market and, if the Market Monitor thinks it appropriate, particular groups of small customers	Section 2 and 3
b	Prices of electricity or gas for small customers in regional areas	Section 2.3
c	Any barriers to entry or exit from, or expansion in the market	Section 2
d	The extent to which retailers are competing to attract and retain small customers	Section 2
e	Whether price movements and price and product diversity in the market are consistent with a competitive market	Section 2
f	If the Market monitor is of the opinion that it is required, steps necessary to improve the competitiveness of each market	N/A
g	Whether there is a need to for a detailed review of retail prices and profit margins in each market	Section 2.4

B Retail offers in regional areas – June 2018 to July 2021

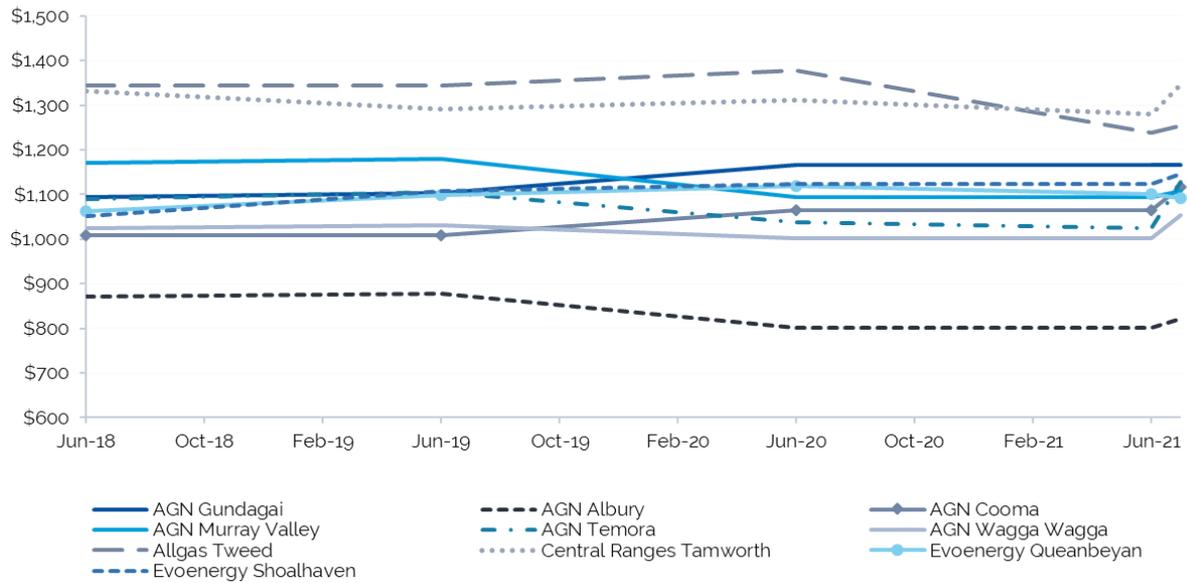
The following charts provide the median market and standing offers for residential and small business customers in regional areas from June 2018 to July 2021.

Figure B.1 Median market offer bills in regional areas for residential customers June 2018 to July 2021 (24,400 MJ, including GST, \$nominal)



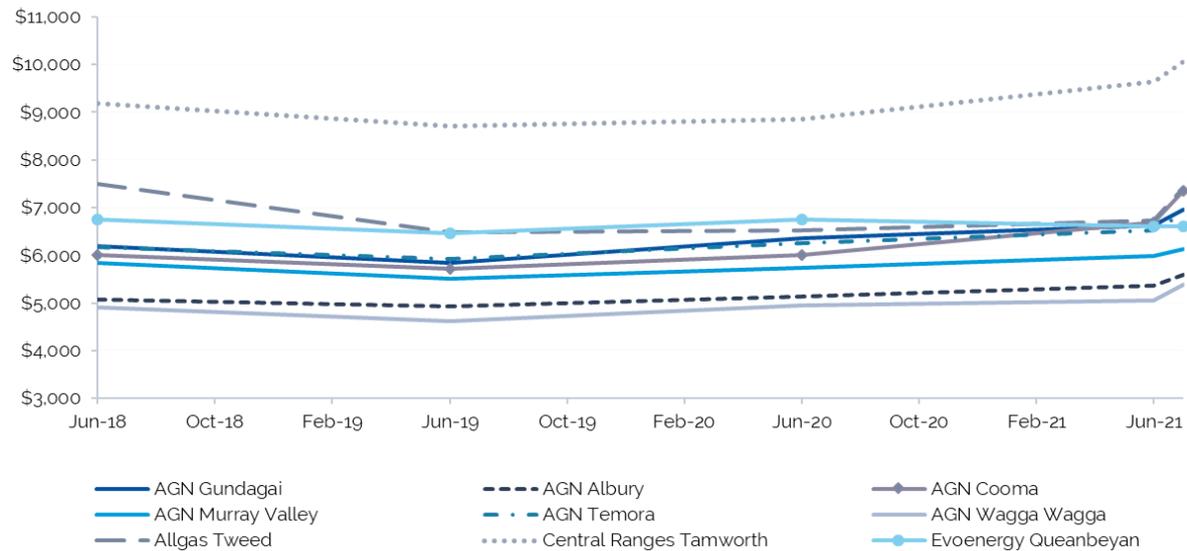
Source: IPART analysis of data in EnergyMadeEasy, accessed August 2021.

Figure B.2 Median standing offer bills in regional areas for residential customers June 2018 to July 2021 (24,400 MJ, including GST, \$nominal)



Source: IPART analysis of data in EnergyMadeEasy, accessed August 2021.

Figure B.3 Median market offer bills in regional areas for small business customers June 2018 to July 2021 (250,000 MJ, including GST, \$nominal)



Source: IPART analysis of data in EnergyMadeEasy, accessed August 2021.

Figure B.4 Median standing offer bills in regional areas for small business customers June 2018 to July 2021 (250,000 MJ, including GST, \$nominal)



Source: IPART analysis of data in EnergyMadeEasy, accessed August 2021.

¹ DISER, National Gas Infrastructure Plan – Interim report, May 2021, p 7; Ausindenergy, accessed 7 September 2021.
² Jemena Gas Network customer numbers, accessed 7 September 2021.
³ For customer numbers see AER ‘Wagga Wagga – gas distribution network’ and AEMC, ‘NSW: AGN Albury Gas Distribution Network’, accessed 10 September 2021.
⁴ AER, State of the energy market 2021, July 2021, p 247.
⁵ AER, State of the Energy Market 2021, July 2021, p 207.
⁶ ACCC, Gas Inquiry 2017-2025 – Interim Report, July 2021, p 110; ACCC, Gas Inquiry 2017-2025 – Interim Report, July 2020, p 66.
⁷ ACCC, Gas inquiry 2017-2025 LNG netback price series, accessed 7 September 2021.
⁸ ACCC, Gas Inquiry 2017-2025 – Interim Report, July 2021, p 80.
⁹ ACCC, Gas inquiry 2017-2025 LNG netback price series, accessed 7 September 2021.
¹⁰ AER, Jemena Gas Networks revenue decision 2020-25, June 2020; AER, AGN (Victoria & Albury) gas distribution annual tariff variation, November 2020; APA Central Ranges Tamworth network tariffs; APA Allgas distribution network.
¹¹ ECA, Energy Consumer Sentiment Survey June 2021, accessed 7 September 2021; ECA, Energy Consumer Sentiment Survey June 2020, p 67.