

MONITORING THE ELECTRICITY RETAIL MARKET 2019–2020



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The Independent Pricing and Regulatory Tribunal (IPART)

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1 Executive Summary

The Independent Pricing & Regulatory Tribunal (IPART) is responsible for reporting annually on the performance and competitiveness of the retail electricity and gas markets in NSW. This report outlines our findings and recommendations on the NSW retail electricity market during 2019-20. Our findings and recommendations on the retail gas market are in an accompanying report.

We published a Draft Report in September and received four submissions, which are available to view on our website.

Our review this year has been undertaken in the context of the unprecedented health and economic crisis caused by the COVID-19 pandemic. The pandemic has shifted the focus of energy regulators to protecting consumers and ensuring the financial stability of retail markets. The Australian Energy Regulator (AER) and Australian Energy Market Commission (AEMC) have moved swiftly to put in place protections for both consumers and retailers.

While the focus of this report is last financial year, most of the impact of COVID-19 is likely to be felt over the current financial year. The focus of our 2020-21 report next year will therefore extend beyond the standard indicators of performance and competition, to leading indicators of retailer and consumer distress.

We observed improvement in most of the traditional indicators of retail electricity market performance and competition over 2019-20. Customers can obtain savings in their energy bills by shopping around to get a better deal using the government energy price comparison websites. Technological change and increasing digitisation of energy services has the potential to deliver better outcomes for all energy consumers, including lower prices and better reliability. However the regulatory framework and consumer protections need to evolve and take account of different preferences and behaviours of consumers to ensure these outcomes are achieved.

1.1 The retail electricity market under COVID-19

1.1.1 Many electricity consumers are experiencing financial stress

COVID-19 has caused many electricity consumers to experience financial stress due to a combination of loss of income, increased energy use at home, and business closures. As a result, many consumers are having difficulty paying for their energy bills. The AER is collecting weekly data from energy retailers on the effect of COVID-19. While it is too early to draw conclusions from this data, data reported to the AER shows some increase in levels of residential electricity debt and customers on hardship programs.¹

1.1.2 Retailers have been asked to provide additional support to customers

To support energy consumers the AER released a Statement of Expectations of energy businesses in April 2020 (updated in July and November). This places an expectation on retailers not to disconnect residential and small business customers who may be in financial stress if residential customers make contact with the retailer in relation to their debt or are accessing retailer support, and if business customers continues to adhere to a payment plan or to an agreed payment arrangement; and to offer these customers a payment plan or hardship arrangement.²

COVID-19 has created risks for the ongoing financial viability of energy retailers. Energy retailing is a relatively low-margin industry and retailers bear the credit risk for the entire supply chain. The pandemic has resulted in energy retailers facing rising operating and debt expenses while revenues are falling. The AEMC's recent rule change, initiated by the AER, will support certain retailers by allowing them to defer payment of network charges.³ IPART also provided concessional treatment to some retailers regarding their Energy Savings Scheme (ESS) obligations for 2020.

1.1.3 Changes are needed to support retail market financial stability

The AEMC's June 2020 retail energy competition review noted risks that COVID-19 poses to retail market financial market stability, and in particular risks intensified by the current retailer of last resort arrangements (ROLR) in the National Energy Retail Law. We consider that the AEMC's proposals to strengthen ROLR arrangements will support retail market financial stability. In this report we have made recommendations for how some of these changes could be implemented, including in relation to:

- ▼ Removing the requirement for small customers to be placed on the default offer (and instead to allow for a lower-priced market offer for transitioned customers) and

¹ AER, *COVID-19 retail market dashboard*, 19 October 2020. The AER states that datasets are incomplete, debt levels have a lag time of over 90 days, and payment plan and hardship data does not pick up alternative deferred payment options being offered by some retailers. The AER's reporting is available [on its website](#).

² AER, *Statement of Expectations of energy businesses: Protecting customers and the market during COVID-19*, November 2020 accessed 16 November 2020.

³ AEMC, *Rule Determination National Electricity Amendment (deferral of network charges) Rule 2020*, 6 August 2020, accessed 23 September 2020.

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- ▼ Amending the ROLR regime to reduce the impact of increased cash flow and/or credit support requirements (including greater ability for the AER to appoint multiple ROLRs if appropriate).

We are recommending that the NSW Government lead action through the COAG Energy Council to progress some of these reforms.

1.2 Technological change and increasing digitisation of energy services can deliver better outcomes for all energy consumers

While we observed improvement in most indicators of retail electricity market performance and competition over 2019-20, the future retail market can continue to develop to deliver better outcomes for consumers. Retailers and other market participants will compete to provide a range of energy services tailored to individual consumer requirements.

We expect the retail market to continue to develop as technologies grow and regulatory frameworks evolve to fully realise the benefits of these technologies.

1.2.1 The regulatory framework needs to evolve

The design and rules for the electricity market were established when electricity flowed in one direction, from a small number of large thermal generators to consumers. The traditional model of electricity supply is changing. There has been rapid growth in distributed energy resources (DER), including behind the meter solar PV and batteries which mean many consumers now both import and export their electricity. There is also a trend towards digitisation and use of smart appliances and meters.

The changes underway are presenting challenges for the design and rules for the electricity market. For example, the regulatory framework has not yet effectively integrated DER, nor ensured that consumers with and without this technology are receiving equitable outcomes.

The benefits of the competitive market will be fully realised when consumers' needs and preferences are driving market outcomes. For example, DER consumers who engage in the market need to be able to take advantage of innovative tariffs, services and new business models that help them to maximise the benefits of their DER. The increased flexibility and responsiveness of demand and supply brought about by this technology will also benefit consumers who do not engage in the market, through lowering overall system costs and improving reliability.

Market design and regulatory rules need to evolve to ensure that energy services providers deliver affordable, reliable energy and a lower emissions electricity system. The Energy Security Board (ESB) is currently developing a market design that accommodates the changes in the market. Further discussion on the ESB's market design initiatives is contained in Chapter 2.

1.2.2 Consumer protections need to keep pace with the changing market

The future market design needs to capture different consumer needs and preferences. While some consumers will choose to engage in the market, others will not and for these consumers affordability and reliability will be key priorities. It is important that the customer protections framework continues to protect all consumers, particularly those who are less able to engage in the market.

In response to our Draft Report, several stakeholders raised concerns about consumer protections for customers in embedded networks. Regulators and governments including the AEMC, AER and the NSW Department of Planning, Industry and Environment (DPIE) have been working to improve outcomes for embedded network customers. For example, DPIE is working to ensure customers have access to its Social Program for Energy Code, and EWON expanded its charter to include embedded networks and their customers. We recommend that the NSW Government continue working to ensure embedded network customers have adequate access to consumer protections.

Further discussion on these matters are provided in the body of this report.

1.3 Competition continued to develop over 2019-20

Prior to the impacts of COVID-19, we saw improvement in several retail electricity market indicators over 2019-20.

1.3.1 The introduction of the DMO has reduced standing offers, and most market offers have fallen

The default market offer (DMO) is a form of price regulation introduced to protect vulnerable customers from unreasonably high standing offers. The introduction of the DMO in 2019-20 has led to standing offers falling by around 9% across NSW. As expected, the general spread of offers available in the market has also reduced. The DMO will likely have the effect of increasing the lowest market offers from what they otherwise would have been. The reduced spread in price means there is less to gain from switching and therefore being active in the market and retailers may increase their focus on non-price competition (see section 1.3.5 below). It is possible the DMO will lead to reduced competition and higher prices in the long term.

Relative to June 2019, market offers available in June 2020 fell for customers in the Ausgrid and Endeavour Energy distribution areas (by 3.2% and 2.0% respectively), but increased slightly for those in the Essential Energy distribution area (0.8%).

1.3.2 New retailers entered, and smaller retailers gained market share

Over 2019-20 eight new retailers entered the retail electricity market increasing the total to 33 (with 38 brands). Smaller retailers have increased their total market share to 20% and the market share of the largest three retailers (AGL, Origin Energy and EnergyAustralia) fell from 83.4% in 2018-19 to 81.7%.

1.3.3 More consumers have moved to market offers, and report increased satisfaction

Over 2019-20 more electricity consumers moved from standing offers to more competitively priced market offers. Around 88% of residential, and 78% of small business electricity consumers are now on market offers. Consumers also reported increased levels of satisfaction with their electricity service and supporting this, in 2019-20 the Energy and Water Ombudsman (NSW) received 29% fewer complaints related to electricity retailers compared to 2018-19.

1.3.4 Price changes are broadly in line with changes in costs

Our assessment is that retailer's cost changes over 2019-20 are broadly in line with price changes. Network costs and wholesale costs are the two biggest contributors to customer bills – network costs fell during 2019-20 for Ausgrid and Endeavour Energy, and increased slightly for Essential Energy, whilst wholesale costs fell over the course of 2019-20.⁴

We expect some downward pressure on prices in 2020-21 as wholesale energy costs are forecast to reduce. The ACCC will continue to monitor that sustained cost reductions are passed through to prices under its new role enforcing the legislation for 'prohibiting market misconduct'.⁵ We note that retailers may have increased some administrative costs in response to COVID-19 which we will be able to further assess in next year's review.

1.3.5 There is a range of non-price competition in the market

Retailers continue to use non-price measures to attract and retain customers. Over 2019-20 we have seen a focus on clean energy, with many retailers offering carbon neutral or renewable energy packages. This includes bundling solar PV installation and batteries, allowing customers to save on electricity costs and contribute directly to carbon reduction. One retailer offered two hours of free electricity on Saturdays and Sundays to electric vehicle owners. As more consumers take up digital smart meters, we expect more of these sorts of market offers.

Bill certainty is another feature in some market offers. For example, there are offers that lock in a rate for up to two years, or offer monthly billing or pay-in-advance options. There is a range of market offers that include bonuses or financial incentive 'add-ons', such as membership to football clubs, the NRMA or Taronga Zoo annual pass, bonuses for signing-up a friend, and loyalty discounts/credits. With the DMO reducing price dispersion in the market, we expect non-price competition to increase.

⁴ There can be a delay in the change in wholesale costs impacts prices due to hedging activities.

⁵ Australian Competition and Consumer Commission, *Inquiry into the National Electricity Market Supplementary report – impact of COVID-19 and ACCC monitoring and enforcement activities*, 21 September 2020, p 16.

1.4 Better data sharing amongst regulators would improve our role

In last year's report, we recommended that the NSW Government remove the requirement for IPART to monitor the retail electricity market in NSW. This was primarily because a number of other agencies monitor the same market (the AER, AEMC and ACCC) and these agencies have stronger information gathering powers and a greater role in the electricity supply market including wholesale and network arenas. IPART's report therefore becomes duplicative, adding to costs to both taxpayers and energy businesses. However, the NSW Government has indicated that there is value in IPART continuing to monitor the market to identify NSW-specific outcomes and trends following price deregulation.

This year we gained access to valuable billing data collected by DPIE, however, we are unable to access the raw data, instead only using the published aggregate data. The AER is also collecting a valuable dataset of bills, although we would only be able to use published data in our report.

We consider that there would be benefits to the NSW Government taking greater steps to facilitate the sharing of information across NSW bodies and national regulators. Greater data sharing amongst the regulators would improve the breadth of analysis undertaken and limit the regulatory burden on the entities providing the data.

1.5 Our recommendations

We are making six recommendations:

- 1 To support retail market stability, the NSW Government, through the COAG Energy Council, should amend the National Electricity Retail Rules to: 10
 - a. allow the ROLR to prepare a lower price market retail offer for small customers and 10
 - b. reduce the impact of increased cash flow and/or credit support requirements including greater ability for the AER to appoint multiple ROLRs if appropriate. 10

This can be achieved through an amending Act to amend the National Electricity Retail Law along with a set of Minister initiated Rules. 10
- 2 The NSW Government continue to work with relevant national bodies to ensure that all customers, including those receiving supply from an embedded network, have consistent pricing protections. This may, for example, involve pricing protections aligned with the DMO. 20
- 3 Energy assistance measures should be designed so all eligible NSW energy customers are able to access them, including customers receiving supply through an embedded network. The NSW Government should continue to pursue changes to ensure all customers can access EAPA vouchers, regardless of their connection type, and aim for this to be in place by 1 July 2022. 20
- 4 All NSW energy customers should have access to complaints handling processes and external dispute resolution that are independent, binding and free of charge (i.e.

EWON). Specifically, the NSW Government, through DPIE, should consider appropriate ways to engage with exempt sellers to ensure that their customers have access to external dispute resolution. This should involve engagement and advocacy with national bodies including the AER concerning registration arrangements for exempt sellers, as well as measures directed at compliance and enforcement. 21

- 5 People considering buying or renting properties in NSW should have access to better information about embedded networks and common hot water systems. As a first step, existing information sources should be updated including material about buying/renting a property on the Department of Fair Trading's website, or publishing FAQs. 22
- 6 The Department of Planning, Industry and Environment take steps to facilitate better sharing of de-identified bill data for this energy market monitoring role. This will enhance effective monitoring of retail electricity and gas markets, whilst limiting regulatory burden from data collection. 24

1.6 Structure of this report

The report is structured as follows:

- ▼ Chapter 2 provides context for our review, including the impacts of COVID-19 on the electricity market, developments in the market and recent and upcoming regulatory changes.
- ▼ Chapter 3 discusses market structure, including number of retailers and concentration.
- ▼ Chapter 4 looks at retailer behaviour and outcomes, including prices and retail margins.
- ▼ Chapter 5 looks at consumer behaviour and outcomes, including engagement and satisfaction with the market.

The appendices provide supporting information.

2 Context for our review

As context for our review, this chapter sets out recent developments in the electricity market. We outline the impact of the COVID-19 pandemic on the electricity market and how this will impact on our focus for monitoring the market in next year's review for the 2020-21 financial year. We also outline some recent developments in the market and regulatory changes or reviews underway.

2.1 The impact of COVID-19 on the electricity market

2.1.1 Impact on energy consumers

The COVID-19 pandemic was a major focus in the second half of 2019-20. The resulting restrictions on economic activity have had a major impact on businesses and consumers.

The AER is collecting additional data to monitor debt levels. It publishes aggregate data from across the National Electricity Market (NEM), but notes this may be incomplete. Observations initially indicated an increase in the proportion of customers in electricity debt and the average electricity debt level. From August to October 2020, this stabilised and fell slightly, although the total debt remains higher than at the beginning of the calendar year.⁶ Increased debt is the result of two factors – increased residential demand (with more people spending more time at home) and a lower ability to pay (many have lost employment and are relying on government support). Reported debt levels may increase further during 2020-21, firstly because of the lag in billing data and secondly because government income subsidies will be reduced (and eligibility tightened) toward the end of 2020 which may further impact on ability to pay.⁷

2.1.2 Retailers have been asked to take on additional responsibility

The AER moved quickly to support energy consumers who were vulnerable to the impacts of COVID-19. The AER's Statement of Expectations asks retailers to offer a payment plan or hardship arrangement to all residential and small business customers who may be in financial stress; and not to disconnect residential customers if they have made contact with the retailer, and not disconnect small business customers that are adhering to a payment plan.⁸ These expectations currently apply from 1 November 2020 until 31 March 2021, after having been amended and extended twice from 31 July 2020.

⁶ AER, *COVID-19 retail market dashboard*, 19 October 2020. The AER states that datasets are incomplete, debt levels have a lag time of over 90 days, and payment plan and hardship data does not pick up alternative deferred payment options being offered by some retailers. Weekly reports are available on [the AER website](#).

⁷ Australian Government, *Fact Sheet: Extension of the JobKeeper Payment*, updated 10 August 2020, pp 1-4.

⁸ AER, *Statement of Expectations of energy businesses: Protecting customers and the market during COVID-19, November 2020* accessed 10 November 2020.

Electricity retailers are facing increased costs and falling revenues arising from COVID-19. Additional costs may include ‘onshoring’ workers, closing call centres and transitioning workforces to a working from home arrangement.⁹ There are also substantial customer-related costs including an increased focus on hardship programs and bad and doubtful debt expenses. (For example in response to our Draft Report, AGL stated it had reported expected credit loss due to COVID-19 in FY20 of \$20 million. It has forecast double this for 2020-21, although notes significant uncertainty.)¹⁰ These combined pressures may affect the ongoing financial viability of some retailers.

In April 2020, energy networks developed a ‘network relief package’. Under this package they rebated network charges for small businesses if their consumption was significantly reduced (by 75%), and for small retailers, deferred or rebated network charges for small business or residential customers that were in hardship. On 6 August, the AEMC formalised and extended this package with a rule change that allows some (small) retailers to defer paying some network costs incurred between 6 August 2020 and 6 February 2021 for up to six months.

This rule change provides a framework to manage a potential increase in customer non-payment in the coming months, reducing the risk of retailer failures by sharing the cashflow burden more broadly across the industry. We note however, that it is a temporary solution as retailers will have to pay the network charges (with interest) in time and still bear the risk of increased bad debt. The AEMC also notes that this is a short-term mechanism, and considers that if the retail market needs further financial support beyond this period, including help to manage increased bad debt risk, this may be more appropriately dealt with by alternative policy measures.¹¹

PIAC and EWON both stated that new regulatory approaches are needed to continue to protect consumers. PIAC finds the policy responses so far have been welcomed, but are ‘placeholders’ and suggests methods to continue to assist households facing payment difficulty, including the promotion and expansion of existing programs, and creating a Government backstop Retailer of Last Resort.¹² Similarly, EWON considers that, due to COVID-19, current structural mechanisms to deliver energy to vulnerable customers could be overwhelmed, and that new approaches need to be considered before this happens.¹³ PIAC contends that measures for consumer and market support should be targeted at supporting consumers, not ensuring all retailers remain viable. PIAC considers it is the government’s role is to ensure consumers are not negatively impacted by the failure of a private company providing an essential service.¹⁴

⁹ For example, see the [submission from Simply Energy to the AER’s review of the Default Market Offer](#), April 2020, accessed 23 September 2020.

¹⁰ [AGL submission to IPART Draft Report](#), October 2020, p 2. This is in addition to regular loss which historically has averaged around \$80 million. [AGL, Full year results](#), 13 August 2020, p 25.

¹¹ AEMC, [Rule determination, National electricity amendment \(Deferral of Network Charges\) Rule 2020](#), 6 August 2020, p iii.

¹² [PIAC submission to IPART Draft Report](#), September 2020, pp 2-3.

¹³ [EWON submission to IPART Draft Report](#), September 2020, p 6.

¹⁴ [PIAC submission to IPART Draft Report](#), September 2020, p 3.

2.1.3 Supporting the financial stability of the retail market

The retailer of last resort (ROLR) arrangements provide for the immediate transfer of customers of a failing retailer to one or more other retailers that act as a ROLR. While these arrangements have been applied for small retailer failures in the past, COVID-19 poses a broader financial stability risk for the market from the potential failure of a large retailer or a number of smaller retailers in a short period of time.

To address these risks, the AEMC recommended changes to the ROLR scheme (outlined in Box 2.1). We support the AEMC's recommendations and agree these would support financial stability and improve outcomes in the market. We are recommending that the NSW Government lead action to progress some of these reforms. In response to our Draft Report, EWON generally supported the recommendation.¹⁵

Recommendation

- 1 To support retail market stability, the NSW Government, through the COAG Energy Council, should amend the National Electricity Retail Rules to:
 - a. allow the ROLR to prepare a lower price market retail offer for small customers and
 - b. reduce the impact of increased cash flow and/or credit support requirements including greater ability for the AER to appoint multiple ROLRs if appropriate.

This can be achieved through an amending Act to amend the National Electricity Retail Law along with a set of Minister initiated Rules.

Box 2.1 Summary of the AEMC's recommendations 1-5

The AEMC made five recommendations to reduce the risk of COVID-19 impacts destabilising the electricity retail market.

- ▼ To remove the current ROLR requirement that small customers be placed on the default offer, instead allowing for a lower-priced market offer. The current arrangement could lead to more customers in financial distress.
- ▼ To amend the ROLR regime to reduce the impact of increased cash flow and/or credit support requirements. This includes increasing clarity for cost recovery methods, delayed designation of ROLR, including greater ability for the AER to appoint multiple ROLRs, and delayed requirement for ROLRs to provide credit support to AEMO.
- ▼ To move the ROLR regime from the NERL to the *National Electricity Retail Rules* to better facilitate the changes to the ROLR included above and over time.
- ▼ That the COAG Energy Council consider whether additional short term market stability measures are required, noting that ex-ante information may not be sufficiently effective in reducing financial contagion.
- ▼ That the AER consider whether a rule change could provide it with greater ability to collect information to identify risks to retailer financial stability.

Source: AEMC, *2020 Retail Energy Competition Review Final Report*, 30 June 2020, pp vi – vii.

¹⁵ EWON submission to IPART Draft Report, September 2020, p 2.

2.2 The default market offer commenced on 1 July 2019

The default market offer (DMO) is the maximum price that a retailer can charge customers where there is no retail price regulation. The AER set it for the first time for 2019-20, and resets it every year.¹⁶ The intent of the DMO is to:

- ▼ Bring down standing offer prices which are unjustifiably high, and
- ▼ Make it easier for customers to compare electricity plans by requiring all retailers to show discounts with reference to the DMO (i.e., discounts off the same 'reference price').

For 2019-20, the DMO worked as intended and effectively reduced the prices paid by some customers by lowering standing offers. Around 15% of customers were on standing offers in June 2019, and most if not all of these would have benefitted from the DMO's introduction in July 2019, some significantly. We note that some customers in embedded networks do not receive the consumer protections element of the scheme (see section 2.4.3 for more on embedded networks).

2.2.1 It is too early to assess the DMO impacts on price competition

In last year's report, we suggested that in the longer term re-regulating the retail market may reduce competition and lead to higher prices.¹⁷ More than one year's price data is required to assess its impact on competition in the longer term.

We note however that as expected, the introduction of the DMO has reduced the spread of prices available in the market. Whilst the DMO has lowered the highest standing offers in the market, it may also have caused the lowest market offers to be higher than what they otherwise would have been.

In its September 2020 report, the ACCC found that the DMO did not appear to have an adverse effect on market offer prices. This was based on a comparison of retailers' cost changes from 2017-18 to 2018-2019, with price changes from 2018-19 to 2019-20, finding that prices fell by a greater percentage than costs in the preceding years, noting that the periods do not exactly align.¹⁸ Falling wholesale prices (including futures) during 2019-20 may have contributed to the market offers falling by a greater proportion than costs in the preceding years.

PIAC also disagrees that the DMO will negatively affect competition noting that we did not provide evidence of the impact of the DMO on prices in the longer term. PIAC cites the ACCC's findings, and suggests that the DMO has resulted in more affordable prices for a majority of consumers. It adds that an increase in the number of retailers during 2019-20 while the DMO was in place, along with a fall in prices, is an indicator that the DMO has not impacted competition.¹⁹

¹⁶ For 2020-21, the AER consulted with stakeholders on whether the DMO should be adjusted in relation to COVID-19, but decided not to given the uncertainty, and that any impact was anticipated to be limited. AER, [Default Market Offer Prices 2020-21 Final Determination](#), pp 19-21.

¹⁷ IPART, [Review of The performance and competitiveness of the retailer electricity market 2018-19](#), November 2019, p 49.

¹⁸ Australian Competition and Consumer Commission, [Inquiry into the National Electricity Market September 2020 Report](#), 21 September 2020, pp 21-22.

¹⁹ [PIAC submission to IPART Draft Report](#), September 2020, pp 3, 7.

The longer term impacts of the DMO on prices and competition are best assessed over a number of years rather than one. Reduced scope for price competition may lead retailers to place a greater focus on non-price competition, such as offering different services or benefits to their customers. In response to our Draft Report, PIAC commented that this would be a positive outcome.²⁰ In Chapter 4 we include more information about price and non-price competition during 2019-20.

2.2.2 Impacts of the DMO on prices and competition are best assessed over a number of years

We consider it is important to continue to assess the impact of the DMO for customers on both standing and market offers, to understand the longer term impacts.

The ACCC has and will continue to collect a sample of billing data covering 1.5 million customers across the NEM. This is a valuable resource that can be used to assess the impact of the DMO on prices and competition over the longer term. The ACCC recently sought suggestions on the types of analysis that could be undertaken using this data.²¹ We suggest that:

- ▼ Overlaying the billing data with ABS data would provide additional information on the likely socio-economic status of customers on standing offers. This would inform the policy decisions to protect vulnerable customers and the level of intervention necessary. Not all standing offer customers are necessarily vulnerable.
- ▼ The social costs and benefits of the DMO could be measured. The ACCC could compare the savings to standing offer customers when the DMO began, with an estimate of any reduced returns to search for market offer customers.

We also note that a recent study from Griffith University has quantified the impact of the DMO on market offer customers. It compared the available market offers in the six months following the start of the DMO to the available offers before the DMO. It found that the 'returns to search' or the benefit of seeking a better offer in NSW had fallen by 0.6% to 2.3% (respectively, Essential Energy and Endeavour Energy areas) or \$8.86 to \$32.41 in annual savings.²² We consider that this is an important study and should contribute to future assessments of the DMO, noting that there are likely to also be vulnerable customers on market offers.

²⁰ [PIAC submission to IPART Draft Report](#), September 2020, p 7.

²¹ Australian Competition and Consumer Commission, [Inquiry into the National Electricity Market September 2020 Report](#), 21 September 2020, pp 8-9, accessed 26 November 2020.

²² Esplin, R, Ben Davis, Alan Rai, Tim Nelson, 'The impacts of price regulation on price dispersion in Australia's retail electricity markets', Energy Policy 147 (2020) 111829, 8 August 2020, p 12.

2.2.3 Protecting vulnerable customers

PIAC further makes the point that the protection of vulnerable customers should not come at the cost of some customers being supplied below-cost.²³ The DMO serves to reduce the cross-subsidisation from those on the highest offers to those on low offers. We agree that vulnerable customers should be protected. However, there may be more effective ways to protect vulnerable customers than using a DMO that impacts both disengaged and engaged customers (vulnerable or not) on the standing offer. Gaining a better understanding of the likely socio-economic status of standing offer customers is a key step to a well targeted efficient response.

Esplin et al noted that in Great Britain following the imposition of a non-discrimination clause requiring retailers to maintain constant margins between different regions resulted in reduced competition, and overall reduced consumer switching. They note the challenge for policy makers is to protect consumers in the short to long term by developing interventions that protect vulnerable and disengaged consumers, while preserving the benefits for other consumers to remain active and engaged, particularly in an environment where new technologies provide customers with new ways of reducing the costs of their energy consumption.

Esplin et al identify four customer groups:

1. Engaged, vulnerable customers
2. Engaged, financially comfortable customers
3. Disengaged, vulnerable customers, and
4. Disengaged, financially comfortable customers.

It notes that the DMO currently protects the third and fourth of these groups, but it may be inefficient to protect disengaged, financially comfortable customer as this occurs at the expense of the engaged customer groups, whether vulnerable or otherwise. It makes a policy recommendation to determine an appropriate length of time for consumers to be on a standing offer. After this, an 'auction' approach could be used where retailers bid for the accounts of the vulnerable and disengaged customers, with the lowest offer gaining the customers.²⁴

2.2.4 There are mixed views on whether the DMO is correctly set

The introduction of the DMO creates risks for the retail market particularly if the DMO is set too low and negatively affects competition. If it is set too high, it may not provide adequate protection for the vulnerable customers. There are mixed views on whether the DMO has been set at the correct level:

²³ PIAC submission to IPART Draft Report, September 2020, pp 3, 9.

²⁴ Esplin, R, Ben Davis, Alan Rai, Tim Nelson, 'The impacts of price regulation on price dispersion in Australia's retail electricity markets', Energy Policy 147 (2020) 111829, 8 August 2020, pp 3, 12-13.

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- ▼ The Australian Energy Council, an industry body representing energy businesses, considers the DMO for 2020-21 was set too low partly because it does not account for the impacts of COVID-19 and it is concerned about the impact on retailer margins.²⁵
 - ▼ AGL also notes risks if the DMO does not reflect underlying costs, and suggests this could inhibit innovation in customer offerings particularly where they involve cost reflective pricing.²⁶
 - ▼ PIAC, on the other hand, points out that the DMO is deliberately set above the efficient costs and therefore underlying assumptions and retail margins need to be carefully monitored.²⁷ (Comparatively, the Victorian Default Offer (VDO) is set at an efficient cost of supply).

We have not sought to assess the adequacy of the DMO, but note that the DMO is intended to set a maximum price and allow flexibility for retailers to engage in some level of price competition below that. To set the DMO based on efficient costs would effectively be a return to full price regulation.

2.3 Other recent regulatory changes that affect the retail market

In addition to the DMO, there are a number of changes underway in the retail energy market which aim to improve customer outcomes.

2.3.1 The Consumer Data Right is being rolled out in the energy sector

The Consumer Data Right (CDR) is currently being expanded to the energy sector. The CDR will allow consumers to access their energy usage, billing and other data collected by their energy retailer and require the retailer to share this with an accredited service provider at the customer's request.

The introduction of the CDR may support consumers to find a tailored offer for their circumstances. Accredited service providers can use data to, for example, manage and change offers on behalf of consumers with their consent. This would take the complexity out of finding a better offer for customers and where the data is available, help to optimise demand management and pricing.

²⁵ Australian Energy Council, *Default Market Offer: Missing the mark in 2020-21*, 18 June 2020 accessed 10 August 2020.

²⁶ AGL submission to IPART Draft Report, October 2020, p 2.

²⁷ PIAC submission to IPART Draft Report, September 2020, pp 7-8.

2.3.2 Amendments to switching processes to incentivise competitive pricing

Under the current process, the switching of customers without a smart meter (86% of electricity consumers in NSW) usually takes place at the end of a meter read period, which could be a significant delay from when the customer decided to switch (meter read periods are typically 90-95 days). The existing retailer is notified of the impending switch, and can contact and attempt to retain the customer. We have previously found that aggressive save activities from some retailers could hamper the growth of competition.²⁸ Where there is a smart meter, the process can be completed in two days.

The AEMC and AEMO have decided to accelerate the process for customers to switch retailers. Under the changes, a retailer will not be notified of a customer switching retailer. This removes the ability to 'save' customers, and should incentivise retailers to maintain competitive pricing for existing customers. The AEMC (in response to a rule change request from AEMO) found the current process to be outdated and the option to conduct save activities undermines incentives for retailers to offer competitive price to existing customers.²⁹ PIAC noted its support for this amendment.³⁰

2.3.3 The 'Big stick' regulation came into force in June 2020

New laws prohibiting market misconduct came into effect on 10 June 2020 (i.e. 'Big stick' legislation). These target three specific areas with the intent to improve competitiveness in the market and improve outcomes for consumers. The new laws³¹:

1. Prohibit generators from refusing to enter wholesale contracts for anti-competitive purposes.
2. Prohibit generators from acting in a way that is fraudulent, dishonest or in bad faith to distort or manipulate wholesale electricity prices.
3. Require retailers to make reasonable adjustments to their offer prices to reflect 'sustained and substantial reduction in underlying costs of procuring electricity'. This applies to market offers to all residential customers, and small businesses that purchase or propose to purchase <100MWh in a financial year (can be assessed across multiple premises). It does not apply to standing offers.

²⁸ IPART, *Performance and competitiveness of the NSW retail electricity market*, November 2019, p 43; ACCC, *Restoring electricity affordability and Australia's competitive advantage*, Retail Electricity Pricing Inquiry – Final Report, June 2018, p 141.

²⁹ AEMC, *Rule Determination - National electricity Amendment (Reducing customers' switching times) Rule 2019*, *National energy Retail Amendment (Reducing customers' switching times) Rule 2019*, December 2019, p i. At the time of drafting, the start date of this reform has not yet been decided on. AEMO, *NEM Customer Switching, Final Report and Determination*, p 2.

³⁰ PIAC submission to IPART Draft Report, September 2020, p 4.

³¹ *Treasury Laws Amendment (Prohibiting Energy Market Misconduct) Act 2019* (Cth). For more information see also Australian Government, Department of Industry, Science, Energy and resources 'Prohibiting energy market misconduct' accessed 26 November 2020.

The ACCC will monitor behaviour, costs and prices and has investigative and punitive powers. It has released guidance on how it intends to interpret the legislation and approach compliance activities.³² In a supplementary report to its September 2020 inquiry into the National Electricity Market, the ACCC provides an early assessment. It notes that wholesale prices have and should remain low, and that these savings should be passed through to customers progressively. It also noted changes in network charges and retail prices announced by retailers, and is undertaking investigations into these.³³

2.4 Improving the future electricity market

As detailed in the following chapters of this report, most of the traditional indicators of performance and competition have shown improvement over 2019-20. Advances in technology and increasing digitisation of energy services have the potential to deliver better outcomes for all energy consumers. Competition amongst energy service providers will continue to develop so that:

- ▼ Consumers' needs and preferences shape the services available and outcomes in the market.
- ▼ Retailers and other service providers offer new business models and innovative services that provide consumers with greater choice and value-adding opportunities.
- ▼ Technology automates much of the decision-making for consumers, and market design ensures they receive fair value for DER.
- ▼ Consumers who don't, or have limited ability to, engage with the market or access technology still benefit from lower system costs and better reliability.
- ▼ There are adequate protections in place for all energy consumers.

In response to our Draft Report, AGL provided some examples of innovative service it is offering. One option is a virtual power plant program where AGL remotely manages a customer's battery up to 30 times a year with solar and battery bundles and a bring-your-own battery program. It also has a demand response program which offers information to reduce usage and credits to meet reduction targets during peak events. It is rolling out an electric vehicle subscription service, and similar to other retailers, is expanding carbon neutral offerings.³⁴

Market design and regulatory rules need to evolve to ensure that energy services providers deliver affordable, reliable energy and a lower emissions electricity system. These issues are currently being considered by the Energy Security Board (ESB).

³² ACCC, [Guidelines on Part XICA – Prohibited conduct in the energy market](#), May 2020, accessed 23 September 2020.

³³ Australian Competition and Consumer Commission, [Inquiry into the National Electricity Market Supplementary report – impact of COVID-19 and ACCC monitoring and enforcement activities](#), 21 September 2020, pp 16-20, accessed 26 November 2020.

³⁴ [AGL submission to IPART Draft Report](#), September 2020, p 3; AGL, 'How does AGL Peak Energy Rewards work?', viewed 26 November 2020.

2.4.1 Energy Security Board's review of post 2025 market design

The context for the ESB's review of post 2025 market design is the rapid technological change and diverging consumer preferences taking place in the electricity market. These changes pose significant challenges for the design and rules for the electricity market. The ESB has been tasked to develop a market design for the NEM that delivers secure and reliable power at least cost to consumers, and accommodates the changes underway and expected in the future. The ESB released a consultation paper in September 2020.³⁵

The ESB's consultation paper rightly notes that market design needs to recognise that not all consumers are the same. The market needs to recognise consumers will seek different services and products, have different needs and risk tolerances, and have competing demands outside the electricity market. The paper also notes that complexity can be a significant barrier to consumers being able to take up the benefits of new service offerings and can lead to poorer outcomes, particularly for consumers in vulnerable circumstances.

To deliver future market designs, the ESB has established seven work streams to consider the issues and develop potential solutions. Included within these work streams are two of particular relevance to our market monitoring reviews:

- ▼ **Two-sided markets** – this initiative is intended, among other things, to allow consumers to choose if and how they participate in the wholesale market, better reward the value provided to the system by flexible demand and supply, facilitate new types of participation in the market, remove barriers and provide incentives for traders to participate in dispatch, enabling greater innovation and choice to consumers.
- ▼ **Valuing demand flexibility and integrating distributed energy resources (DER)** – this initiative is designed to take a holistic approach to ensure effective system and market integration of DER, and to unlock benefits to all energy system users.

We will monitor and report on this work as part of our ongoing market monitoring reviews.

2.4.2 Better enabling customers to manage their electricity

Energy Consumers Australia (ECA) developed a multi-dimensional framework to help industry, community groups and government deliver highly targeted programs to enable consumers to better manage their energy usage.

As part of its 3-year review, the ECA identified that there are immense benefits to moving to consumer-centred decision making in the energy market, and found that benefits of increased efficiency may have previously been underestimated. As well as increasing affordability and leading to a lower emissions future, the ECA identified societal costs of poor energy affordability including poor health and social exclusion.³⁶

³⁵ COAG Energy Council, *Energy Security Board Post 2025 Market Design Consultation Paper*, September 2020, accessed 23 September 2020.

³⁶ Energy Consumers Australia, *Power Shift Final Report*, February 2020, pp 27, 36, 58.

There is now the technology to provide consumers with greater control over their usage and their bill. The ECA's view is that as power shifts to consumers, this makes the roll-out of new technologies more compelling.³⁷ However, a report commissioned by the ECA found that the foremost barrier to the roll-out of new technologies was an unfavourable culture and 'can't do' attitude amongst retailers. It also identified the regulatory burden through too many rule makers and rules as a barrier.³⁸

The report makes a number of recommendations to the COAG Energy Council, including that it take a more active role in capturing the wider benefits of energy efficiency, to address poor energy efficiency in households, and to provide targeted support for low income households to manage their energy bills.³⁹

2.4.3 Consumer protections need to be strengthened

The scope of the ESB's review includes establishing an evolved consumer protections framework that makes sure all consumers have fit-for-purpose protections. While this review will look at how consumer protections need to change in response to the rapidly evolving technologies, we note there are some improvements to protections for customers of embedded networks taking place now.

Background to embedded networks

Embedded networks are where multiple properties are connected to the network through one meter. The property owner typically interacts with the retailer, and on-sells electricity to the individual premises. Examples of embedded networks are apartment buildings, retirement villages, caravan parks, shopping centres and other commercial premises.

In 2017, the AEMC completed a comprehensive review of regulatory frameworks for embedded networks following substantial growth in the number of embedded networks registering to be exempt sellers with the AER. It recommended a suite of significant changes, including to elevate embedded networks to the national energy framework to ensure that customers receive the same level of consumer protections as customers that interact directly with their retailer. This remains a work in progress.

Three of the four responses to our Draft Report raised issues with the protections available for embedded network customers. EWON provided case studies of common complaints, including access to consumer protections and lack of transparency about embedded networks when purchasing a property. One individual raised similar issues based on their recent experience, and also noted concerns about the lack of gas metering and a hot water price. PIAC noted there remains a range of issues related to embedded networks, and found that progress is uncertain but many issues are within the scope of the government to correct.⁴⁰

³⁷ Energy Consumers Australia, [Power Shift Final Report](#), February 2020, p 45, accessed 26 November 2020

³⁸ Energy Consumers Australia, [Power Shift Final Report](#), February 2020, pp 43-44, accessed 26 November 2020.

³⁹ Energy Consumers Australia, [Power Shift Final Report](#), February 2020, pp 55-57, accessed 26 November 2020.

⁴⁰ [EWON submission to IPART Draft Report](#), September 2020; [S. Jilka Submission to IPART Draft Report](#), September 2020; [PIAC submission to IPART Draft Report](#), September 2020.

We address these issues in turn below.

Some embedded network customers do not receive price protections

Unlike most other customers in NSW, embedded network customers that are supplied by an **authorised** seller do not have price protection under the DMO.

Embedded networks are generally excluded from DMO provisions,⁴¹ but those serviced by an ‘exempt’ seller are indirectly protected. This is because the ‘exempt sellers’ guideline prohibits prices higher than the standing offer price that would be charged by the relevant local area retailer for new connections (for the same quantity or estimated quantity of energy).⁴²

In its 2019 review, AEMC had proposed significant legislative changes to incorporate embedded networks into the national framework to increase customer protections. However the timing and form of any changes is uncertain.⁴³

We consider it is important that all customers are subject to the same level of protection, as embedded network customers are often subject to monopoly pricing. PIAC considers it unacceptable that embedded network customers were explicitly excluded from the DMO, especially as many land lease communities run as embedded networks (such as caravan parks) have customers in vulnerable situations. PIAC recommends that IPART direct greater focus to the experience of consumers in embedded networks, and recommends further actions for the NSW Government (e.g. that it undertakes a full audit).⁴⁴

We understand that the Commonwealth Department of Industry, Science, Energy and Resources intends to conduct a review of the DMO regulation in 2021.⁴⁵ One option that could be pursued would be to remove the exemption that prevents embedded networks customers being considered a small customer for the purpose of the DMO.

We recommend that the NSW Government work with the national bodies to pursue consistent price protections for all customers as a priority. A national approach would minimise the regulatory burden for energy businesses in contrast to state-based price protections. As discussed further below, we are also recommending that the NSW Government work with EWON and the AER to establish a registry of exempt sellers. Subject to this information being available, regulators such as the AEMC and/or IPART could use this information to better understand the experience of customers in embedded networks – for example by including these customers in a survey of residential customers.

⁴¹ Section 6(3)(c) of *Competition and Consumer (Industry Code—Electricity Retail) Regulations 2019* (Cth), accessed 26 November 2020.

⁴² Condition 7, *AER (Retail) Exempt Selling Guideline Version 5*, March 2018, p 37, accessed 26 November 2020. An exempt seller also must notify customers of a price change as soon as practicable, and cannot impose any charges that is not charged by the relevant local retailer, and any allowable charge must not exceed the local retailer's.

⁴³ AEMC, *Updating the regulatory frameworks for embedded networks Final Report*, 20 June 2019.

⁴⁴ *PIAC submission to IPART Draft Report*, September 2020, pp 3-4, 6.

⁴⁵ AER, *Default Market Offer Determination 2021-22 Public Forum Questions and Answers summary*, 29 October 2020, p 1.

Recommendation

- 2 The NSW Government continue to work with relevant national bodies to ensure that all customers, including those receiving supply from an embedded network, have consistent pricing protections. This may, for example, involve pricing protections aligned with the DMO.

Access to the NSW Social Program for Energy Code

The NSW Social Programs for Energy Code (Code) sets out how retailers must assist in delivering the Government's energy assistance measures (e.g. rebates available for eligible participants such as concession card holders and receivers of the family tax benefit) and how they claim reimbursement from the Government.⁴⁶

Both EWON and PIAC noted that embedded network customers are excluded from access to the NSW Government's Energy Accounts Payment Assistance (EAPA) vouchers, and PIAC added this is more of a concern in light of COVID-19.⁴⁷ We agree that it is important that all customers have equal access to the rebates.

In our Draft Report we noted that the NSW Government has identified some gaps whereby not all embedded networks are covered by the Code and is working to rectify this. We understand the DPIE is undertaking a 2-stage process to consider incorporating all embedded network customers under the Code.⁴⁸ The process is complicated by the varied nature of the embedded networks and seller arrangements. Given this, it may be simpler to develop alternate systems to ensure EAPA vouchers are available for eligible embedded network customers rather than trying to expand the current method to incorporate all.

We note that implementation of the AEMC's framework could facilitate greater access to the Code and rebate schemes for all embedded networks customers, but in lieu of this, we encourage the Department to continue to work to ensure embedded network customers receive adequate coverage and aim to have relevant changes in place by 1 July 2022.

Recommendation

- 3 Energy assistance measures should be designed so all eligible NSW energy customers are able to access them, including customers receiving supply through an embedded network. The NSW Government should continue to pursue changes to ensure all customers can access EAPA vouchers, regardless of their connection type, and aim for this to be in place by 1 July 2022.

Expanding the role of EWON to support all energy consumers

Until recently the customers of embedded networks did not have access to the independent dispute resolution services offered by EWON to resolve disputes with their energy provider (i.e. the embedded network provider). In 2018, the AER updated its guidelines to require 'exempt sellers' in NSW to become EWON members, and EWON expanded its charter to include embedded networks.

⁴⁶ NSW Government, 'Social Programs for Energy Code', accessed 23 September 2020.

⁴⁷ PIAC submission to IPART Draft Report, September 2020, pp 2-4, EWON submission to IPART Draft Report, September 2020, p 2.

⁴⁸ Correspondence with IPART (email), 15 September 2020 and 11 November 2020.

However, EWON has indicated there is uncertainty regarding the coverage of the AER's register of exempt sellers and therefore the extent to which embedded networks have become members of EWON, and EWON has had difficulty in identifying and reaching out to the relevant networks to ensure they are informed of their obligations. EWON does not have enforcement powers in this area.⁴⁹ We note that there is no registry of deemed exempt sellers. This means that some customers may not be receiving adequate dispute resolution services which could undermine their customer experience.

We understand that more generally, there is a lack of information as to the number of embedded networks in NSW and the number of customers affected is not clear. This issue has been raised previously as a limitation to providing consumer protections to embedded network customers.⁵⁰ In our Draft Report, we noted that there may be an opportunity for a multi-agency approach to work toward documenting the embedded networks that exist in NSW and ensuring that all new embedded networks are easily traceable and meet AER requirements to register with EWON.

We invited comment from EWON and the NSW Government on the most appropriate approach to ensure embedded networks are registered with EWON. EWON proposed that IPART, the Office of Fair Trading and the DPIE each have regular contact with embedded networks and should work together to develop a register.⁵¹ IPART does not have a regular role with embedded networks, however it may be beneficial for the other two agencies to combine resources.

EWON also suggested compliance activities be undertaken, potentially by the AER, but it also raised the merits of the Victoria scheme where the Essential Services Commission (ESC) has compliance powers.⁵² We agree that compliance activities should incentivise embedded networks to meet the requirement. However, it is clear that this is a complex area complicated by the lack of visibility around identifying deemed exempt sellers. We consider that a risk-based approach to compliance and enforcement is appropriate. Any compliance and enforcement activities would be facilitated by comprehensive and accurate information about the embedded networks, including identifying all deemed exempt embedded networks operating in NSW. Developing a comprehensive database could build on the work undertaken by EWON and would benefit from a coordinated approach between Government bodies that may engage with the embedded networks, including DPIE, the Office of Fair Trading, and the AER.

Recommendation

- 4 All NSW energy customers should have access to complaints handling processes and external dispute resolution that are independent, binding and free of charge (i.e. EWON). Specifically, the NSW Government, through DPIE, should consider appropriate ways to engage with exempt sellers to ensure that their customers have access to external dispute resolution. This should involve engagement and advocacy with national bodies including the AER concerning registration arrangements for exempt sellers, as well as measures directed at compliance and enforcement.

⁴⁹ Correspondence with IPART (meeting), 15 September 2020.

⁵⁰ AEMC, *Review of regulatory arrangements for embedded networks*, November 2017, pp 14-15.

⁵¹ EWON submission to IPART Draft Report, September 2020, p 4.

⁵² EWON submission to IPART Draft Report, September 2020, p 4.

Improving information about embedded networks for potential buyers and tenants

In response to our Draft Report, an individual (S. Jilka) complained that they weren't aware of the embedded network arrangement, and associated costs and constraints, before purchasing a property. They raised issues such as the lack of access to the competitive energy retail markets, a common hot water system and associated pricing, and a flat charge for gas usage.⁵³ EWON also noted the lack of disclosure as a source of complaints.⁵⁴

We understand that for property sales, there is no requirement for disclosure of embedded networks when a premise is sold (i.e. under conveyance law). For rentals, the new *Residential Tenancies Regulation 2019* requires the standard form agreement to disclose whether there is an embedded network in the form or a yes/no box.⁵⁵ We consider that this, while informing a tenant about the arrangement, is of limited value as it does not explain the potential implications of being in an embedded network, and at the stage of signing the lease, it may be difficult for a tenant to change their mind.

If price protections including access to competitive markets were in place, this would be less of an issue. However the Government can take some simple steps to increase information to potential buyers and tenants. It already provides guidance to support decision making for buying and renting - for instance, the NSW Fair Trading website contains a page on [Buying a Property](#) and one on [Renting](#). NSW Family and Community Services also publishes a [Guide to Purchasing Your Home](#).

These information sources would be an appropriate place to add some contextual information about embedded networks and potential costs and constraints. The information could then be picked up by other bodies, such as the Tenancy Union which provides information to tenants. This solution should be simple to implement and allow potential buyers and renters to be better informed, and reduce surprises after deciding to buy/rent a place. We note that it still relies on people seeking out and accessing the relevant information, so may not inform all affected persons.

Recommendation

- 5 People considering buying or renting properties in NSW should have access to better information about embedded networks and common hot water systems. As a first step, existing information sources should be updated including material about buying/renting a property on the Department of Fair Trading's website, or publishing FAQs.

⁵³ S. Jilka Submission to IPART Draft Report, September 2020, p 1.

⁵⁴ EWON submission to IPART Draft Report, September 2020, p 3.

⁵⁵ See *Residential Tenancies Regulation 2019*, Schedule 1 Standard Form Agreement.

Land lease communities

Both PIAC and EWON raised issues specific to land lease communities.⁵⁶ In particular, customers in land lease communities have been subject to a change in energy supplier without their explicit consent.⁵⁷ EWON stated that over a period of 5 months it was contacted by 32 individuals from 5 different residential parks.⁵⁸

Land lease community operators can run an embedded network on their site, but they must not charge residents more than they have been charged by the electricity retailer for the electricity consumed by the home owner.⁵⁹ This creates an incentive for land lease operators to outsource the supply of electricity as they are unable to recover additional costs incurred. When the supply is outsourced, the residents may find themselves on a higher pricing arrangement.

As mentioned earlier, some embedded network customers do not receive the price protections of the DMO. We encourage the NSW Government to continue to pursue relevant legislative changes to ensure all embedded network customers receive pricing protections. This would also benefit customers of land lease operations if energy services are outsourced. We also note that the *Residential (Land Lease) Communities Act 2013* is due for statutory review. We encourage the Department of Customer Services to consider all options to ensure adequate pricing protections are in place for land lease customers.

2.5 Information constraints for this review should be removed

In our 2019 energy market monitoring review, we recommended that the NSW Government remove the requirement for IPART to monitor the performance and competitiveness of the retail electricity market in NSW.⁶⁰ However, the Minister indicated a preference that IPART complete the report for 2019-20.⁶¹ Notwithstanding this, we are still of the view that much of the analysis into the performance of the retail market duplicates work undertaken by other agencies with greater information gathering powers.

Our role, completed under section 234A of the *National Energy Retail Law (NSW)*, is limited by constraints on the data that IPART can collect and use to inform the report. We are therefore largely reporting work that is undertaken by other agencies, albeit adding a NSW specific lens. This year we gained access to valuable billing data collected by DPIE. However, we only received this data in aggregate form. Ideally, we would be able to receive the raw data and conduct our own analysis. Also the AER now has a valuable data set available, although we understand that legal constraints prevent the sharing of the data.

⁵⁶ In a land lease community, a resident owns their home - which may be a moveable home or manufactured dwelling - but they lease the land where the home sits from the community operator. Sometimes there is a minimum age for residents, this is still a land lease community not a retirement village.

⁵⁷ [PIAC submission to IPART Draft Report](#), September 2020, pp 5-6.

⁵⁸ [EWON submission to IPART Draft Report](#), September 2020, p 8.

⁵⁹ Under section 77(3) of the *Residential (Land Lease) Communities Act 2013*. For more information, see NSW Department of Fair Trading, '[Residential Community Electricity FAQs](#)'.

⁶⁰ IPART, [Review of The performance and competitiveness of the retailer electricity market 2018-19](#), November 2019, p 60.

⁶¹ [Letter](#) from the Honourable Matt Kean, MP, Minister for Energy and the Environment to IPART, August 2020.

Greater data sharing would improve the breadth of analysis undertaken and limit the regulatory burden on the entities providing the data.

Recommendation

- 6 The Department of Planning, Industry and Environment take steps to facilitate better sharing of de-identified bill data for this energy market monitoring role. This will enhance effective monitoring of retail electricity and gas markets, whilst limiting regulatory burden from data collection.

3 Structure of the market – barriers to entry, expansion and exit

Barriers to entry, exit and expansion impede competition and provide existing businesses with greater capacity to exercise market power.⁶² To examine potential barriers, we focussed our review on trends in the number of active retailers and the market concentration and noted some potential barriers to expansion. We also considered retailers' responses to an AEMC survey.

We found that barriers to entry and exit remain relatively low, evidenced by the increasing number of retailers entering the market in NSW and reducing concentration.⁶³ Smaller retailers are gradually gaining market share at the expense of the 'big 3' retailers.

3.1 Barriers to entry and expansion are relatively low

3.1.1 The number of active retailers increased in 2019-20

There was a significant increase in retailers offering contracts on EnergyMadeEasy in June 2020 compared to June 2019. There were 33 retailers (38 brands) servicing small customers, up from 25 retailers (30 brands) last year, continuing the year-on-year increase in number of retailers that we have observed since 2014. Of these:⁶⁴

- ▼ Five were new retailers (OVO Energy, Nectr, Elysian, Bright Spark Power, Amber Electric).
- ▼ Two retailers had expanded from Queensland and South Australia (respectively, Discover Energy and Tango Energy).
- ▼ One retailer and one brand may have been operating previously but did not have offers advertised in June 2018 (Locality Planning Energy and Kogan).

Most of these retailers serve both residential and business customers and operate in all network areas of NSW. There were:

- ▼ 32 retailers with offers for residential customers in the Ausgrid and Endeavour Energy network areas.
- ▼ 28 retailers with offers for residential customers in the Essential Energy network area.
- ▼ 28 retailers with offers for business customers.

⁶² This could be not passing through cost savings and/or increasing prices more than underlying costs.

⁶³ In functioning competitive markets, there will be firms that are successful and firms that fail. Barriers to exit are market features that make it difficult or costly to fail or leave a market. Barriers to exit chill competition in two ways - they act as barriers to entry, where potential entrants seeing a high cost of failure are less likely to enter and compete; and they reduce risk taking, where incumbent firms decide not to compete aggressively as the costs of failure are too large.

⁶⁴ Based on a comparison to AER data on reported customer numbers, AER, *Q3 2019-20 Retail Energy Performance Update*, July 2020, Schedule 2, accessed 15 August 2020.

The continuous growth in market participants across NSW and for different customer types indicates that barriers to entry and exit are relatively low and not a substantial concern to retailers.

PIAC made a number of comments regarding an increase in the number of retailers in the market. Firstly, it noted that more retailers is not all positive and leads to more costs associated with attracting and retaining customers, which is eventually passed on to customers. This was found to be the case in a 2017 review of the Victorian retail market.⁶⁵ However we consider that increased competition can also encourage efficiencies and put downward pressure on prices, such as ensuring the pass-through of reduced costs in wholesale markets.

PIAC also noted the data on market share and retailers' views on economies of scale (section 3.2.2 below). It reiterated that having more retailers is not necessarily a function of a better functioning market, and it may be best to review retailers' efficiency.⁶⁶ We consider that more retailers and a less concentrated and more dynamic market will push retailers to improve their efficiency, and inefficient retailers would drop out of the market over time. Therefore, there remains merit in monitoring the number of retailers, their market shares, and overall market concentration.

Appendix C contains a full list of retailers, the areas and customer types they service, and the types of offers available. Both the AER and AEMC observed an increase in retailers. We note that the method of reporting 'active' retailers differs between us, the AER and AEMC so they report different numbers.⁶⁷

3.1.2 The market became less concentrated in 2019-20

The market became less concentrated in 2019-20, continuing a trend observed since 2011. A steady fall in market concentration is consistent with a developing and maturing competitive market. The most common measure of market concentration, the Herfindahl-Hirschman Index (HHI, see Box 3.1 for more information) has continued to fall to be 2,316 in 2019-20. The continual fall in the index reflects:

- ▼ The higher number of retailers, and
- ▼ A reduction in market share held by the 'big 3' retailers.

⁶⁵ [PIAC submission to IPART Draft Report](#), September 2020, pp 6-7.

⁶⁶ [PIAC submission to IPART Draft Report](#), September 2020, p 7.

⁶⁷ We, the AEMC and the AER report a different number of retailers, due to the different ways of defining and measuring active retailers, and because the number of retailers differs at different times depending on their activity levels and customer numbers. We report the number of retailers with offers available on EnergyMadeEasy in June 2020. The AEMC considers active retailers as those with more than 50 customers, and reported 31 retailers at March 2020. The AER considers retailers with generally available offers or existing customers and reported 37 active electricity retailers (40 brands) at March 2020. One example of the difference is that we and the AER included OVOEnergy, but the AEMC did not as it did not have 50 customers in March 2020. AEMC, [2020 Retail Energy Competition Review Final Report](#), 30 June 2020, p 25; AER, [State of the Energy Market 2020](#), June 2020, pp 237-238.

The AEMC noted that medium-sized retailers are increasing their market share, and the four biggest gains in customer numbers were made by medium or smaller retailers (Red Energy (owned by Snowy Hydro), Alinta, Momentum Energy and Energy Locals).⁶⁸ In the Essential Energy distribution area, it considers that Red Energy and Lumo Energy are essentially part of the 'big 3', after Origin and AGL. It found that the NSW market is the second least concentrated, after Victoria, and noted that the rate of change in the HHI has been relatively stable in NSW, whereas in other states the rate of change slowed in 2019-20.⁶⁹

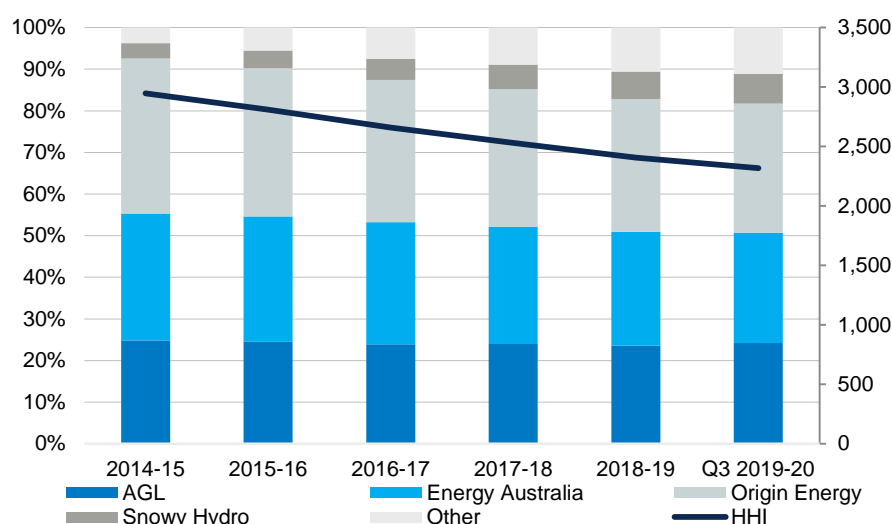
Figure 3.1 shows the relative market shares of the four major retailers and the remaining retailers over time, as well as our calculation of the HHI, for residential and small business customers combined (based on data from March 2020). We observe that:

- ▼ The 'big 3' retailers – AGL, Origin, and EnergyAustralia – have lost market share to other retailers– going from 83.4% in June 2019 to 81.7% by March 2020.
- ▼ Snowy Hydro is the fourth biggest retailer, with 7.3% of the market, up from 6.6% in June 2019.
- ▼ Other retailers' total market share has increased from 10.6% to 11.1% since June 2019.

On 31 August 2020, AGL announced it had entered into an agreement for the acquisition of 100% of the shares of Click Energy Group, a wholly owned subsidiary of ASX-listed amaysim Australia Limited. Completion of the acquisition was expected to occur on or by 30 September 2020 and thus is not reflected in the market share data below.⁷⁰

Box 3.1 provides some more information about the HHI.

Figure 3.1 Market share and HHI over time



Data source: AER, *Q3 2019-20 Retail Energy Performance Update*, July 2020, Schedule 2, accessed 15 August 2020; IPART analysis.

⁶⁸ AEMC, *Retail Energy Competition Review Microsite – New South Wales*, accessed 31 July 2020.

⁶⁹ AEMC, *2020 Retail Energy Competition Review Final Report*, 30 June 2020, pp 28-29.

⁷⁰ AGL, Media Release, *AGL enters binding agreement to acquire Click Energy Group*, 31 August 2020.

Box 3.1 The Herfindahl-Hirschman Index (HHI)

The HHI is a common measure of market concentration. The results can range from close to zero for a highly competitive market, to 10,000 which represents a monopoly market.

The information below assists interpretation of the result:

- ▼ The ACCC considers a post-merger industry with a HHI of 2,000 or less is less likely to raise competition concerns (used when considering the impact of mergers).
- ▼ An ACCC review of the mobile telecommunications market found a HHI of around:
 - 3,100 for mobile services
 - 3,500 for fixed broadband services
 - 4,500 for fixed voice services.
- ▼ The United States Department of Justice and Federal Trade Commission considers market concentrations below 1,500 are competitive and above 2,500 are highly concentrated.

Source: ACCC, *Merger Guidelines 2008, updated 2017*, p 35; ACCC, *Communications Sector Market Study Final Report*, April 2018, p 23; U.S. Department of Justice and the Federal Trade Commission, *Horizontal Merger Guidelines*, 19 August 2010, p 19.

3.1.3 There are similar levels of competition in the small business and residential markets

Our assessment above includes the combined markets for residential and small business customers. We also considered the two markets for residential and small business customers separately. We found the HHI for the small business market (2,394) was slightly lower than for the residential market (2,483). We consider that this difference is marginal and not of concern, particularly because:

- ▼ A similar number of retailers (brands) serviced the residential and small business markets (AER data suggests it is the same number of brands), and
- ▼ Similar to the overall trend, the HHI for residential customers and small business customers has been falling.

3.2 There are some barriers to expansion

Once in the market, retailers can grow their customer numbers, or expand into NSW from other jurisdictions.

3.2.1 Diverging regulation may impede expansion

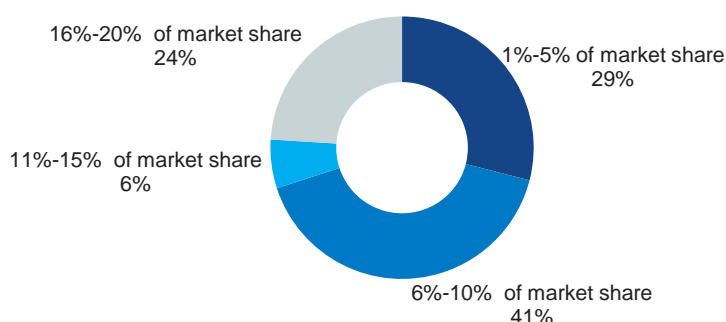
In past reports we found that inconsistent regulations across the NEM drive additional costs and make it difficult for retailers to expand across jurisdictions. We maintain this view and consider that jurisdictions should work to harmonise electricity retail market regulation.

The AEMC made similar findings. For its 2020 report, it surveyed and interviewed retailers to get their views on the barriers to entry to the national retail market. Amongst the responses, they noted that diverging regulation amongst the states is a barrier to expansion, in particular the divergence of regulation in Victoria from NSW. Victoria is exempt from the NECF and instead has its own regulations in place. They cited the increasing regulatory burden across the jurisdictions as having an impact on expansion.⁷¹

3.2.2 Some observations on economies of scale

The AEMC also asked retailers about achieving economies of scale. Retailers had mixed views about the market share needed to achieve economies of scale in NSW. The biggest group of respondents (41%) thought 6%-10% would achieve economies of scale, and none thought more than 20% was needed.⁷² Figure 3.2 summarises the results.

Figure 3.2 Survey results showing retailers' views on the proportion of market share to provide economies of scale (% of retailer's responses)



Data source: AEMC, *Final Report 2020 Retail Energy Competition Review*, 30 June 2020, p 41.

We note that there are currently four retailers with customer shares greater than 6% - AGL, EnergyAustralia, Origin and Snowy Hydro – whilst the remaining retailers share 11% of the market. This indicates that in the retailers' view, it could be some time until most retailers achieve economies of scale.

⁷¹ AEMC, *2020 Retail Energy Competition Review Final Report*, 30 June 2020, pp 36-38.

⁷² The AEMC did not endorse these results, but noted them. AEMC, *2020 Retail Energy Competition Review Final Report*, 30 June 2020, pp 41-42.

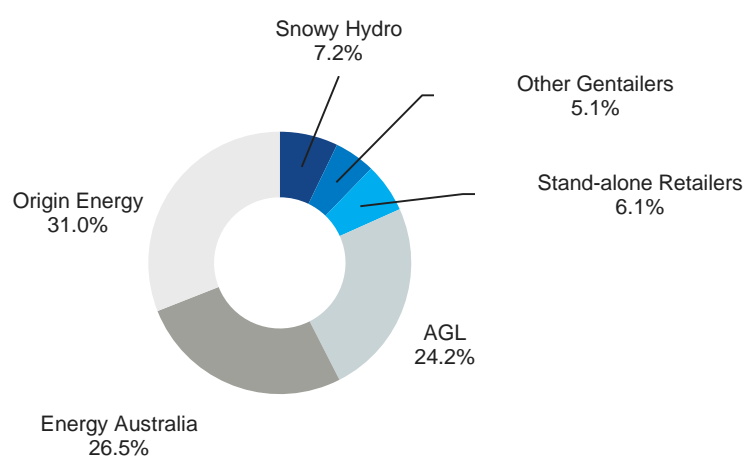
3.2.3 Some have raised concerns that vertical integration provides a competitive advantage

In its 2018 inquiry, the ACCC found that there were significant barriers to expansion and that while vertical integration offers both pros and cons, this remained an area of concern. The AEMC has made similar findings. Retailers (notably those retailers that are not vertically integrated), also identified wholesale market liquidity as a barrier to expansion in response to an AEMC survey.⁷³

During 2019-20, we observe that stand-alone retailers were able to increase their market share, reaching 6.1% in March 2020 compared to 5.6% in June 2019, at a cost to the big three retailers who lost market share (from 83.4% to 81.7%). Other small gentailers (excluding Snowy Hydro) also gained market share, reaching 5.1% in total from 4.3% in June 2019.

Figure 3.3 shows the relative market shares at March 2019.

Figure 3.3 The proportion of retail market held by gentailers and stand-alone retailers



Data source: AER, *Q3 2019-20 Retail Energy Performance Update*, July 2020, Schedule 2, accessed 15 August 2020; IPART analysis.

⁷³ AEMC, *2020 Retail Energy Competition Review Final Report*, 30 June 2020, pp 40-41.

4 Retailer behaviour and outcomes

One of the characteristics of a competitive market is strong rivalry between retailers. Effective retailer competition gives consumers lower prices, a wider range of products, faster and better incorporation of new technologies and more responsiveness to consumer preferences. The outcome of rivalry depends on a number of factors, including:

- ▼ The knowledge and understanding of customers.
- ▼ The ability of retailers to target certain products and services at customers (and, conversely, the ability to restrict customers from certain products and services).
- ▼ The ability of retailers to differentiate products.

The combination of these factors may result in lower margins, differentiated products that reflect customer preferences and willingness to pay or a mixture of both.

We examined the range of market offers, products and services available to small customers in NSW. For the first time, we have also considered actual billing data published by the Department of Planning, Infrastructure and the Environment (DPIE). We found that the DMO has reduced the spread of prices available in the market, whilst non-price competition (e.g. product differentiation) appears to be expanding and will likely continue to expand.

The sections below outline our findings, and then discuss them in more detail.

4.1 Prices have mostly fallen over 2019-20

Overall, prices have generally fallen from 2018-19 to 2019-20 which most likely reflects falls in wholesale and network costs.

4.1.1 Approach to assessing price changes

We have assessed annual price changes (converted into annual bills) from 2018-19 to 2019-20 using two approaches:

- ▼ Actual billing data provided by retailers to the NSW Government for the NSW Energy Rebate Program - this provides an indication of the changes in actual bills for these rebate customers.⁷⁴ Since our Draft Report, we have updated the analysis to include data for the whole of 2019-20.
- ▼ Median standing offers and median lowest market offers available on the Australian Government's [EnergyMadeEasy website](#) (June 2019 and June 2020) – this provides an indication of changes in prices generally available in the market.

This is the first time we have used the actual billing data in our analysis and we use it in conjunction with the EnergyMadeEasy data because there are limitations associated with the underlying consumption and customer numbers in each dataset. The limitations are explained in Table 4.1.

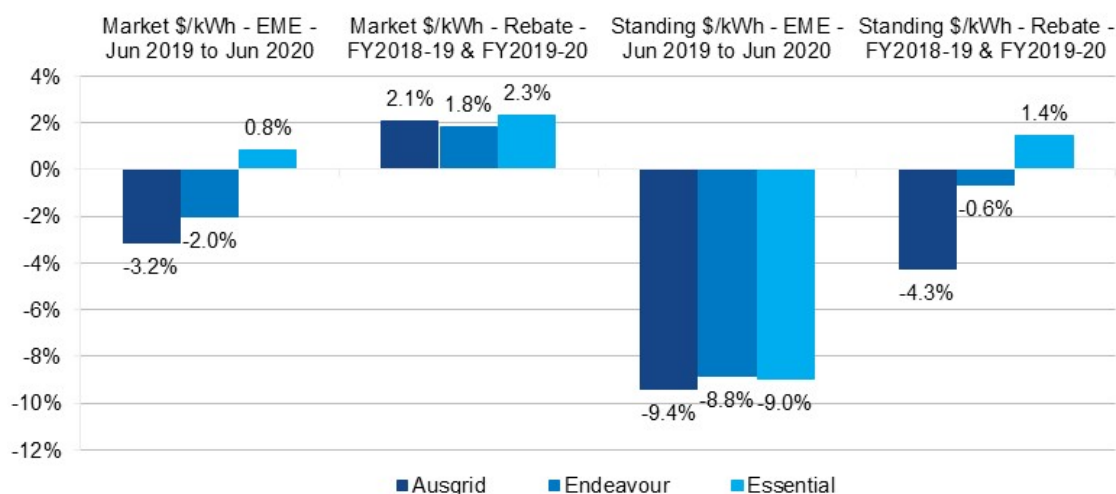
Table 4.1 Contrasting the actual billing data with EnergyMadeEasy data.

	Billing data	EnergyMadeEasy data
Consumption	Uses actual consumption which changes each year. This means the total bill can change if prices don't; or be lower even if prices increase. We present the data using \$/kWh to account for some of this variation. However, we cannot adjust for the impacts that changes in the ratio of the fixed to variable charge makeup have on the total bill when consumption changes.	Uses a set consumption (for each distribution area) and number of days. Therefore this is a better reflection of the actual change in price.
Timing	Data covers bills issued (before rebates are applied) throughout the year.	This is point-in-time data for June of each year.
Customer numbers	Shows bills actually incurred by about 30% of NSW customers. However, this is a subset of customer demographics as they must be eligible for the rebate.	We do not have information about how many consumers, if any, are on the EnergyMadeEasy offers. This data is informative of the retailers' behaviour.

Figure 4.1 shows the percentage changes compared to 2018-19 in median bills and median market and standing offers.

⁷⁴ Electricity customers in NSW who hold a health care card, pensioner Concession card or a DVA Gold Card can receive a rebate on their electricity bill as part of the NSW Energy rebate program. Approximately 30% of total residential electricity customers across all regions in NSW currently receive a rebate. Actual billing data for this group of customers has been published by the Department of Planning, Industry and Environment (DPIE).

Figure 4.1 Annual change in offers and bills, 2018-19 to 2019-20



Data source: EnergyMadeEasy, June 2019 and June 2020; NSW Department of Planning, Industry and Environment, *NSW Energy Rebates Trend Analysis*; IPART analysis.

Note: There are some limitations in comparing the two datasets. The AER's assessment of bills showed a similar trend to the EnergyMadeEasy data. AER, *State of the Energy Market*, June 2020, p 22.

In summary:

- ▼ For market offers:
 - The actual billing information shows customers paid around 1.9% more on a per kilowatt basis for electricity in 2019-20 compared to the year prior.
 - The median offers on EnergyMadeEasy were lower in June 2020 for Ausgrid and Endeavour Energy customers, by 3.2% and 2.0% respectively, and 0.8% higher for Essential Energy customers, compared to 12 months earlier.
- ▼ For standing offers, prices were generally seen to be lower consistent with the introduction of the DMO, with the exception of actual bills in the Essential Energy area.
 - Customers in the Essential Energy area paid 1.4% more on a per kilowatt hour basis than the year prior. Over the same time, the median total bill for this customer group fell by 4.5% and consumption fell by around 5.9%. Hence, the increase in cost per kilowatt hour may be related to the relative contribution of fixed and variable charges to the bill.
 - Customers in the Ausgrid and Endeavour Energy areas paid around 4.3% and 0.6% less respectively than the year prior per kilowatt hour.
 - Median standing offers on EnergyMadeEasy were around 9% lower in June 2020 than the year prior for all areas.

The difference in these two data sources likely relates to the factors in Table 4.1. These results have changed since our Draft Report as we have incorporated a full year of data, removing the effects of seasonality. Box 4.1 provides an example of how changes in consumption are greater than corresponding changes in bills

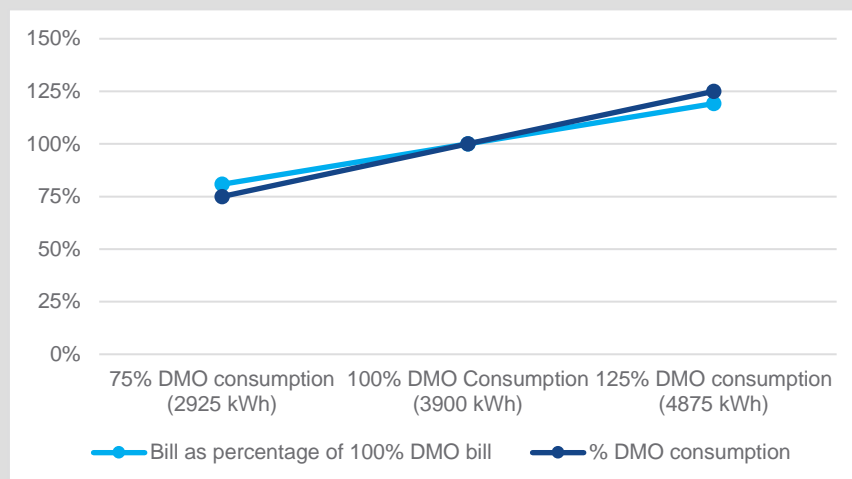
Box 4.1 Impact of consumption on bills

We have not collected individual bill data. Instead, we accessed aggregate bill data published by the DPIE. This presented some limits to the analysis we can do as aggregate bill data is complicated by changes in consumption and the ratio of fixed to variable charges that apply under each offer. The bills in the data we use are likely to have a variety of different fixed and usage charges that exist under different offers.

Generally, a change in consumption is not likely to be met with as great a change in the bill, because bills typically contain a fixed charge which stays the same regardless of usage.^a

The chart below shows three bills with the same offer but different consumption:

- ▼ The middle dot is a bill based on (electricity) usage of 3,900 kWh.
- ▼ The dots on the left show a bill with 25% less usage – the bill (pale blue) has not fallen as much as the usage (dark blue).
- ▼ The dot on the right is calculated with 125% of the DMO usage, in this case the bill (pale blue) has not increased by as great a proportion as the usage (dark blue).



We also note that an offer with a relatively high fixed charge and low usage charge/s means that changes in consumption will have less impact on the total bill than an offer with a low fixed charge but relatively high variable charge/s. Different offers can benefit different customer types, depending on their usage habits and whether they prefer bill certainty or the ability to reduce their bill by reducing their usage.

^a The exceptions would be if a customer's offer is entirely made up of a fixed charge, or entirely of a variable charge – both of which are unlikely. In the former case, the bill would not change with consumption, in the latter case the bill would change exactly in line with consumption.

Source: IPART calculations

We also note that the ACCC has collected, and will continue to collect, a sample of billing data from 1.5 million customers across the NEM. Whilst we were not able to access the raw data, we will continue to monitor the ACCC's analysis of this data for NSW customers. One clear benefit of this data would be to maintain a time series of changes in bills and consumption. When compared to changes in costs over time, this would allow a more accurate measure of changes in retail margins. In Chapter 2, we have made some further suggestions to the ACCC for future analysis related to the DMO.

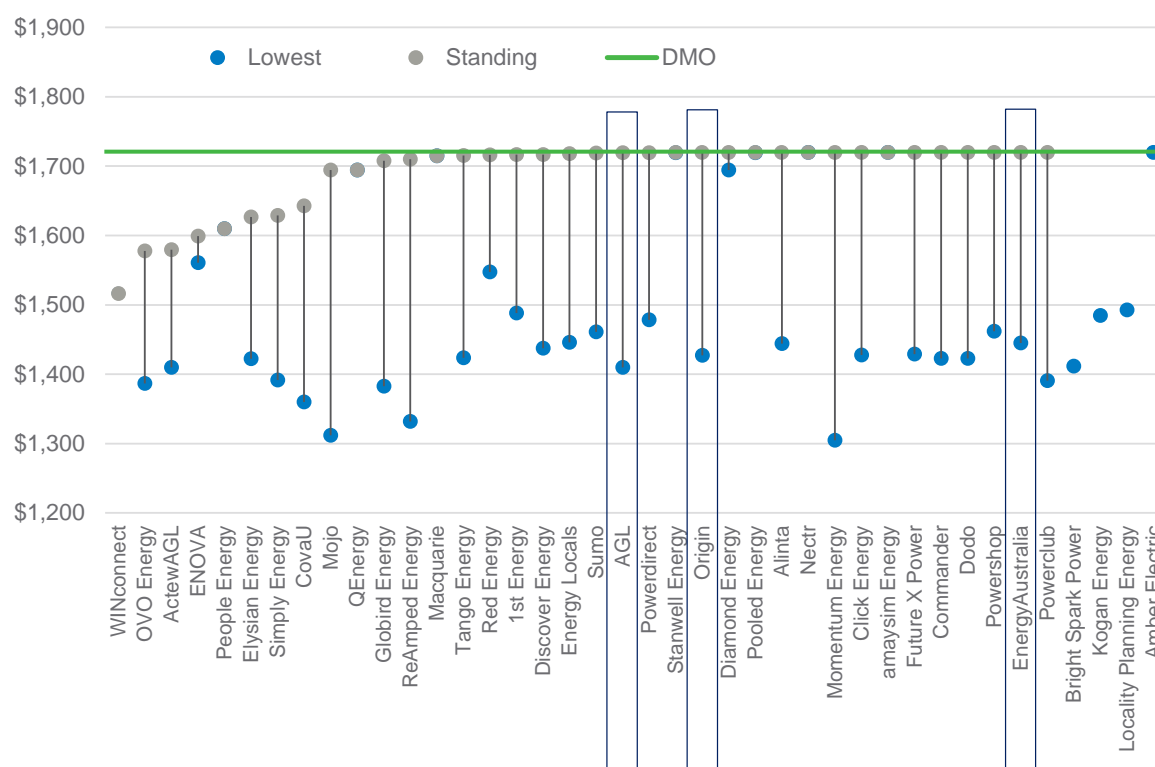
4.1.2 There was a reduced range of offers available in the market

The DMO has contributed to a narrower spread of offers available in the market. Figure 4.2 shows typical bills for customers in the Endeavour Energy network area using each retailer's standing offer (grey dot) and lowest market offer (blue dot) that were available on EnergyMadeEasy in June 2020. We found that:

- ▼ Most retailers including the big 3 (identified with a box) have a standing offer equal to the DMO. A few retailers have opted for a lower standing offer, on average 3% lower than the DMO. Comparatively, for 2018-19 many retailers' standing offers were significantly higher than the big three retailers' standing offers.
- ▼ Comparing the lowest offers available, the difference between typical bills was \$415. In 2018-19, this difference was \$1,099 (or \$652 after excluding two outliers).

We see a similar trend in the other two network areas in NSW.

Figure 4.2 Spread of offers in the Endeavour Energy network area



Note: In general, a retailer's standing offer will be its highest offer, although some retailers had only one offer.

Data source: EnergyMadeEasy, accessed June 2020; IPART analysis.

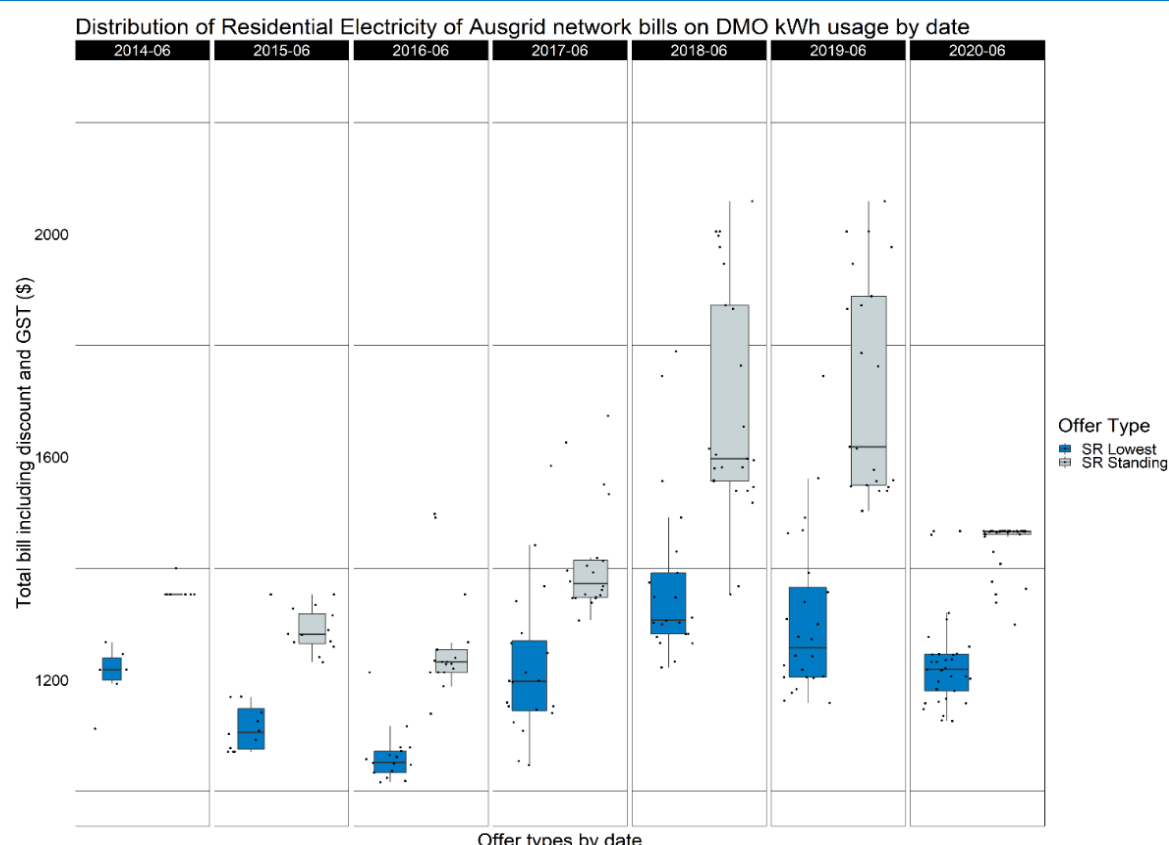
A comparison of billing data for rebate customers suggests that the spread of bills paid remained similar from 2018-19 to 2019-20. We compared the 25th and 75th percentiles to the median, for the total bills and cost per kWh, and observed little change between periods.⁷⁵

We also reviewed the spread between each retailer's lowest offer and standing offer and found these have fallen significantly. When there is less difference between the price levels, there may be less reward to some customers to engage actively in the market. This was an expected outcome in response to the DMO and removal of some of the highest offers in the market.

At June 2020, the average spread between each retailers' offers was 14%, significantly lower than the 2018-19 average spread of 26%. Figure 4.3 shows the spread between lowest offers and standing offers each year going back to 2014.

- ▼ For standing offers (grey boxes), there was a significant spread in the two years before the DMO was introduced, which have now condensed.
- ▼ For the lowest offers (blue boxes) the spread is about half that of the previous year and is more comparable to the early years of price competition than recent years.

Figure 4.3 Spread of anytime (single rate or SR) tariff offers for residential customers in Ausgrid network area (3,900kWh pa, nominal, GST-inclusive)



Data source: [EnergyMadeEasy](#), accessed June 2020; IPART analysis.

⁷⁵ NSW Department of Planning, Industry and Environment, *NSW Energy Rebates Trend Analysis*; IPART analysis.

PIAC submitted that reduced price dispersion can be viewed positively – fewer people on ‘below cost’ offers being subsidised by those on higher offers. It does not agree that there should be pure price competition, and instead, a move to product enhancement and innovation is positive.⁷⁶ We consider some price dispersion is valid in a competitive market.

4.2 Non-price competition continues to expand

Last year we reported that retailers offer other alternatives to traditional tariff structures and products to appeal to different market segments. Similar offers remain available, and the options have expanded.

4.2.1 Bundling and product differentiation

There is a relatively large range of product and service options available to target and attract different consumers. The increased breadth of non-price incentives is consistent with an increasingly competitive market. It is likely that the introduction of the DMO has led retailers to focus more on non-price competition. In interviews with the AEMC, retailers considered that it would be important and relatively easy to attract customers through non-price means and would expect these trends to increase over time.⁷⁷

Ways in which retailers are differentiating their service include:

- ▼ Providing carbon neutral energy (i.e. all offset) or carbon neutral and renewable electricity packages.⁷⁸
- ▼ Offering locked-in tariffs for up to two years.⁷⁹
- ▼ Offering loyalty discounts or credits (e.g. sign up for one year and get a lower price).⁸⁰
- ▼ Installing solar systems and battery systems for individual customers, and trialling solar farming and micro-grid systems (i.e. with a shared battery).⁸¹
- ▼ Operating as member-owned, and offering wholesale prices for usage.⁸²
- ▼ Operating as a not-for-profit, and donating to customer-nominated charities or community programs.⁸³

⁷⁶ PIAC submission to IPART Draft Report, September 2020, p 7.

⁷⁷ AEMC, *2020 Retail Energy Competition Review Final Report*, 30 June 2020, p 75.

⁷⁸ Some examples are Diamond Energy, EnergyAustralia, Energy Locals, ENOVA, and OVO Energy. Powershop trialled a free energy day when there was a lot of wind, accessed 11 September 2020.

⁷⁹ Examples include SumoEnergy under its SumoLite Plan, Nectr Energy under its Nectr Friends Clean and Nectr Green Power plans and Tango Energy under its Home Select Plan, subject to changes in network charges (links accessed 11 September 2020).

⁸⁰ For instance, ReAmped offers a lower price with a one-year commitment, under its ReAmped Handshake Plan, and Nectr Energy offers a \$100 bonus on a customer’s second bill, under its Nectr Friends Clean and Nectr Green Power plans (links accessed 11 September 2020).

⁸¹ Retailers include DC Power, Discover Energy, and Macquarie Energy.

⁸² For instance Energy Locals and Powerclub are member-owned. Powerclub offer access to wholesale prices, along with fixed charges.

⁸³ ENOVA supports community projects. Powershop has the option to add a 6.6c/kWh with funds used to support environmental initiatives, such as the Reef Restoration Foundation.

- ▼ Managing bill shock through monthly billing. This is based on forecast usage, with a credit or true-up at the end of 3 months or one year.⁸⁴ One company offers a 3% rate of return for unused pre-paid funds.⁸⁵
- ▼ Bundling with gas, mobile and/or internet. About one third (12) of the retailers also provide gas, and three offer internet services.⁸⁶
- ▼ Offering benefits such as membership to football clubs and the NRMA, and Taronga Zoo annual pass, and a chance for a quarterly \$500 giveaway.⁸⁷
- ▼ Offering 'Energy Health Checks' to small business customers.⁸⁸
- ▼ Offering to convert swimming pools to 'smart pools' and bundling with swimming pool management services such as chemicals (this retailer only services swimming pool owners).⁸⁹
- ▼ 'Sign-up' or 'refer-a friend' credits.⁹⁰

The AEMC also noted an increase (across the NEM) in offers relating to virtual power plants and electric vehicles. Whilst these are more advanced in South Australia, we can reasonably expect them to increase in NSW too.

4.2.2 Solar feed-in tariffs

Retailers also continue to differentiate themselves through solar feed-in tariff offerings, although there is a slightly smaller range in offers compared to 2018-19. At March 2020, 12.7% of all customers (including small and large businesses) were receiving a retailer funded feed-in tariff.⁹¹

Each year IPART sets a solar feed-in tariff benchmark range to reflect the likely value of solar energy to the retailer (based on the value of avoided costs of purchasing the equivalent energy from the wholesale market at the times that solar is being exported to the grid). However, over the most recent years, retailers have been competing to offer higher solar feed-in tariffs to attract solar customers. Figure 4.4 shows that there is now a wide range of feed-in tariffs being offered to customers. A significant proportion – 39%, or 19 of 49 offers exceeded IPART's benchmark for the feed-in tariff.

⁸⁴ Multiple companies offer monthly billing, including Bright Spark Power, Covau, Elysian Energy, OVO Energy, and QEnergy.

⁸⁵ [OVO Energy](#) pays 3% interest monthly on funds that are in credit. Note that there may also be debt fees, accessed 11 September 2020.

⁸⁶ Gas companies are shown in AER, *State of the Energy Market 2020*, June 2020, p 238; internet providers are M2Energy (trading as Dodo and Commander); Sumo Energy and WINConnect.

⁸⁷ RedEnergy has multiple offers; Simply Energy.

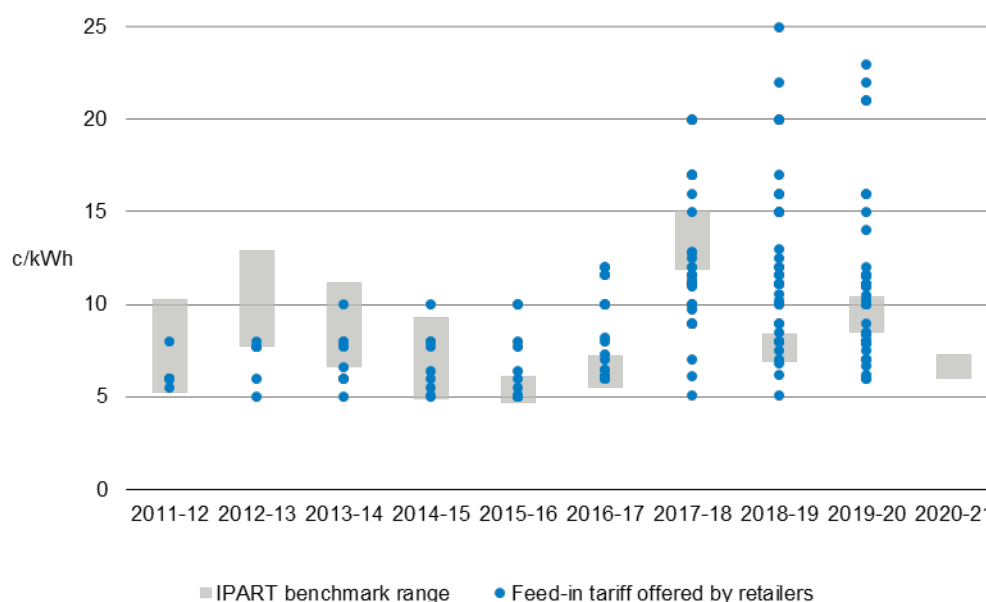
⁸⁸ Offered by [Blue NRG](#) for businesses using over 20KwH annually accessed 11 September 2020)

⁸⁹ Pooled Energy

⁹⁰ For instance, [Red Energy](#) offers \$50 (voucher or QANTAS points) for each referral, accessed on 14 September 2020; [Powershop](#) offers \$75 credit and [Nectr Energy](#) offers \$50 to both the existing and new customers (links accessed on 14 September 2020).

⁹¹ This includes residential, small business and large business customers. The AER began collecting this data in 2018-19, and the figure has increased steadily of 0.4% each quarter. AER, *Q3 2019-20 Retail Energy Performance Update*, July 2020, Schedule 2, accessed 15 August 2020.

Figure 4.4 Solar feed-in tariffs offered and IPART's benchmark tariffs



Data source: IPART, *Solar feed-in tariff benchmark*, Final Report, April 2020, p 10.

The average offer peaked in 2017-18, and fell slightly (by 1.6%) in 2018-19 and fell again by 11.4% in 2019-20. This is consistent with average wholesale electricity prices in NSW which were relatively high in 2017-18 and 2018-19.

4.3 A review of retail margins is not needed

We are asked to consider whether there is cause for a special review of retailer margins. We do not consider there is cause for a separate review into retail margins at this time given that:

- ▼ Our assessment is that changes in underlying costs have been broadly consistent with changes in prices over 2019-20, and
- ▼ The ACCC is scheduled to continue its inquiry into the national electricity market until 2025.⁹² It is also actively monitoring cost and price changes in its new role enforcing the prohibiting market misconduct legislation.⁹³

In a workably competitive market, we would expect that changes in price tend towards underlying costs. The AEMC estimates that approximately 90% of a residential bill is for network costs (44%), wholesale costs (39%) and environmental costs (7%). The remainder are residual costs including retail costs and margins.⁹⁴ We present a high-level assessment of cost changes in the sections below.

⁹² The ACCC undertakes regular inquiries into the prices, profits, and margins in the supply of electricity in the NEM, and reports on a 6-monthly basis (with the exception of 2020 due to impacts of COVID-19). More information is available on the [ACCC website](#).

⁹³ Australian Competition and Consumer Commission, *Inquiry into the National Electricity Market Supplementary report – impact of COVID-19 and ACCC monitoring and enforcement activities*, 21 September 2020, pp 18 - 20.

⁹⁴ AEMC, *2020 Retail Energy Competition Review Final Report*, 30 June 2020, p 46.

We note that PIAC suggests there may be cause for a review of retailer margins in part because the DMO is set higher than efficient costs.⁹⁵ While this is true, we note that only 12.8% of customers are on standing offers (i.e. the DMO) and the remaining customers are on lower priced offers, therefore adding a balancing effect to the margins in the DMO. PIAC also refers assumptions built into the DMO as a reason to objectively review the margins. We note that the ACCC undertakes a periodic review of retailer margins.

PIAC also suggests an assessment of how efficient the retailers operating in the market are, and how consistently they are delivering better outcomes for all consumers.⁹⁶ However, we note that work on retailer margins is being undertaken by the ACCC and it is not clear that an additional review by IPART would add sufficient benefit. We also consider that this would cause undue regulatory burden for the businesses and costs to the taxpayer as an efficiency assessment would require significant information collections and may need to be cross-jurisdictional. We consider that sufficient levels of competition encourage efficiency and eventually cause inefficient retailers to leave the market and we are monitoring outcomes for consumers through other means.

Network costs

For all three distribution networks, 2019-20 was the first year of a 5-year price Determination. These Determinations allowed less revenue over the next five years than the previous Determinations.⁹⁷

The AER estimated the impact on customer bills, using its assessment of network costs contributions to average customer bills. It calculated a bill reduction for Ausgrid and Endeavour Energy customers and a slight bill increase for Essential Energy customers, all else being equal.

Table 4.2 presents the change in revenue from 2018-19 to 2019-20 (2nd column); the AER's estimate of the impact to customers' bills in 2019-20, all else equal (3rd column); and the change in offers that we have observed from June 2019 to June 2020 (4th column). This shows that the offers available generally have fallen by a greater degree than the change in network costs.

⁹⁵ PIAC submission to IPART Draft Report, September 2020, pp 7-8.

⁹⁶ PIAC submission to IPART Draft Report, September 2020, p 7.

⁹⁷ AER, *State of the Energy Market 2020*, June 2020, p 126, Table 3.3.

Table 4.2 Estimated impact on AER 2019 Determinations on retail bills

Network	Change in expected revenue (2018-19 to 2019-20)	AER's Estimated bill change in 2019-20	Change in offers available June 2019 to June 2020 (Figure 4.1)
Ausgrid	4.0%	-1.4%	-9% to -3%
Endeavour Energy	-1.9%	-0.5%	-9% to -2%
Essential Energy	+0.7%	+0.2%	-9% to +0.8%

a This is the AER estimate of the change in the average annual customer bill compared with the customer bill in the final year of the previous period, adjusted for inflation and assuming retailers pass through outcomes of the decision. The AER consider the network costs contribute around 30% - 40% to a customer's bill.

Source: AER, *Final decision – Ausgrid Distribution Determination 2019 to 2024 Attachment 1 Annual revenue requirement*, April 2019, p 18; AER, *Final decision – Endeavour Energy Distribution Determination 2019 to 2024 Attachment 1 Annual revenue requirement*, April 2019, pp 13-15; AER, *Final decision – Essential Energy Distribution Determination 2019 to 2024 Attachment 1 Annual revenue requirement*, April 2019, p 13; IPART calculations.

Wholesale costs

The impact of wholesale costs on retail prices is difficult to measure due to the lag of up to two years in retailers' purchasing (hedging activities) and sales. That is, changes in wholesale costs don't immediately impact retailers' margins or consumer prices as the wholesale electricity price is most likely set in a contract that is made in advance.

We note that wholesale prices fell late in 2019-20 and are expected to continue to fall over 2020-21. This should put some downward pressure on retail prices. The ACCC will be actively monitoring changes to wholesale costs to ensure they are reasonably passed through to prices.⁹⁸

Based on the AER's report and spot prices, we make the following observations about the NSW wholesale prices during 2019-20:

- ▼ Base futures prices for 2020 ASX contracts began rising in the second half of 2018 before easing over the summer of 2018-19. Prices moved up again in early 2019 for most of the calendar year before falling significantly across all NEM regions from November 2019 (Figure 4.5). These falls were in line with falls in wholesale prices resulting from lower generator fuel costs and rising renewable generation.⁹⁹
- ▼ Wholesale prices fell over the course of 2019-20. By March 2020, spot prices were relatively low at \$53/MWh. This is 39% lower than in March 2019 when prices were around \$87/kWh (using the volume weighted weekly average).¹⁰⁰
- ▼ There were two significant spikes in wholesale prices early in 2020 due to high demand and network outages caused by bushfires.¹⁰¹

⁹⁸ Australian Competition and Consumer Commission, *Inquiry into the National Electricity Market Supplementary report – impact of COVID-19 and ACCC monitoring and enforcement activities*, 21 September 2020, p 16.

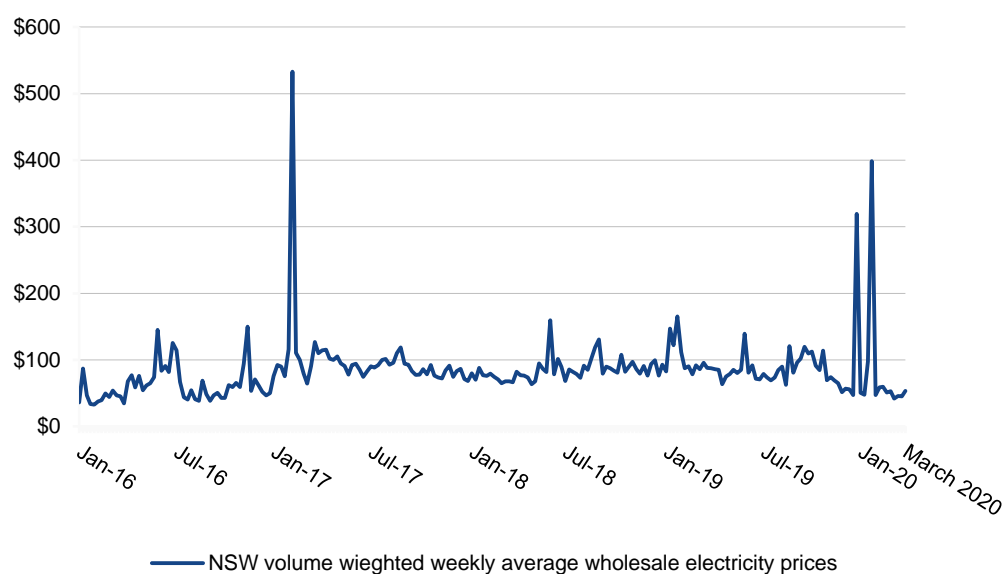
⁹⁹ AER, *State of the Energy Market 2020*, June 2020, p 105.

¹⁰⁰ AER, *Data - State of the energy market 2020 – Chapter 2 National Electricity market*, Figure 2.23, accessed 27 September 2020; IPART analysis

¹⁰¹ AER, *State of the Energy Market 2020*, June 2020, p 98.

Futures prices indicate wholesale costs will fall during 2020-21 (Figure 4.6). The ACCC notes that wholesale prices are expected to continue falling and that this “represents an opportunity to bring down the cost of electricity to more affordable rates for consumers and increase the competitiveness of Australian businesses”.¹⁰² The AEMC also noted the falling wholesale prices and expected this to continue in the next year as new generation enters the market (based on analysis undertaken pre-COVID-19).¹⁰³

Figure 4.5 Historical wholesale prices in NSW (volume weighted weekly average wholesale electricity prices)

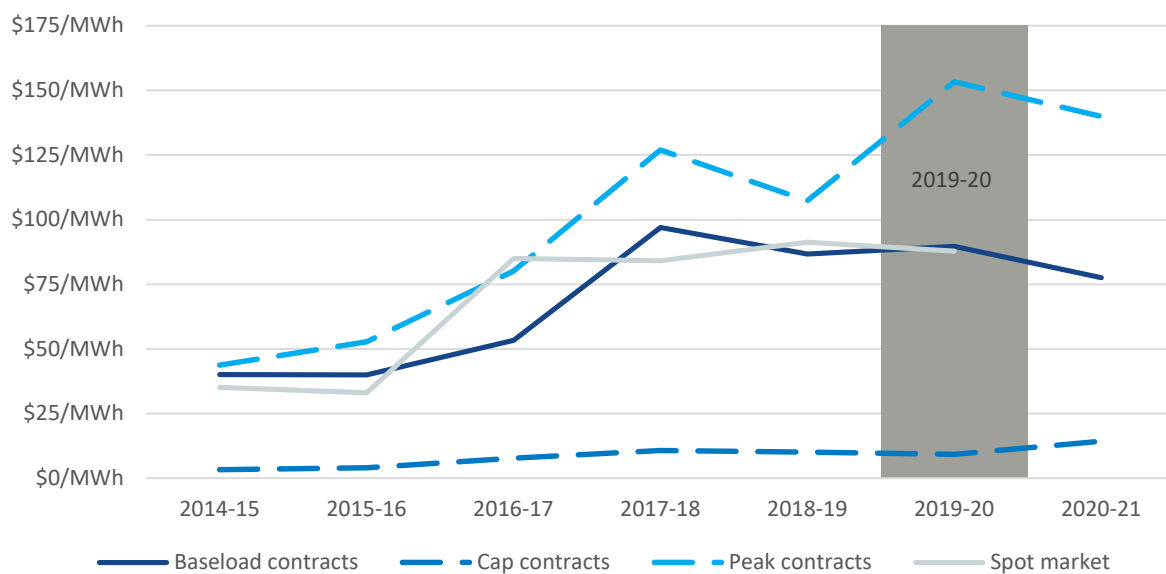


Data source: AER, *Data - State of the energy market 2020 – Chapter 2 National Electricity market*, Figure 2.23, accessed 27 September 2020.

¹⁰² Australian Competition and Consumer Commission, *Inquiry into the National Electricity Market Supplementary report – impact of COVID-19 and ACCC monitoring and enforcement activities*, 21 September 2020, p 3.

¹⁰³ AEMC, *2020 Retail Energy Competition Review Final Report*, 30 June 2020, p 47.

Figure 4.6 Average annual wholesale prices from 2014-15



Data source: Bloomberg data on contracts prices; AER, *Data - State of the energy market 2020 – Chapter 2 National Electricity market*, Figure 2.23, accessed 27 September 2020.

5 Consumer behaviour and outcomes

In workably competitive markets we would expect most customers to be engaged and active in the market and shape the products and services that are available. The more well-informed and engaged customers are, the more pressure there is on retailers to offer competitive prices and services.

To assess customer engagement and activity in the retail electricity market in 2019-20, we looked at switching rates and customers' contract types. We also examined the reasons why some customers do not participate in the market.

We generally found that consumer engagement and satisfaction remained relatively high, but the rate of increase in engagement slowed during 2019-20. A greater proportion of customers are on market offers than previously, although the proportion of business customers lags that of residential customers. Switching rates have declined slightly, a trend consistent with most other states.

Consumers still have difficulty understanding advertised offers and the AER and ACCC have progressed work to improve accessibility. Customers considering a time of use (TOU) agreement need to consider their actual usage data to ensure they find a better deal and if possible, use a full 12 months of data.

5.1 Most customers are on market offers

Overall, a high proportion of customers (87.2%) were on market offers in March 2020. This is a slightly higher proportion than June 2019, and continues the historical trend of an increase in market contracts (Figure 5.1). However, the rate of increase has slowed, which could be due to the introduction of the DMO where some customers on high standing offers had their prices automatically reduced, higher satisfaction with their provider, or difficulty understanding the offers and engaging with the market (further information below).

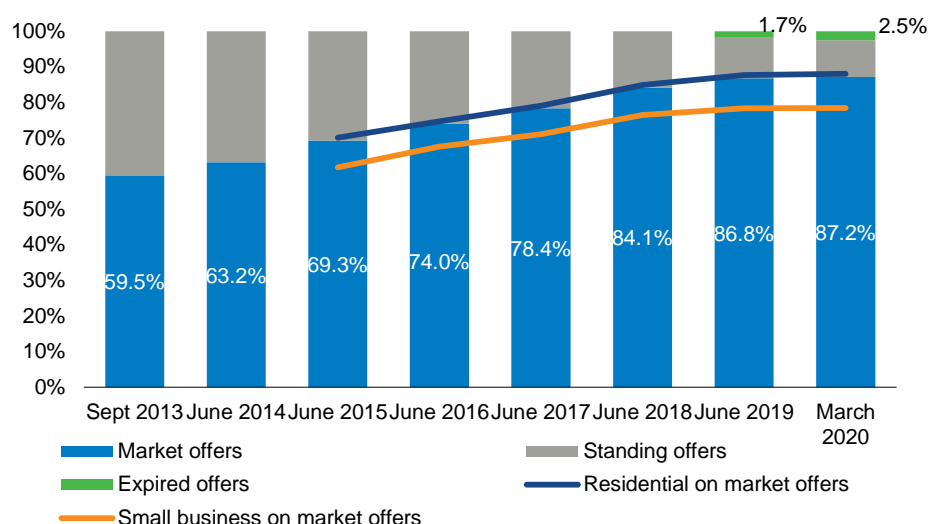
The number of customers on market offers is a measure of engagement in the market.¹⁰⁴ The alternative standing offers, which are usually a higher price, are the default offers for customers who have not engaged in the market at their current supply address, or for some, because the benefits of their market offer has expired.¹⁰⁵

The proportion of small business customers on market offers continues to lag behind that of residential customers – 78.4% of business customers are on market contracts, compared with 88.0% of residential customers. Historically, the proportion of small business customers on market offers has been less than residential customers but increased at a similar rate indicating that the area continues to develop.

¹⁰⁴ AEMC, *2020 Retail Energy Competition Review Final Report*, 30 June 2020, p 44.

¹⁰⁵ Most market offers do not expire but many have a 'fixed benefit period' when discounts apply. Customers then face undiscounted prices (usually standing offer prices) after this period. This is the second year that the AER has presented figures on the number of customers on market offers with expired benefit periods. In previous years, customers on expired market offers were counted as on market offers.

Figure 5.1 Proportion of standing and market contracts in NSW



Data source: AER, *Q3 2019-20 Retail Energy Performance Update*, July 2020, Schedule 2, accessed 15 August 2020; IPART analysis.

5.2 Switching has declined slightly

The rate at which consumers switch retailers has slowed recently. In the 2019 calendar year, 18.1% switched retailers, compared to 20.7% and 18.8% in the previous two years. We observe the same trend in other states except the ACT.¹⁰⁶

Comparatively, the ECA survey considered rates of switching retailer **and/or plan**. This result was stable at 26% - the same as in the June 2018 and June 2019 surveys. Further, 84% said that they don't intend to switch in the next year, a similar result to the year prior (82%).¹⁰⁷

Reduced switching may relate to a number of factors – price stabilisation following recent increases, a reduced spread in prices arising from the DMO, an increase in customer satisfaction, difficulty comparing offers or a combination of these factors.

PIAC states the assessment of customer engagement should consider more than just switching, it should consider other ways of engaging in broader energy matters, and that less switching can be seen as a positive outcome.¹⁰⁸ As noted above, we agree that less switching can be due to positive influences such as increased satisfaction.

¹⁰⁶ AEMC, *2020 Retail Energy Competition Review Final Report*, 30 June 2020, p 84; and AEMC, Data for 'Consumer switching within and between retailer tiers, yearly average between 2013 to 2019' accessed 23 September 2020.

¹⁰⁷ Energy Consumers Australia, *Energy Consumer Sentiment Survey*, June 2020, p 76-77.

¹⁰⁸ PIAC submission to IPART Draft Report, September 2020, p 8.

5.2.1 Less reward for switching

The ECA survey has repeatedly found the main reason for switching is due to dissatisfaction with value for money of retailer.¹⁰⁹ We note that the potential bill savings from switching would not be as great as in previous years because of less price dispersion.

In 2017, customers said that to seriously consider switching retailer or plan, they would need to make a significant saving - residential customers wanted to save an average of \$388 per year on their electricity bill, and small business customers wanted to save about \$796 per year.¹¹⁰ As noted in Chapter 3, spread in prices has reduced significantly, so many customers may not find substantial gains are available to compel them to switch.

5.2.2 Customers could be better off on time-of-use offers

Time-of-use (TOU) offers are available to customers with advanced (or ‘smart’) meters and typically offer different usage prices for different timeslots during day. For some, the pricing structure also varies seasonally. The AER found that around 21% of NSW customers have advanced meters, and about 35% of these are on cost-reflective tariffs.¹¹¹

Last year we found that the majority of customers would be better off on a TOU tariff compared to a single fixed rate, if the right TOU offer is chosen. The different tariff structure presents a trade-off between cost reflectivity and simplicity and we have found that the TOU offers vary significantly and pricing offers can be complex. Some offers have different prices for different seasons, and the timing of peak, off-peak and shoulder periods during the day changes across offers. It is important that customers select a suitable plan for their usage patterns to avoid paying too much. Customers should aim to consider a full 12 months of their historical usage data if it is available (bills can be uploaded directly onto the EnergyMadeEasy website to assist).

Table 5.1 shows the lowest, highest and average supply, peak, shoulder and off-peak charges from around 70 TOU offers that were advertised in June 2020.

Table 5.1 TOU pricing offers in June 2020 (residential and business)

	Lowest	Highest	Average
Supply charge (\$/day)	0.54	5.66	0.94
Peak (c/kWh)	18.8	60.0	40.2
Shoulder (c/kWh)	14.3	35.0	20.5
Off peak (c/kWh)	10.6	32.0	15.8

Source: EnergyMadeEasy, accessed June 2020; IPART analysis.

¹⁰⁹ Energy Consumers Australia, *Energy Consumer Sentiment Survey*, June 2020, p 77.

¹¹⁰ Newgate Research, *Consumer research for the Australian Energy Market Commission's 2017 Retail Competition Review*, April 2017, pp 46-47.

¹¹¹ The installation of smart meters increased steadily during 2018 and 2019, but slowed in the first quarter of 2020 with a fall in the number of new developments installing a smart meter, based on data from the AER. AER, *State of the Energy Market 2020*, July 2020, p 243.

PIAC recommended adding requirement that bills contain more information about ‘best offers’ available to customers, similar to Victorian requirements including whether the customer would be better off on a time-of-use offer based on a year of usage data.¹¹² Whilst we agree that more information specific to a customers may be useful, information about the best TOU offers is premised on the availability of smart meters, which is less widespread in NSW than in Victoria.

5.2.3 Difficulty comparing offers may be constraining engagement, but work is in progress to address this

Last year we reported that customer engagement was constrained by difficulty to compare offers, with only 50% of residential and 43% of small business customers reporting they were confident they could find the right information. We also noted the recent introduction of the DMO would help to improve outcomes for customers, and there were a number of good tools available online and at ServiceNSW counters.¹¹³

In the past 12 months, there has been some improvement in customers’ confidence:¹¹⁴

- ▼ 56% consider that there is enough easily understood information available (up 6%) and
- ▼ 67% are confident in their personal ability to make choices about products (up 6%).

The AER and ACCC recently commissioned the Behavioural Insight Team to study consumers’ comprehension of the reference price. The study focussed on three elements of the Electricity Retail Code – the reference price, and the concepts of the ‘unconditional percentage’ and the ‘lowest possible price’.

The results were published in June 2020. In broad terms, it found that consumers had limited understanding of the concepts and found advertising confusing. It tested three alternative designs and recommended improvements to the format and wording of energy advertisements to make them more accessible to consumers.¹¹⁵

PIAC considered that understanding of and ability to use the reference prices, would be better served by reform of both the formulation of the reference price and the means of its communication.¹¹⁶

These recommendations will inform the AER’s revision of its Retail Pricing Information Guidelines and the ACCC’s work enforcing the Electricity Retail Code.¹¹⁷ We therefore expect these results to improve in the coming 1-2 years, depending on the timing and extent of updates to the AER’s guidelines.

¹¹² PIAC submission to IPART Draft Report, September 2020, p 9.

¹¹³ IPART, *Review of the performance and competitiveness of the NSW Retail Electricity Market 2018-19*, November 2019, p 32.

¹¹⁴ Energy Consumers Australia, *Energy Consumer Sentiment Survey*, June 2020, p 69.

¹¹⁵ The Behavioural Insights Team, *Testing comprehension of the reference price Final Report*, 2020, pp 2, 11-19.

¹¹⁶ PIAC submission to IPART Draft Report, September 2020, p 9.

¹¹⁷ AER, ‘New research shines new light on how consumers understand electricity offers’, 26 June 2020, accessed 14 September 2020.

5.3 Consumers report higher satisfaction with the electricity market, including the level of competition

Our analysis of consumer sentiment is based on a survey conducted in March 2020 by Energy Consumers Australia (ECA).¹¹⁸ Generally, this showed electricity customers are largely satisfied with the service they receive, with 79% of those surveyed satisfied overall. This is a similar result to other states.¹¹⁹

Compared to the survey taken 12 months prior, there was higher satisfaction for services provided by electricity retailers:¹²⁰

- ▼ Value for money (61% satisfied, up from 45%).
- ▼ Customer service (69% satisfied, up from 59%).
- ▼ Billing and account options (73% satisfied, up from 67%).

We also note that the Energy and Water Ombudsman NSW (EWON) received significantly fewer complaints during 2019-20, down by 29% from 2018-19.¹²¹

Whilst satisfaction with the value for money of electricity is higher than in previous surveys, this result remains considerably lower than for other services. Satisfaction levels ranged from 67% to 79% for water, gas, internet, mobile phone, insurance and banking services. Also, relatively few (38%) consider that the market is working in their long-term interests (although this has increased from 31%).¹²²

In response to our Draft Report, EWON suggests that complaints are likely to increase during 2020-21, particularly in response to COVID-19 when the temporary regulatory responses protecting energy customers finish.¹²³

¹¹⁸ In previous years, the AMEC has commissioned its own surveys of residential and/or business customer sentiment. For 2019-20, the AMEC worked with the ECA to refine its annual survey and the AEMC also relied on these results. AEMC, [2020 Retail Energy Competition Review Final Report](#), 30 June 2020, p 83.

¹¹⁹ The ECA observes that the 6-monthly surveys undertaken in autumn/winter generally show a lower level of satisfaction than those undertaken in spring/summer. Energy Consumers Australia, [Energy Consumer Sentiment Survey](#), June 2020, pp 3, 14.

¹²⁰ Energy Consumers Australia, [Energy Consumer Sentiment Survey](#), June 2020, p 66.

¹²¹ Energy & Water Ombudsman NSW, [EWON Insights Complaints Analysis 1 April 2019 - 30 June 2019](#), p 6; Energy & Water Ombudsman NSW, [EWON Insights Complaints Analysis 1 April 2020 - 30 June 2020](#), p 6; and IPART analysis.

¹²² Energy Consumers Australia, [Energy Consumer Sentiment Survey](#), June 2020, pp 68 - 69.

¹²³ [EWON submission to IPART Draft Report](#), September 2020, p 7.

Appendix

A Referral from the Minister



The Honourable Matt Kean MP
Minister for Energy and Environment

IRF20/1776

Ms Liz Livingstone
Chief Executive Officer
Independent Pricing and Regulatory Tribunal
PO Box K35
HAYMARKET POST SHOP NSW 1240

Dear Ms Livingstone *Liz*

The NSW Government recognises the valuable contribution made by the Independent Pricing and Regulatory Tribunal's (IPART) annual reviews of retail energy market performance and competition. These reviews provide an important benchmark to monitor competition and pricing in the NSW retail energy sector.

I note IPART's recommendation in its 2018-19 report that IPART no longer undertake an annual review and report on the performance and competitiveness of the retail energy market. The NSW Government considers that there is value in retaining the annual energy retail market monitor review to identify NSW-specific outcomes and trends following price deregulation, including changes in average customer bills over time.

The market monitor role is particularly valuable at present given the impact of the COVID-19 pandemic on the NSW energy retail market, as well as the impact of the first year of the Commonwealth Government's Default Market Offer. I request that IPART include specific analysis of how these two issues have affected the performance and competitiveness of the NSW retail energy market in the 2019-20 review.

At this stage, I do not request a special review by IPART as part of its market monitoring process for 2019-20.

If you have any questions about this matter, please do not hesitate to contact Ms Sophia Vincent, Acting Director, Energy Consumers and Competition Policy, Department of Planning, Industry and Environment on 8229 2927 or at sophia.vincent@planning.nsw.gov.au.

Yours sincerely

Matt Kean MP
Minister for Energy and Environment

2.6.20

B IPART's statutory role

We provide this report under our obligations as a Market Monitor under part 9A of the National Energy Retail Law (NSW), set out below.

Section 234A – Market Monitor

1. In this Part, the Market Monitor is the person prescribed by the NSW regulations as the Market Monitor for the purposes of this Part.
2. The Market Monitor is to monitor the performance and competitiveness of the retail electricity market and the retail gas market in New South Wales for small customers.
3. The Market Monitor is to report annually to the Minister on the performance and competitiveness of each of the retail electricity market and the retail gas market in New South Wales for small customers, including on the following matters –
 - a) the participation of small customers in each market and, if the Market Monitor thinks it appropriate, particular groups of small customers;
 - b) prices of electricity or gas for small customers in regional areas;
 - c) any barriers to entry to or exit from, or expansion, in each market;
 - d) the extent to which retailers are competing to attract and retain small customers;
 - e) whether price movements and price and product diversity in each market are consistent with a competitive market;
 - f) if the Market Monitor is of the opinion that it is required, steps necessary to improve the competitiveness of each market;
 - g) whether there is a need for a detailed review of retail prices and profit margins in each market;
 - h) any other matters the Market Monitor thinks appropriate.
4. An annual report is to prepared for each year commencing on 1 July.
- 4A. The first annual report for the retail gas market is to be for the year commencing 1 July 2017.
5. The annual report is to be provided to the Minister not later than 30 November following the end of the year to which the report relates.
6. The Minister is to lay the annual report or cause it to be laid before both Houses of Parliament of this jurisdiction not later than 30 days after receiving the report.

7. In preparing an annual report, the Market Monitor is to have regard only to the following –

- a) information provided by the AEMC and the AER;
- b) any publicly available information;
- c) information provided by a retailer under subsection (8).

8. The Market Monitor may, by notice in writing served on a retailer, require the retailer to provide particulars to the Market Monitor of the number of market offer customers of the retailer, the market offer prices of those customers, the number of customers on each standing offer price offered by the retailer that has been publicly advertised and those standing offer prices.

Our assessment

Our assessment of the electricity market follows a traditional structure-behaviour-outcomes approach, looking at market structure, then retailer behaviour and outcomes followed by consumer behaviour and outcomes.

Table B.1 maps the legislative requirements to the relevant section in the report.

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

Factor in National Energy Retail Law (NSW) (s 234A (3))	Chapter in this report
a) The participation of small customers in the market and, if the Market Monitor thinks it appropriate, particular groups of small customers	Chapter 5
b) Prices of electricity or gas for small customers in regional areas;	Chapter 4
c) Any barriers to entry or exit from, or expansion in the market	Chapter 3
d) The extent to which retailers are competing to attract and retain small customers	Chapter 4
e) Whether price movements and price and product diversity in the market are consistent with a competitive market	Chapter 4
f) If the Market monitor is of the opinion that it is required, steps necessary to improve the competitiveness of each market	Chapter 2
g) Whether there is a need to for a detailed review of retail prices and profit margins in each market.	Chapter 4

C Summary of offers available on EnergyMadeEasy in June 2020

Table C.1 below shows the retailers that had electricity offers available on EnergyMadeEasy in June 2020. Some retailers have multiple brands. It also shows the types of offers that were available.

A tick indicates that the offer was available across NSW, that is, in all three network areas (Ausgrid, Endeavour Energy and Essential Energy). Where the offer/s were restricted to certain customer sub-groups, either by location or customer type, this information is provided in text.

Table C.1 Summary of types of offers on EnergyMadeEasy in June 2020

	Retailer	Types of offer			
		Any Time (Single Rate)	Time of Use (TOU)	Demand Tariffs	Quota
1	Origin Energy	✓	✓	Only business Only Ausgrid	
2	EnergyAustralia	✓	✓	Only business Only Ausgrid	
3	(i) AGL	✓	✓	Only business Only Ausgrid	
	(ii) Powerdirect	✓	✓	Only business Only Ausgrid	
	(iii) ActewAGL	Endeavour & Essential	Endeavour & Essential	-	
4	1st Energy	✓	✓	Only business Only Ausgrid	
5	Alinta Energy	✓	✓	Only Ausgrid	
6	(i) amaysim Energy	✓	✓	-	✓
	(ii) Click Energy	✓	✓	-	
7	Amber Electric (new)	✓ Residential only	-	-	
8	Blue NRG	✓ Business only	✓ Business only	✓ Business only	
9	Bright Spark Power (new)	✓ Residential only	-	-	
10	(i) Commander Power & Gas	✓	✓	-	
	(ii) Dodo Power & Gas	✓ Residential only	✓ Residential only	-	

	Retailer	Types of offer			
		Any Time (Single Rate)	Time of Use (TOU)	Demand Tariffs	Quota
11	CovaU	✓	✓	✓	
12	Diamond Energy	✓	✓	✓ Residential only	
13	Discover Energy (new)	✓	✓	✓	
14	Elysian Energy (new)	✓	✓	✓	
15	Energy Locals	✓	✓	Only Ausgrid	
16	Enova Energy	✓	✓	-	
17	Future X Power	✓	✓	-	
18	Globird Energy (new)	✓	✓	✓	
19	Locality Planning Energy (new)	✓	Ausgrid & Essential Business only	Ausgrid Business only	
20	Mojo Power	✓	Ausgrid Residential only	-	
21	Momentum Energy	✓	✓	Ausgrid & Endeavour	
22	Nectr (new)	Ausgrid & Endeavour Residential only	Ausgrid & Endeavour Residential only	-	
23	Next Business Energy	✓ Business only	✓ Business only	✓ Business only	
24	OVO Energy (new)	✓ Residential only	Residential only for Ausgrid & Essential	-	
25	Pooled Energy	Ausgrid & Endeavour	Ausgrid & Endeavour	Ausgrid Business only	
26	Powerclub	✓	Endeavour & Essential	-	
27	(i) Powershop	✓	✓	Ausgrid Business only	
	(ii) Kogan Energy (new)	✓ Residential only	✓ Residential only	-	
28	QEnergy	✓	✓	Ausgrid Business only	
29	ReAmped Energy	✓	✓	-	
30	Red Energy	✓	✓	✓	
31	Simply Energy	✓	✓	Ausgrid Business only	

Retailer		Types of offer			
		Any Time (Single Rate)	Time of Use (TOU)	Demand Tariffs	Quota
32	Sumo	✓	✓	Residential - Ausgrid & Endeavour; Business–Ausgrid only	
33	Tango Energy (new)	Ausgrid & Endeavour	Ausgrid & Endeavour	Ausgrid & Endeavour	

D Typical consumers and data tables

To analyse prices, we have calculated the annual bill that ‘typical’ residential and business customers would receive under every offer available on EnergyMadeEasy in June of each year.

D.1 Typical customers

We considered a typical residential and small business customer in each in the three distribution network areas of NSW. We use the three distribution network areas because:

- ▼ The network costs are a major contributor to final bills, and each distribution business has different costs. Therefore, the bills in each area should be impacted differently.
- ▼ This method helps to distinguish between urban and regional customers. The Essential Energy distribution network covers most of regional NSW.

For our analysis, we adopt a typical usage that we use to calculate bills. The bill changes we report may differ from any individual’s bill. For residential customers, we used the volumes that the AER uses to calculate the DMO to allow suitable comparisons. These are:

- ▼ 3,900 kWh in the Ausgrid area
- ▼ 4,900 kWh in the Endeavour Energy area
- ▼ 4,600 kWh in the Essential Energy area

This is a change from our previous approach where we assumed 5,100 kWh for residential customers across all regions, which most closely reflected a two-person household in metropolitan NSW.

For small business customers, we have adopted a usage of 20,000 kWh, also in line with the DMO. In previous reports, we used 10,000kWh for our assessment.

D.2 Data tables

The following tables set out electricity bills calculated using the median lowest market offer and the median standing offer, using all offers available in June of each year. We provide this for residential and small business customers, in each network area.

Table D.1 Median residential electricity bill by network area (DMO specified kWh pa, GST-inclusive, nominal)

Network Area	Offer type	2013-14 ^a	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	Cum. change
Ausgrid (3,900 kWh)	Lowest	1,218	1,106	1,051	1,197	1,307	1,258	1,218	0.0%
	Standing	1,353	1,282	1,232	1,372	1,597	1,618	1,466	8.3%
	DMO							1,467	
Endeavour (4,900 kWh)	Lowest	1,422	1,291	1,245	1,374	1,536	1,457	1,427	0.4%
	Standing	1,610	1,512	1,468	1,632	1,900	1,885	1,718	6.8%
	DMO							1,720	
Essential (4,600 kWh)	Lowest	1,886	1,729	1,447	1,617	1,693	1,638	1,652	-12.4%
	Standing	2,075	1,975	1,648	1,854	2,075	2,148	1,956	-5.8%
	DMO							1,957	

Source: [EnergyMadeEasy](#); IPART analysis.

Table D.2 Median small business electricity bill by network area (DMO specified 20,000kWh pa, GST-inclusive, nominal)

Network Area	Offer type	2013-14 ^a	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	Cum. change
Ausgrid	Lowest		5,758	4,989	5,589	6,334	5,974	5,881	2.1%
	Standing	7,257	6,773	5,941	6,410	8,351	8,277	7,370	8.8%
	DMO							7,371	
Endeavour	Lowest		4,454	4,206	4,949	5,449	5,289	5,232	17.5%
	Standing	6,008	5,252	5,106	5,543	6,794	6,783	6,202	18.1%
	DMO							6,204	
Essential	Lowest		6,856	5,615	6,415	6,961	6,668	6,701	-2.3%
	Standing	8,527	7,957	6,744	7,511	8,859	8,684	8,043	1.1%
	DMO							8,045	

^a Prices were still regulated by the NSW Government in this year.

Source: [EnergyMadeEasy](#); IPART analysis.

Glossary

ACCC	Australian Competition and Consumer Commission.
AER	Australian Energy Regulator.
AEMC	Australian Energy Market Commission.
Big three retailers	The largest three electricity retailers in NSW (Origin Energy, EnergyAustralia and AGL Energy).
DMO	Default Market Offer
DPIE	NSW Department of Planning, industry and Environment.
ECA	Energy Consumers Australia.
ESB	Energy Security Board.
EWON	Energy and Water Ombudsman (NSW).
kWh	Kilowatt hour.
ROLR	Retailer of last resort.
Spot market	One-off transactions, as distinct from transactions occurring under supply contracts.