

22 December 2017

## WHAT

IPART reviewed the performance and competitiveness of the retail electricity market in NSW for 2016-17. Our 2017 report is our third annual monitoring report on the retail electricity market.

In addition to the matters that we are required to investigate under [section 234A of the National Energy Retail Law \(NSW\)](#), the NSW Minister for Energy and Utilities also asked us to review:

- [electricity and gas price movements into 2017-18](#), to advise on the drivers of any price changes and whether any such changes reflect efficient costs in a competitive market
- [how retailers are putting downward pressure on bills for hardship customers](#), and
- [how retailers are managing the roll-out of digital meters](#).

## WHY

Prior to 2014-15, IPART set a regulated retail price for electricity customers. Retailers could offer different prices to customers, but customers who did not accept a “market offer” were charged the regulated rates set by IPART.

[IPART has not set regulated electricity prices since 2013-14](#), which means that all retailers set their own prices. This should drive better outcomes than regulated prices, because if retailers do not have attractive offers in the market they will be outcompeted and lose customers.

When the NSW Government deregulated prices, [IPART was given a role](#) to review the performance of the market each year to assess how competition is working.

## WHO

Our role as market monitor is focused on the retail electricity market for residential and small business customers. While our 2016-17 review focused on the electricity market, we also looked at the most recent changes in the costs of supplying gas to assess whether the price movements are consistent with a competitive market.

## KEY FINDINGS

We found that electricity prices for residential customers increased by an average of 14% in July this year, which was driven by rapidly increasing wholesale costs.

However, these rising costs have been largely offset by decreases in network charges over the previous two years. The net result is that on average, residential customers are paying 2% more for electricity since 2013-14 when prices were still regulated. This is a real decrease in prices of 5% (once CPI is accounted for).

This period of relative price stability contrasts with the large price increases in the 5 years leading up to 2013-14, which were driven by increases in network charges.

Since 2013-14, competition in the retail market has continued to develop. The number of brands competing in the market has risen from 15 to 26; the market share

of smaller retailers has increased from 7% to 14% and the number of small customers on market offers has risen from 63% to 77%. More than 30% of customers switched either retailer or offer in the last year.

We also found no strong evidence that the margins being earned by electricity retailers in NSW suggest that the level of competition is not developing effectively, or that they are higher than appropriate for the systematic risk they face. Retailers' margins are in line with the profit margins earned by a large sample of listed retailers across different sectors in Australia, the United States, the United Kingdom, and Canada.

However, further improvements could be made to make it easier for the 23% of customers who are still on standing offers to shop around. As the spread of offers in the market has widened, customers on standing offers are paying around 25% more than customers who have switched to a better deal.

Retailers, governments and third parties should focus on facilitating increased customer engagement in the retail market to further enhance competition, and in particular ensuring that vulnerable and hardship customers are not paying more than they need to.

Customers can find information about other market offers at [www.energymadeeasy.gov.au](http://www.energymadeeasy.gov.au).

We made several recommendations to the NSW Government to:

- ▼ Enhance and promote the AER's [energymadeeasy.gov.au](http://energymadeeasy.gov.au) web comparison tool so that customers are better able to compare offers, including customers with solar panels.

- ▼ Work with the COAG Energy Council to make changes to the National Energy Retail Law and rules to require retailers to provide advance notification of price changes to customers. The price change notification should also inform customers that they can shop around for other deals on the [energymadeeasy.gov.au](http://energymadeeasy.gov.au) website.