The NEM - still winging it

Observations from the Vinnies’ Tariff-Tracking Project
September 2015
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The National Energy Market – Still winging it
Observations from the Vinnies’ Tariff-Tracking Project

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Melbourne, September 2015

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The views expressed in this document do not necessarily reflect the views of Energy Consumers Australia.

We also wish to thank and acknowledge the efforts of the various retailers that review and provide feedback on these reports. While any errors that may occur are our own, we appreciate their views, suggestions and cooperation.
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Background: The Tariff-Tracking Project

The St Vincent de Paul Society, in conjunction with Alviss Consulting, has been tracking changes to residential energy tariffs and reporting on household impacts since 2010. Initially the Tariff-Tracking project only covered Victoria but has since expanded to include New South Wales, Queensland, South Australia, Tasmania and the Australian Capital Territory.

The rationale for tracking changes to domestic energy prices has been to document price increases, analyse market developments and inform the broader community about bill impacts and potential savings to be made.

In our view, there is still a limited knowledge and understanding in the community of the various energy tariffs available, how they are changing, and how tariff changes impact on households’ energy bills and energy affordability more broadly.

Only by improving this awareness and understanding can we ensure that the regulatory framework (for example, in relation to price information and disclosure) is adequate, and promote a competitive retail market. Furthermore, this increased knowledge will allow for close monitoring of the impact price and tariff changes have on households’ bills, and the affordability of this essential service.

In addition, a key aim of this project has been to document and analyse price and product developments arising from government policies and industry innovations, including the deregulation of retail prices, ‘green policies’, smart meter rollouts and transitions towards other smart grid developments.

To date we have developed four workbooks for each of the National Electricity Market (NEM) jurisdictions.\(^1\) The workbooks allow the user to enter consumption levels and analyse household bills for standing or regulated gas and electricity offers, as well as published electricity and gas market offers.\(^2\)

The workbooks, as well as associated reports, can be accessed at the St Vincent de Paul Society’s website: www.vinnies.org.au/energy

This paper is the result of a comparison of the state by state-based analyses undertaken as part of the Tariff-Tracking project, as well as reflections on the public debate on energy market developments and reasons for price increases over the last year.

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\(^1\) As Tasmania does not have regulated/standing offers for gas, only three workbooks have been produced for this jurisdiction.

Overview

This report is comprised of four sections.

Section 1 ‘How energy prices are tracking’ explores changes to electricity and gas prices across Australia from July 2009 to July 2015, as well as price changes occurring since the repeal of the carbon tax on 17 July 2014, in order to assess the key drivers for price change in each jurisdiction. Furthermore, it compares changes to the consumption component of bills with changes to the fixed supply charge component.

In relation to electricity, we find that regulated and standing offer prices (the base-rate) are down in most jurisdictions compared to July 2014 (prior to the repeal of the carbon tax). However the size of the reductions and key causes vary between jurisdictions. In relation to gas, the price is now the same, or higher, than it was prior to the repeal in all jurisdictions except NSW. We also find that the fixed supply charge has increased substantially in some jurisdictions and that households in Queensland and Victoria now typically pay $450 per annum in electricity supply charges.

Section 2 ‘Electricity bills: Where does the money go?’ focuses on the various cost components of electricity bills (the bill-stack) by exploring the cost of each component for each jurisdiction, as well as changes to these cost components over time.

Our findings show that the NEM average for the retail cost component is a significant $600 per customer per annum. We argue that the retail component of bills is too high in the deregulated, competitive electricity market and we conclude that this is either because the cost of competition is high or because competition is ineffective.

Section 3 ‘Concerning market developments’ discusses some concerning retail market trends and developments that we have identified as part of the Vinnies’ Tariff-Tracking project. These trends include significant increases to the price-spread, a reduction in customer switching and market engagement, and significant market and regulatory failures in relation to ensuring customer access to clear and reliable information about energy offers. Consumers essentially have three options in the deregulated energy market:

- Stay on the standing offer and pay your retailer a significant premium; or
- Switch to a market offer and save yourself some money but expect to pay your retailer a significant premium when the benefit term is up (typically after one year) if you do not switch again; or
- Switch to a market offer and save and repeat annually, indefinitely.
As a result, we have an energy retail market that ensures customers are paying over the odds for an essential service unless they annually dedicate time to compare energy plans and switch plan or retailer. However we can document that retailers fail to provide potential customers with the information required by regulation and while we note, and welcome, some recent regulatory changes, we highlight the importance of ongoing regulatory monitoring and enforcement.

Section 4 ‘Stop winging it and get the framework right’ argues that there will always be customers, for various and valid reasons, that will not or cannot participate in the market and allowing retailers to charge them a significant premium, just because they can, is not an acceptable outcome. That this ‘sticky’ customer group encompasses vulnerable consumers, such as the elderly and non-metropolitan households, also accentuates the importance of addressing this issue.

We continue to state that downward pressures on standing offers (the base-rate) is one important measure that can reduce the premiums currently being paid. Downward pressure on standing offers is important because these rates act as the base-rate for retailers and as most discounts offered on the base-rate have a limited benefit period, many relatively active consumers will find themselves paying the premium rate from time to time. With benefit periods typically lasting for 12 months, a brief snooze is all it takes before a customer again is paying a premium.

Finally, we note that this also impacts on market offer customers that are unable to pay their bills on time. Just like the ‘sticky’ customers on their standing offers and the ‘snoozy’ customers on offers with expired benefit periods, the late paying customers are also paying the base-rate with its significant premium.

Benefiting from shopping around is a positive aspect of competitive markets and consumer choice, and we have a solid track record in encouraging consumers to get involved and seek a better price. However, with the outrageous retail premiums that customers are currently being charged, we need the market model fixed rather than just blaming consumers for failing to shop around.

We therefore, yet again, outline our recommended approach to place downward pressure on standing offer prices. We welcome the Victorian Government’s recent ‘Consumer Protection’ Bill that seeks to implement this approach and thus demonstrates that political initiatives and processes in relation to the design and regulation of energy retail markets are still required. We therefore call upon the Federal Minister for Energy, Minister Frydenberg, in his role as the chair of COAG’s Energy Council, to initiate a review of the National Energy Customer Framework (NECF) in relation to retail pricing in deregulated markets. This review should focus on current market arrangements and aim to ensure that the legislation, regulation and rules are able to promote energy retail competition that delivers efficient prices and long term benefits to consumers.
1. How energy prices are tracking

This section explores changes to electricity and gas prices across Australia from July 2009 to July 2015, as well as price changes occurring since the repeal of the carbon tax on 17 July 2014, in order to assess the key drivers for price changes in each jurisdiction. Furthermore, it compares changes to the consumption component of bills with the fixed supply charge component.

1.1 Electricity prices

Regulated and standing offer prices (the base-rate) are down in most jurisdictions compared to July 2014 (prior to the repeal of the carbon tax). However, the size of the reductions and key causes, vary between jurisdictions. Chart 1 shows estimated annual bills for households consuming 6,000kWh per annum (single rate) from July 2009 to July 2015. The dotted lines represent electricity bills in the Northern Territory and Western Australia, the two non-NEM jurisdictions. As Tasmania introduced carbon exclusive prices from 1 July 2015 (rather than backdating new prices after the repeal), Tasmania’s July 2014 price is carbon exclusive. All NEM jurisdictions therefore have lower base-rates now than they did when the carbon tax was in place. In the Northern Territory, however, price increases post the repeal have outweighed the initial reduction that occurred after the repeal.

Looking at longer-term changes, chart 1 also shows the increasing differences in electricity prices between jurisdictions. While South Australia had the highest prices in July 2009 and July 2015, and ACT had the lowest, the difference between the annual bill for South Australian and ACT households (with this consumption level) was just $350 in 2009 compared to approximately $1,000 now.

“While South Australia had the highest prices in July 2009 and July 2015, and ACT had the lowest, the difference between the annual bill for South Australian and ACT households (with this consumption level) was just $350 in 2009 compared to approximately $1,000 now.”
The Australian Energy Regulator (AER) regulates the network component of electricity bills in the NEM and network prices were reduced on 1 July 2015 in many jurisdictions.

Chart 2 below shows the incumbent retailers’ regulated/standing offer bills for each jurisdiction as of July 2014 (carbon inclusive except for Tasmania) and October 2014, January 2015, April 2015 and July 2015 (all carbon exclusive). It shows that for households with a consumption level typical of their jurisdiction, annual bills reduced by between $110 and $180 (4-11%) after the repeal of the carbon tax. However, we note that this is an annual bill reduction and the quarterly bills received by households would only have reduced by 25% of that (that is approximately $25 to $45). Furthermore, as households in some jurisdictions have notably higher electricity consumption during the winter, these households would not have been able to register much difference between the bill prior to the repeal and the bill after. The regulated/standing offer prices also changed to reflect changes to the regulated network charges. In Victoria the incumbents’ average standing offer (across five network areas) increased by $100 (6%) after new network charges were introduced on 1 January 2015. In all other jurisdictions new network charges took effect in July 2015 and reduced regulated/standing offer rates by 11% in NSW (average across three network areas), 9% in South Australia, 6% in Queensland and 5% in the ACT. In Tasmania the regulated rate increased by 2% in July 2015.

3 In Victoria and NSW the standing offer price is based on the average retail standing offer in each network area. As the prices differ between network areas in NSW and Victoria, the estimated bills in these two states are based on the average across network areas. In South Australia, the price is based on the average retail standing offer in July 2015 and AGL’s regulated/standing offer prior to that. The regulated rate has been used for ACT, Queensland, Tasmania, Western Australia and the Northern Territory. Note that the transitional tariffs previously available in SA and currently available in NSW, are not included in this chart.
As such, the greatest cause of decreasing electricity base-rates in NSW and South Australia has been the reduction in regulated network prices, while the repeal of the carbon tax has been the main contributor in the ACT. In Queensland the reduced network charges and the repeal have had similar impact on reducing the base rates.

**Chart 2** Changes to electricity regulated/standing offers from July 2014 to July 2015 as estimated annual bills (nominal, inc GST), various consumption levels, single rate

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**1.2 Gas prices**

Typical household gas consumption varies significantly between jurisdictions. In Victoria, for example, typical household consumption is over 60,000Mj per annum. In Queensland, on the other hand, household consumption is typically less than 10,000Mj per annum. Chart 3 below compares annual gas bills across Australia (except the Northern Territory) from July 2009 to July 2015 for households consuming 30,000Mj per annum. It shows that gas prices are greatest in Queensland and lowest in Victoria. However, if we assume a more representative consumption level for each jurisdiction, Victorians will have greater gas bills than Queenslanders. Furthermore, South Australian gas prices are nearly as high as those in Queensland and considering the cost of electricity in South Australia (see chart 1 above) it is clear that South Australians have amongst the highest energy costs in the country.

Chart 3 also shows that the price difference between the jurisdictions has not increased since 2009. Unlike in the case of electricity, the difference between the jurisdiction with the highest prices (Queensland) and the jurisdiction with the lowest (Victoria) has remained steady on approximately 60%.

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*All bills are based on the incumbent’s retail standing offer in each network area. As the prices differ between network areas in NSW and Victoria, the estimated bills in these two states are based on the average across network areas. Typical annual consumption level for each jurisdiction has been applied: Vic 4200 kWh, NSW 7200kWh, SA 6000kWh, ACT 6500kWh, QLD 8000kWh and Tasmania 9060kWh.*
Chart 3 Changes to gas prices in Australia July 2009 to July 2015 as estimated annual bills (nominal, inc GST) for gas regulated/standing offers, 30,000MJ per annum

Chart 4 below shows the incumbent retailers’ regulated/standing/standard offer bills for each jurisdiction as of July 2014 (carbon inclusive except for Aurora in Tasmania) and October 2014, January 2015, April 2015 and July 2015 (all carbon exclusive). It shows that for households with a consumption level typical of their jurisdiction, annual gas bills reduced by between $30 and $100 (4-8%) after the repeal of the carbon tax.

In Victoria, where the initial price decrease was highest, the incumbents’ average standing/standard offer (across four metropolitan gas zones) increased by $100 (8%) after new distribution charges were introduced on 1 January 2015. This price increase effectively cancelled out the impact of the repeal six months earlier. In Tasmania, the January 2015 increases (also 8%) were higher than the post repeal decreases. In South Australia, Queensland and the ACT, the price increases in July 2015 mirrored the price decreases post the repeal, resulting in July 2015 prices being similar to those prior to the repeal. NSW customers, on the other hand, experienced price decreases after the repeal as well as in July 2015 when the new distribution charges took effect.

In Victoria the standing offer price is based on the incumbents’ average retail standing offer across the eight main gas zones. In NSW the standing offer price is based on the regulated retail offer across the twelve gas zones. In Queensland it is based on the average AGL and Origin standard retail gas offers in the North Brisbane and South Brisbane gas zones. In South Australia it is based on Origin’s regulated/standing offers across five gas zones. In the ACT it is based on ActewAGL’s standard gas offer. In Tasmania (data from 2013 to 2015 only) it is based on Aurora and Tas Gas’ average standard offer. In Western Australia it is based on the government’s price cap for customers in the southwest region.
1.3 Consumption charges vs. supply charges

The supply charge is a fixed daily charge that is paid in addition to the consumption charges for electricity/gas used. High supply charges result in low consumption households paying a proportionally higher cost per unit of energy than high consumption households. This has significant equity implications as some customer classes characterised by low and fixed income also use less electricity than the average household. Pensioners make up one of these lower consumption groups.

Chart 5 below shows the annual electricity supply charge for households across Australia since July 2009 (households with a single rate tariff). It shows that while the

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6 All bills are based on the incumbent’s retail standing/standard offer in each of the metropolitan gas zones. In Tasmania the incumbent are Aurora and Tas Gas and in Queensland AGL and Origin are the incumbent retailers. As the prices differ between metropolitan gas zones in Queensland and Victoria, the estimated bills for these two states are based on the average across 2 gas zones in Queensland and 4 in Victoria. Typical annual consumption level for each jurisdiction has been applied: Vic 63000Mj, NSW 24000Mj, SA 21000Mj, ACT 48000Mj, QLD 10000Mj and Tasmania 40000Mj. Note regarding Tasmania: Aurora’s July 2014 prices are carbon exclusive while Tas Gas’ (as well as all other retailers in other jurisdictions) prices are carbon inclusive.

7 ABS survey data shows that households with government pensions and allowances as their main source of income have a mean weekly electricity consumption of approximately 122kWh and that households with wages and salaries as their main income source use approximately 20kWh more per week (142kWh/week). See ABS, 4670.0 Household Energy Consumption Survey 2012, Table 8, September 2013. Furthermore, Victorian consumption surveys have found that concession card holders in general, and households on the aged concession in particular, have lower consumption than the general population. See Victorian Utility Consumption Household Survey 2007 by Roy Morgan Research for Dept. of Human Services, Final report, April 2008, p 75. The lower consumption levels among aged concession card holders relates to the average size of these households. Pensioners, as a customer group, are on average smaller households (fewer people) compared to the population on a whole and this has an impact on their consumption levels.
electricity supply charge has increased in all jurisdictions, the size of the increases, as well as the supply charge to start with, varies significantly. Queensland households, for example, now pay $380 more per annum in supply charges compared to 2009. That is an increase of almost 440%. The Victorian supply charge has also increased significantly. It is now $260 more per annum compared to July 2009. Households in Queensland and Victoria will on average pay $450 per annum in electricity supply charges in 2015/16. Tasmanian households have experienced less of an increase but their supply charge has been relatively high for the entire period. The two non-NEM jurisdictions (WA and NT) have the lowest supply charges in the country. Table 1 below shows the total amount households in each jurisdiction pay in electricity supply charges over this 7 year period.

Table 1 The amount households pay in electricity supply charge over 7 years from July 2009 to July 2016 (nominal, inc GST) for electricity regulated/standing offers and proportion to be paid in 2015/16, 6,000kWh per annum, single rate

<table>
<thead>
<tr>
<th></th>
<th>QLD</th>
<th>NSW</th>
<th>SA</th>
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<th>ACT</th>
<th>TAS</th>
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<td>Total</td>
<td>$1,390</td>
<td>$2,140</td>
<td>$1,640</td>
<td>$2,290</td>
<td>$1,660</td>
<td>$2,220</td>
<td>$1,050</td>
<td>$1,110</td>
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<tr>
<td>2015/16^</td>
<td>33%</td>
<td>17%</td>
<td>18%</td>
<td>20%</td>
<td>17%</td>
<td>15%</td>
<td>16%</td>
<td>18%</td>
</tr>
</tbody>
</table>

^ Proportion of total supply charge from 2009 – 2016 that will be paid this year

Chart 5 Changes ($) to electricity supply charge in Australia July 2009 to July 2015 as estimated annual amount (nominal, inc GST) for electricity regulated/standing offers, single rate

In Victoria and NSW the supply charge is based on the average retail standing offer in each network area. As the prices differ between network areas in NSW and Victoria, the estimated bills in these two states are based on the average across network areas. In South Australia, the price is based on the average retail standing offer in July 2015 and AGL’s regulated/standing offer prior to that. The regulated rate has been used for ACT, Queensland, Tasmania, Western Australia and the Northern Territory. Note that the transitional tariffs previously available in SA, and currently available in NSW, are not included in this chart.

Ibid.
Chart 6 below shows the fixed supply charge as proportion of total bill. For most jurisdictions high supply charges result in supply charges making up a high proportion of bills (and vice versa), but chart 6 shows that the supply charge proportion in the ACT is much higher than in South Australia, despite the two jurisdictions having similarly sized supply charges (as per chart 5 above). This is because the electricity consumption rates are much lower in the ACT than they are in South Australia.

**Chart 6** Changes (%) to electricity supply charge in Australia July 2009 to July 2015 as proportion of total electricity bill for regulated/standing offers, 6000kWh, single rate

Chart 7 below shows the proportion of the total bill that currently goes to cover the supply and consumption charges for households consuming 6,000kWh per annum. It shows that the supply charge currently accounts for approximately 20% of the total bill in Queensland, NSW, Victoria and the ACT.

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10 Ibid.
**Chart 7** Current electricity supply charge and usage charges as proportion of total bill for regulated/standing offers, 6000kWh, single rate\(^\text{11}\)

\[^{11}\text{Ibid.}\]
2. Electricity bills: Where does the money go?

Electricity bills are made up of several components, including generation (wholesale market) costs, network costs (distribution and transmission), “green schemes” and costs associated with other public policy initiatives, and retail costs. In Victoria, South Australia and NSW where retail prices are deregulated, effective competition is required to ensure that households do not pay more than necessary for both generation (wholesale) and retail services (including retail margins). This section therefore seeks to explore the cost of each component, for each jurisdiction, as well as changes to these cost components over time.

As shown by chart 1 above, electricity bills increased significantly from July 2009 to July 2014 (prior to the repeal) before declining, to various extents, post the repeal and with new network tariffs taking effect in July 2015.

Chart 8 below shows that Network Use of System (NUOS) charges increased in all of the NEM electricity networks between July 2009 and July 2014, before decreasing in most jurisdictions (NSW, Queensland, South Australia and the ACT) in July 2015. It also shows that the NUOS charges, as well as the price changes, vary significantly between the networks. Households in Tasmania (Aurora’s network) now pay the highest NUOS charges in the NEM. The NUOS charges are lowest in the ACT (ActewAGL’s network) and Victoria’s Citipower network. Except for SP Ausnet, all of the Victorian NUOS charges are lower compared to NSW and Queensland, despite Victorian electricity bills being relatively high (similar to that of Queensland and higher than NSW) in chart 1 above.
Chart 8: NUOS charges from July 2009 to July 2015 as estimated annual cost (GST exclusive) for households using 6,000kWh per annum, single rate

Chart 9 below looks at NUOS charges as a proportion of total bill. It shows that the NUOS proportion of electricity bills is now highest in Tasmania (Aurora) and that all jurisdictions, except NSW and South Australia, have experienced an increase in NUOS proportion since July 2014.

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12 The annual NUOS charges have been calculated by allocating 1,500kWh per quarter (again based on annual consumption of 6,000kWh) to the step charges stipulated in the NUOS. The annual NUOS cost also includes fixed charges. Note that as United Energy’s NUOS charge has been a seasonal tariff over the last four years, the United Energy consumption used in these calculations is thus based on a proportional allocation of a 5 month summer tariff and a 7 month non-summer (off-peak) rate.
In order to examine what households actually pay for the various services (and policies) that are costed by the supply chain and passed on to consumers in the form of a retail bill, table 2 below deducts estimated cost components from the average annual retail bill for households using 6,000kWh per annum as of July 2015. After deducting GST, NUOS costs, wholesale costs, the cost of environmental policies ("green schemes") and the cost of rolling out smart meters (Victoria only), amounts in the final column are as low as $300 (in Tasmania and the ACT) and as high as $830 (in Victoria’s Powercor network). Chart 10 below shows the same bill deductions as those included in table 2.

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13 In Victoria the standing offer bill is based on the average incumbent (AGL, Origin and Energy Australia) standing offer as of July every year. In NSW the retail bill is based on the regulated rate from 2009 to 2013 and the incumbent retailer’s standing offer in each of the network areas (Origin or Energy Australia) as of July 2014 and July 2015. In South Australia the retail bills are based on the regulated rates as well as AGL’s standing offer post retail deregulation. In all other jurisdiction the retail bills are based on the regulated rates. Note that as United Energy’s NUOS charge has been a seasonal tariff over the last three years, the United Energy consumption used in these calculations is thus based on a proportional allocation of a 5 month summer tariff and a 7 month non-summer (off-peak) rate.
The National Energy Market – Still winging it

Table 2 Deduction of bill components for regulated/standing offers, average annual bill based on offers taking effect post July 2015 (6,000kWh per annum, single rate)\(^1\)

<table>
<thead>
<tr>
<th>Retail bill incl. GST(^^)</th>
<th>Retail bill excl. GST</th>
<th>Retail bill excl. GST and NUOS(^^)</th>
<th>Retail bill excl. GST, NUOS, and wholesale and &quot;green scheme&quot; costs(^**)</th>
<th>Retail bill excl. GST, NUOS, wholesale, &quot;green scheme&quot; costs and smart meter costs(^***)</th>
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\(^\text{\textsuperscript{a}}\) As per chart 1 above  
\(^\text{\textsuperscript{b}}\) As per chart 8 above  
\(^\text{\textsuperscript{^\textsuperscript{^\#}}}\) Based on AEMO’s average annual prices per fiscal year from 2014/15 to 2015/16\(^1\)  
\(^\text{\textsuperscript{\textsuperscript{\textsuperscript{\&}}}\) 11% of bill excl GST in Qld, 12% in ACT and SA, 7% in NSW and Vic, 22% and 4% in Tasmania\(^1\)  
\(^\text{\textsuperscript{\textsuperscript{\textsuperscript{\textsuperscript{\*}}}\) Based on AER approved smart meter/AMI charges for 2015\(^1\)  

\(^1\) This table is based on the same offers used for July 2015 in chart 1 above. Note that the cost of the smart meter rollout is not accounted for in the NUOS charges due to the AMI Cost Recovery Order-In-Council that ensures that the distributors are able to recover expenditure associated with the AMI program from consumers on a cost pass-through basis.

\(^1\) The estimated wholesale cost is based on AEMO’s annual average wholesale price for each jurisdiction in 2014/15 and 2015/16 (see: http://www.aemo.com.au/Electricity/Data/Price-and-Demand/Average-Price-Tables/Average-Price-Tables-Annual) and multiplied by 6 MW. The average price for 6MW used in this calculation is: $221 for NSW and the ACT, $293 for Queensland, $326 for South Australia, $212 for Tasmania and $195 for Victoria.

\(^1\) The “green scheme” costs include carbon tax, Renewable Energy Targets, Feed in Tariffs and other jurisdictional schemes. The AEMC report, 2014 Residential Electricity Price Trends (December 2014) estimated the cost of environmental policies for each jurisdiction and the percentages used for this report are based on the average cost of environmental policies (c/kWh) and average total cost (c/kWh) for 2014/15 and 2015/16.

\(^1\) To estimate the impact of the Victorian smart meter rollout on the bill-stack, we used AER’s approved charges for single-element meters for 2015. See table 1-1 in AER, Advanced Metering Infrastructure 2015 revised charges, Determination (December 2014)
Chart 10  Deduction of bill components, average annual bill based on the offers effective post July 2015 (for electricity regulated/standing offers, 6,000kWh per annum, single rate)\textsuperscript{18}

Chart 11 below is based on the same calculations presented in table 2 and chart 10 above but shows the various bill components as a percentage of the total bill. While we stress that some of the cost components are based on estimates rather than actual, known costs, we believe chart 11 clearly illustrates that the cost of retail is significant in some network areas.\textsuperscript{19}

According to our estimates, between 36-45% of the bills paid by Victorian households goes to the retailer. That is significantly more than the amount that goes to pay for the actual electricity used (wholesale), which accounts for 9–11% of the bill. In most Victorian network areas, it is even more than the network charges (NUOS). It is not just Victoria that has a high retail proportion. All of the NSW network areas also show a retail proportion that is 30%, or more, of the total bill.

\textsuperscript{18} This chart is based on the calculation used table 2 above
\textsuperscript{19} Cost of retail includes both retail costs and margins (profits).
According to our calculations, the NEM average for retail costs is a significant $600 per annum. Chart 12 below shows the average NEM retail cost component as well as the estimated retail cost component for each jurisdiction. While electricity is a fairly homogenous product we would expect to see some difference in retail costs between jurisdictions (due to customer numbers, jurisdictional regulation etc.) but this chart shows that the retail component is significantly higher in deregulated retail markets compared to regulated markets (ActewAGL, Aurora and Energex). We do of course not have a detailed breakdown of the retail cost (and margin) component but it looks like operating in a competitive market is either very expensive or the competitive market is ineffective.

“We do of course not have a detailed breakdown of the retail cost (and margin) component but it looks like operating in a competitive market is either very expensive or the competitive market is ineffective.”

Chart 11 Estimated bill-stack for regulated/standing offers, average annual bill based on the offers taking effect post July 2015 (6,000kWh per annum, single rate)\(^{20}\)

\(^{20}\) This chart is based on the calculation used for table 2 above
Another option, of course, is that standing offer customers in competitive markets are subsidising market offer customers being attracted to high pay on time discounts. As the calculations for the charts above are based on standing and/or regulated prices, we have examined the bill-stack for market offers to explore this issue. Table 3 below deducts estimated cost components from the average annual retail market offer bill (including pay on time discounts) for households using 6,000kWh per annum as of July 2015. After deducting GST, NUOS costs, wholesale costs, the cost of environmental policies (“green schemes”) and the cost of rolling out smart meters (Victoria only), amounts in the final column are as low as approximately $250 (in South Australia, the ACT and Ausgrid’s network area in NSW) and as high as $400 (in Victoria’s Powercor network). By comparing these figures to the regulated/standing offers examined in table 2 above, we can see that the retail component of bills varies significantly between regulated/standing offers and market offers (including pay on time discounts) in some network areas.

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21 This chart is based on the calculation used for table 2 above
Table 3 Deduction of bill components for market offers (including pay on time discounts), average annual bill based on offers taking effect post July 2015 (6,000kWh per annum, single rate)\textsuperscript{22}

<table>
<thead>
<tr>
<th></th>
<th>Retail bill incl. GST^</th>
<th>Retail bill excl. GST</th>
<th>Retail bill excl. GST and NUOS^^</th>
<th>Retail bill excl. GST, NUOS, wholesale and “green scheme” costs*</th>
<th>Retail bill excl. GST, NUOS, wholesale, “green scheme” costs and smart meter costs**</th>
</tr>
</thead>
<tbody>
<tr>
<td>Citipower</td>
<td>1,435</td>
<td>1,304</td>
<td>806</td>
<td>611</td>
<td>513 397</td>
</tr>
<tr>
<td>Powercor</td>
<td>1,671</td>
<td>1,520</td>
<td>819</td>
<td>623</td>
<td>509 400</td>
</tr>
<tr>
<td>SP Ausnet</td>
<td>1,797</td>
<td>1,634</td>
<td>826</td>
<td>630</td>
<td>507 302</td>
</tr>
<tr>
<td>Jemena</td>
<td>1,644</td>
<td>1,494</td>
<td>909</td>
<td>714</td>
<td>602 376</td>
</tr>
<tr>
<td>UE</td>
<td>1,532</td>
<td>1,393</td>
<td>760</td>
<td>565</td>
<td>460 306</td>
</tr>
<tr>
<td>ActewAGL</td>
<td>1,244</td>
<td>1,131</td>
<td>604</td>
<td>383</td>
<td>247</td>
</tr>
<tr>
<td>Aurora</td>
<td>1,837</td>
<td>1,670</td>
<td>571</td>
<td>359</td>
<td>296</td>
</tr>
<tr>
<td>EnergeX</td>
<td>1,809</td>
<td>1,644</td>
<td>736</td>
<td>444</td>
<td>261</td>
</tr>
<tr>
<td>Ausgrid</td>
<td>1,448</td>
<td>1,317</td>
<td>555</td>
<td>334</td>
<td>248</td>
</tr>
<tr>
<td>Endeavour</td>
<td>1,467</td>
<td>1,334</td>
<td>644</td>
<td>423</td>
<td>335</td>
</tr>
<tr>
<td>Essential</td>
<td>1,720</td>
<td>1,564</td>
<td>722</td>
<td>501</td>
<td>398</td>
</tr>
<tr>
<td>SAPN</td>
<td>1,809</td>
<td>1,644</td>
<td>760</td>
<td>435</td>
<td>240</td>
</tr>
</tbody>
</table>

^ Based on market offers available post July 2015 (including discounts) offered by the same retailers included in the analysis of standing/regulated offers (table 2), except for the ACT and Qld where the standing offer is regulated. For these two jurisdictions the market offer bill is based on the average retail market offer.

^^ Based on the same NUOS charges used for table 2.

^^^ Based on AEMO’s average annual prices per fiscal year from 2014/15 to 2015/16\textsuperscript{23}

*11% of bill excl GST in Qld, 12% in ACT and SA, 7% in NSW and Vic, 22% and 4% in Tasmania\textsuperscript{24}

** Based on AER approved smart meter/AMI charges for 2015\textsuperscript{25}

\textsuperscript{22} Note that the cost of the smart meter rollout is not accounted for in the NUOS charges due to the AMI Cost Recovery Order-In-Council that ensures that the distributors are able to recover expenditure associated with the AMI program from consumers on a cost pass-through basis.

\textsuperscript{23} The estimated wholesale cost is based on AEMO’s annual average wholesale price for each jurisdiction in 2014/15 and 2015/16 (see: http://www.aemo.com.au/Electricity/Data/Price-and-Demand/Average-Price-Tables/Average-Price-Tables-Annual) and multiplied by 6 MW. The average price for 6MW used in this calculation is: $221 for NSW and the ACT, $293 for Queensland, $326 for South Australia, $212 for Tasmania and $195 for Victoria.

\textsuperscript{24} The “green scheme” costs include carbon tax, Renewable Energy Targets, Feed in Tariffs and other jurisdictional schemes. The AEMC report, 2014 \textit{Residential Electricity Price Trends} (December 2014) estimated the cost of environmental policies for each jurisdiction and the percentages used for this report are based on the average cost of environmental policies (c/kWh) and average total cost (c/kWh) for 2014/15 and 2015/16.

\textsuperscript{25} To estimate the impact of the Victorian smart meter rollout on the bill-stack, we used AER’s approved charges for single-element meters for 2015. See table 1-1 in AER, \textit{Advanced Metering Infrastructure 2015 revised charges}, Determination (December 2014)
The National Energy Market – Still winging it

Chart 13 below is based on the same calculations presented in table 3 above but shows the various bill components as a percentage of the total bill. Again we stress that some of the cost components are based on estimates rather than actual, known costs.  

Chart 13 Estimated bill-stack for market offers, average annual bill based on the offers taking effect post July 2015 (6,000kWh per annum, single rate)

Chart 13 above shows that the retail component of bills is smaller for market offers (if customers pay on time and thus receive a discount) compared to standing/regulated offers in most jurisdictions (see chart 11). That said, the size of the retail component of the total market offer bill is still concerning in many network areas.

Chart 14 and table 4 compare the retail component of market offers (including pay on time discounts) to the retail component of standing/regulated offers as an annual bill for customers using 6,000kWh per annum. It shows that retailers in Victoria charge standing offer customers $370 - $450 more (or 50-60% depending on network area) compared to market offer customers. In NSW, they charge standing offer customer $220 - $245 more (35-50% depending on network area) and in South Australia the premium for standing offer customers is $280 per annum (50%). It also shows that the difference is less in jurisdictions where retail prices are still regulated. In Queensland the regulated rate allows retailers to charge $100 more (30%) than they do for market offer customers, in the ACT the difference is $50 (20%) and in Tasmania, where Aurora still does not have any competitors in the residential market, there is no difference.

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Cost of retail includes both retail costs and margins (profits).

This chart is based on the calculation used for table 3 above.
The National Energy Market – Still winging it

Chart 14 Estimated retail costs (incl. margins) for market offers (MO) vs. standing/regulated offers (SO), average annual bill based on the offers taking effect post July 2015 (6,000kWh per annum, single rate)\(^{28}\)

Table 4 Retail bill excl. GST, NUOS, wholesale, “green scheme” costs and smart meter costs – Regulated/standing offers vs. market offers (incl. pay on time discounts)

<table>
<thead>
<tr>
<th>Regulated/Standing</th>
<th>Market</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Citipower</td>
<td>$763</td>
<td>$397</td>
</tr>
<tr>
<td>Powercor</td>
<td>$833</td>
<td>$400</td>
</tr>
<tr>
<td>SP Ausnet</td>
<td>$754</td>
<td>$302</td>
</tr>
<tr>
<td>Jemena</td>
<td>$794</td>
<td>$376</td>
</tr>
<tr>
<td>UE</td>
<td>$703</td>
<td>$306</td>
</tr>
<tr>
<td>ActewAGL</td>
<td>$302</td>
<td>$247</td>
</tr>
<tr>
<td>Aurora</td>
<td>$296</td>
<td>$296</td>
</tr>
<tr>
<td>Energex</td>
<td>$363</td>
<td>$261</td>
</tr>
<tr>
<td>Ausgrid</td>
<td>$493</td>
<td>$248</td>
</tr>
<tr>
<td>Endeavour</td>
<td>$554</td>
<td>$335</td>
</tr>
<tr>
<td>Essential</td>
<td>$622</td>
<td>$398</td>
</tr>
<tr>
<td>SAPN</td>
<td>$521</td>
<td>$240</td>
</tr>
</tbody>
</table>

The above comparison indicates that retailers deregulated markets are able to offer market offer customers discounts that potentially reduce the retailers’ revenue from that customer significantly. With the difference between retailers’ “earnings” from standing offer customers compared to market offer customers being very high, it could also indicate that retailers “use” standing offer customers to subsidise market offer discounts in order to attract new customers.

\(^{28}\) This chart is based on the calculation used for table 1 above
customers to subsidise market offer discounts in order to attract new customers. We do not believe this is a model that provides benefits to consumers in the medium to long term. Firstly, it significantly penalises certain customers that for many valid reasons are unwilling and/or unable to engage with the energy retail market. Secondly, it is likely to prolong the incumbent retailers’ large market shares as they have a significant number of standing offer customers that can fund high pay on time discounts for new customers. Thirdly, pay on time discounts are conditional (and households are not always able to pay their bills on time) as well as available for a limited time period (the ‘benefit period’) resulting in a large proportion of customers paying the premium priced base-rate even if they are on a market offer. These issues, and potential solutions, are discussed in more detail in section 4 below.
3. Concerning market developments

This section discusses some concerning retail market trends and developments that we have identified. These trends include significant increases to the price-spread, a reduction in customer switching and market engagement, and significant market and regulatory failures in relation to ensuring customer access to clear and reliable information about energy offers. While we believe some of these developments would be unwelcome as stand-alone trends, they are particularly concerning if we consider how they may complement each other if allowed to develop over time.

3.1 The price-spread is increasing

As discussed in section 2 above, the difference between the retail components of bills for standing offers and market offers is very high in deregulated markets. The cost of the energy used, network charges, “green schemes” and metering rollouts are the same for all customers no matter what type of offer they are on, so this difference in retail costs/margins translates into a greater price-spread between standing offers and market offers.

Chart 15 below shows how the price-spread between standing offers and market offers has changed from July 2012 to July 2015 in Victoria, NSW and South Australia. In July 2012 standing offer bills were between 8-12% higher than market offer bills but just three years later this difference has increased to 22% in Victoria and 15% in NSW. In South Australia the current difference (12%) is the same as it was in July 2012 but we note that South Australia deregulated in February 2013 and the incumbent retailer, AGL, introduced a transitional offer that remained in place until 1 July 2015.29

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29 Note that the above offers do not include transitional offers for SA and NSW. In SA, AGL was required to have a transitional offer in place for 2 years but decided to extend this offer until 1 July 2015.
The price-spread has not only increased in relation to standing offers versus market offers. The difference between the single best market offer and the single worst market offer has increased as well. Chart 16 shows the maximum difference (%) between the best and the worst market offer in the various NEM network areas as of July 2015, using consumption levels typical of each jurisdiction. Chart 17 shows that while the price-spread increased most in July 2014 in Victoria and South Australia, the greatest changes occurred in July 2015 in NSW and the ACT.

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**Chart 15** Difference (%) between standing offer bills and market offer bills in NSW, Vic and SA from July 2012 to July 2015 (6,000kWh per annum, single rate)

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30 Calculations based on the incumbent retailers’ standing and market offers in each network area. Origin is the incumbent retailer in Citipower (Vic), Powercor (Vic), Essential (NSW) and Endeavour (NSW). AGL is the incumbent in Jemena (Vic), United Energy (Vic) and SAPN (SA). Energy Australia is the incumbent in SP Ausnet (Vic) and Ausgrid (NSW). All market offers are inclusive of discounts and pay on time discounts.
A big price-spread between market offers is not a problem per se. However, it does highlight the need for consumer information and tools to compare and identify better offers. When the price-spread becomes this high it is typically caused by one or two retailers offering significant discounts in order to attract new customers and

31 Calculations based on the all market offers and include discounts and pay on time discounts. Consumption levels assumed are typical for each jurisdiction: 4800kWh in Vic, 7200kWh in NSW, 6000kWh in SA, 6500kWh in the ACT and 8000kWh in Qld.

32 Calculations based on the all market offers and include discounts and pay on time discounts. Consumption levels assumed are typical for each jurisdiction: 4800kWh in Vic, 7200kWh in NSW, 6000kWh in SA, 6500kWh in the ACT and 8000kWh in Qld.
one or two retailers without discounts or very high base-rates. The price-spread is, however, much lower between the majority of retailers.

3.2 Consumer engagement is decreasing

In a well functioning energy retail market we would expect to see higher customer switching rates when the price-spread increases. However, according to the AEMC, switching rates decreased in all jurisdictions in 2014 (with the exception of the ACT).\(^{33}\) Chart 18 shows average number of customers switching in Victoria, NSW, Queensland and South Australia from 2012 to 2015.\(^{34}\) It shows that NSW switching rates increased in 2015, and therefore are in line with the increase in the price-spread (showed in chart 17 above). However Victorian switching numbers decreased in both 2014 and in 2015, despite the price-spread continuing to grow.

**Chart 18** Average number of small customers switching in each year (January 2012 – July 2015) in Vic, NSW, Qld and SA\(^ {35}\)

Charts 19-22 below show monthly switching rates (number of transfers completed in each month) as well as the average monthly switching rate for the January 2012 to July 2015 period for each of the four jurisdictions. South Australia is the jurisdiction where the monthly switching rate varies the most (by 46%) over this period. It also shows that the greatest switching activity occurred back in May 2012 while the lowest activity was in June 2015 (chart 19). We note that the potential saving by switching from AGL’s regulated offer to AGL’s market offer was significant in 2012 (see chart 15 in section 3.1 above) and that this saving became lower after

\(^{33}\) AEMC, 2015 Retail Competition Review, Final Report, AEMC, 30 June 2015, 26
\(^{34}\) We note that the switching rate is a fairly blunt instrument to measure consumer engagement. It does, for example, not cover consumers that negotiate better deals with their existing retailers. However, we do believe switching rates can be used as an indicator and is a valid tool to assess longer term consumer engagement in the market.
\(^{35}\) Based on AEMO’s monthly reports on customer switching numbers (http://www.aemo.com.au/Electricity/Data/Metering/Retail-Transfer-Statistical-Data). Note that 2015 numbers are based on average monthly switching numbers from January to July only.
deregulation (February 2013) and the introduction of a transitional tariff. Post July 2015, however, the difference between standing offers and market offers are again significant but it remains to be seen whether this will lead to more South Australian households switching from the standing offer to a market offer, or for those who have already switched, to a new market offer (where the maximum spread is currently 25%).

Victoria and Queensland are the two jurisdictions with the most stable switching pattern over this period. The peak month for finalising switching requests in Victoria was May 2013 (see chart 20) and for Queensland it was July 2012 (Chart 21). The lowest switching months were April 2012 and June 2014 respectively. We do note, however, that Victoria’s switching rates are declining and that this has occurred in an environment where the price-spread has increased significantly.

In NSW, switching rates reduced significantly in late 2013 and stayed relatively low in 2014 before increasing again in 2015 (see chart 22). The post July price-spread is a record high in NSW and we thus might expect the switching rates to continue to increase. That said, we note that a transitional offer is still in place (until July 2016) and while customers on this offer can save by switching to one of the better market offers they can also become significantly worse off if they choose the “wrong” market offer.

**Chart 19** South Australia: Number of small customer switches finalised in each month (from January 2012 to July 2015) and SA average for the whole period

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36 See chart 17 above
38 Based on AEMO’s monthly reports on customer switching numbers (http://www.aemo.com.au/Electricity/Data/Metering/Retail-Transfer-Statistical-Data).
Chart 20 Victoria: Number of small customer switches finalised in each month (from January 2012 to July 2015) and Victorian average for the whole period\textsuperscript{39}

![Victoria chart]

Chart 21 Queensland: Number of small customer switches finalised in each month (from January 2012 to July 2015) and Qld average for the whole period\textsuperscript{40}

![Queensland chart]

\textsuperscript{39} Ibid.
\textsuperscript{40} Ibid.
In our view, it is a concern when customer engagement in the market (based on switching numbers) is declining at the same time as price-spreads are increasing, the difference between standing offers and discounted market offers is at a record high, and retailers are offering double digit discounts. It is a trend that warrants attention and should be closely monitored.

### 3.3 Consumer information is inaccessible and unreliable

The deregulated energy retail markets we currently have in Victoria, South Australia and NSW basically give households three choices:

1) Stay on the standing offer and pay your retailer a significant premium; or

2) Switch to a market offer and save yourself some money but expect to pay your retailer a significant premium when the benefit term is up (typically after one year) if you do not switch again; or

3) Switch to a market offer and save and repeat annually, indefinitely.

As a result, we have an energy retail market that ensures customers are paying over the odds for an essential service unless they annually dedicate time to compare energy plans and switch plan or retailer. At the same time there is an acknowledgement that understanding energy prices and plans can be quite difficult for consumers. To overcome this potential barrier to consumer engagement, disclosure regulation and comparison services have been relied upon by regulators and policy makers.

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Ibid.
The AER’s pricing information guidelines detail how retailers must produce a fact sheet for all generally available standing and market offers, as well as the information these fact sheets must contain. The same guideline requires retailers to publish these Fact Sheets on their websites:

“A retailer must publish an Energy Price Fact Sheet on its website for all contract offers that are generally available to small customers. The Energy Price Fact Sheets must be easily accessible on the website.”

A quick survey of retailers’ websites on 25 August 2015, however, shows that many retailers fail to oblige with this guideline. In our view, only Origin Energy had easily accessible fact sheets on their website. Reasonably accessible fact sheets (e.g. a link to the fact sheets has been included under ‘useful links’, ‘quick links’ or ‘prices’ on the bottom of the web page) were found on Click Energy, Momentum, Sanctuary Energy and Powershop’s websites.

Others provide a link to ‘pricing information’, ‘fact sheets’ or ‘get a quick quote’ but rather than listing the offers on the linked page, they take visitors to a search function. Retailers that require visitors to search for offers include: Simply Energy, AGL, Energy Australia, Lumo Energy, Dodo and Alinta Energy. While finding fact sheets through a search function may not be seen as problematic, links are often broken or the wrong offer is linked to the search criteria (typically postcode).

Also, some retailers do not have fact sheets for all of their offers. Simply Energy, for example, market the following South Australian offers on their main page:

![Image of Simply Energy website](image_url)

If a customer wants more information about the movie ticket offer, however, the linked information does not contain what is required under the AER’s fact sheet

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42 Note: As Victoria has not agreed to adopt the National Energy Customer Framework, these guidelines do not apply to Victorian offers.

43 AER Retail Pricing Information Guideline, September 2011, 11
guidelines. A customer may look for the fact sheets instead, but there is no movie offer listed under Simply’s South Australian fact sheets.

Market Offer Rates

Residential

to

SA Simply No Term Fee

SA Simply No Term Fee – Elec Only

SA Simply Green 10

SA Simply Green 10 – Elec Only

SA Simply Green 10 (Solar)

SA Simply Green 10 – Elec Only (Solar)

SA Simply Save 20 – Elec Only

SA Simply Save 20 – Elec Only (Solar)

SA Simply Save 20/10

SA Simply Save 20/10 (Solar)

Red Energy makes the visitor choose region first, and if the visitor chooses NSW or South Australia (where the guidelines have jurisdiction) the ‘fact sheet’ option comes up. However, these fact sheets may or may not be available:44

![Red Energy fact sheets](image)

Powerdirect has a link to Queensland fact sheets under the ‘pricing information’ tab while visitors from other jurisdictions would need to go to ‘the important information’ tab and then choose ‘pricing information’.

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44 Screen shot from 17 July 2015. On 25 August the fact sheets were available.
Queenslanders can look at ‘pricing information’:

Potential customers in other jurisdictions must go to ‘important information’ first:

The AER’s guidelines also outline how pricing information should be presented to ensure that the information is clear and easy to read and that there is some standardisation. While retailers are allowed to vary the style (font, colours etc.) they are otherwise required to follow the AER’s examples. Unfortunately, retailers also sometimes get this part wrong. The AER’s example is.  

**Example 2**

<table>
<thead>
<tr>
<th>Applicable charges</th>
<th>Price (Excl GST)</th>
<th>Price (Incl GST)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Peak consumption (Mon-Fri 7am to 11pm)</td>
<td>cents per kWh</td>
<td>cents per kWh</td>
</tr>
<tr>
<td>Off-peak consumption (all other times)</td>
<td>cents per kWh</td>
<td>cents per kWh</td>
</tr>
<tr>
<td>Daily supply charge</td>
<td>cents per day</td>
<td>cents per day</td>
</tr>
</tbody>
</table>

45 From AER Retail Pricing Information Guideline, September 2011, 5
A customer trying to assess Simply Energy’s time of use rates in the AusGrid network, however, will struggle to understand when the shoulder rate and the off-peak rates apply.46

<table>
<thead>
<tr>
<th>Two Rate meter (Peak/Off Peak):</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Peak (7am-11pm, Mon-Fri)</td>
<td>cents/kWh</td>
<td>$41.9700</td>
</tr>
<tr>
<td>Shoulder (all other times)</td>
<td>cents/kWh</td>
<td>$17.4500</td>
</tr>
<tr>
<td>Off Peak (all other times)</td>
<td>cents/kWh</td>
<td>$10.5200</td>
</tr>
<tr>
<td>Supply Charge</td>
<td>cents/day</td>
<td>$89.6700</td>
</tr>
</tbody>
</table>

We acknowledge that the AER has introduced new and improved ‘Fact Sheet’ guidelines (to take effect 1 February 2016) and that the Victorian Government has introduced new legislation in order to improve consumer information and transparency in the retail market.47 We welcome both of these announcements and we believe they can improve transparency if followed. We do note however that regulatory monitoring and enforcement appear to be necessary in order to have an impact. The above examples show that retailers do not necessarily get it right just because there are guidelines in place.

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46 Screen shot taken on 16 July 2015
4. Stop winging it and get the framework right

While we stress that no, or little, difference between standing/regulated offers and market offers is not necessarily a great outcome for consumers per se, the issue we seek to highlight is that electricity is an essential service. There will always be customers, for various and valid reasons, that will not or cannot participate in the market and allowing retailers to charge them a significant premium, just because they can, is not an acceptable outcome. In Victoria, this social harm has even been acknowledged by one of the retailers. In July 2015, AGL announced that all of their standing offer customers, with a concession card, would receive an automatic 10% discount. AGL stated:

“Victorian concession card customers who are on standing offers, will receive an automatic 10% rebate/discount. This is in acknowledgement that some vulnerable customers who have not moved off the standing offer may benefit from this reduced rate, whilst still being able to retain the terms and conditions of the standing offers.”

The Australian Energy Market Commission’s (AEMC) analysis found that these ‘sticky’ customers are often elderly and live in non-metropolitan areas. The AEMC states:

“[C]ustomers on standing offers are more likely to be customers who are older or living in regional areas. In Melbourne and Sydney, higher income areas are more likely to have a high proportion of customers on standing offers. The reverse applies in many regional areas where lower income areas are more likely to have customers on standing offers.”

AEMC recommends targeted assistance to help these customers find a better deal and while we would welcome such initiatives, we also have to ensure that the standing offer framework puts downward pressure on the base-price. We are not suggesting that standing offer customers will be better off than market offer customers by changing the framework, however we do suggest that changing the framework can reduce the premium these customers pay their retailers.

Downward pressure on standing offers is important because these rates act as the base-rate for retailers and as most discounts offered off the base-rate have a limited benefit period, many relatively active consumers will find themselves paying the premium rate from time to time. With benefit periods typically lasting for 12

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49 The analysis only covered Victoria, NSW and South East Queensland. AEMC, 2015 Retail Competition Review, Final Report, AEMC, 30 June 2015, iii
months, a brief snooze is all it takes before a customer again is paying a premium. Again, we do not suggest that the customer should be automatically better off after a benefit period has come to an end, we are merely suggesting that a retailer’s revenue from that customer should not automatically increase by 50% either.

Furthermore, there is a mismatch between the frequency of switching necessary to avoid paying a premium, and the length of the switching process itself. The case described below is one example of how a customer experienced the switching process.

**Case study: Transfer cancelled**

An ActewAGL customer in Canberra researched alternative offers as the cold weather was arriving in early May. She noticed that Origin offered the first month for free and an ongoing pay on time discount of 18% for the following 11 months. She accepted the offer on the 8th of May thinking that she had gotten a great deal with one month free electricity in winter. However, upon receiving the first letter from Origin she realised that the offer would not come into effect before ActewAGL had organised the next meter read. In fact Origin Energy advised her: “Sometimes this takes a while – in fact it can take up to several months. But don’t worry – we’ll let you know when it’s done.”

By 7 September she had still not received further information or any electricity bills since the last ActewAGL bill that was issued on 29 April. She therefore called ActewAGL who informed her that an invoice had recently been issued and should arrive in the mail shortly. When she asked why she had not been transferred to Origin, ActewAGL informed her that Origin had cancelled the transfer and she needed to contact them.

Upon contacting Origin Energy, they confirmed that they cancelled the transfer as the offer was meant for dual fuel customers only. They also agreed that they probably should have notified her of the cancellation. The customer was frustrated as the agreement she received by Origin Energy did not mention this offer only being available to dual fuel customers (see agreement below), that Origin energy had not sent her a notification and that she had just gone through another ACT winter without receiving a discount on her rates despite having compared offers and was led to believe that she would receive significantly lower bills by switching to a competitor.

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50 Energy agreement sent to new Origin customer in the ACT
The agreement received by the customer:

### Important Notice to the Consumer

You have the right to cancel this agreement within 10 business days from and including the day after you signed or received this agreement. Details about your additional rights to cancel this agreement are set out in the information attached to this agreement.

### Your Details for Electricity

This Details section is part of your Agreement with us.

### Benefits for your 12 month Energy Plan

<table>
<thead>
<tr>
<th>Guaranteed Discount</th>
<th>18% on usage Charges</th>
</tr>
</thead>
</table>

### Additional Benefit

<table>
<thead>
<tr>
<th>First Mth Free Discount</th>
<th>82% on usage Charges from the Supply Start Date for 1 month</th>
</tr>
</thead>
</table>

### Your Energy Plan details

- **Energy Plan**: DailySaver First Month Free Electricity
- **Energy Plan Period**: 12 months
- **Acceptance Date**: 8 May 2015
- **Cut off Expiry**: 27 May 2015
- **Supply Start Date**: The date you transfer to us

### Your Electricity Charges as at 8 May 2015

We change the Electricity and Green Product Charges from time to time, generally in July. We’ll let you know if they do change.

<table>
<thead>
<tr>
<th>Charge Description</th>
<th>Units</th>
<th>Charges (GST exclusive)</th>
<th>Charges (GST inclusive)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Peak Usage</td>
<td>cents per kWh</td>
<td>16.640</td>
<td>18.3040</td>
</tr>
<tr>
<td>Supply Charge</td>
<td>cents per day</td>
<td>68.900</td>
<td>75.7900</td>
</tr>
</tbody>
</table>

### Other fees

- **Card Payment Fee**: 0.60% (incl. GST) for Visa or MasterCard
- **Late Payment Fee**: $52
- **Re-Connection & Disconnection Fees**: A fee may apply when your property is reconnected or disconnected (including when you move in or out). This fee is passed through from your distributor and may vary. Visit originenergy.com.au/additional-charges for more information on these fees.

### Terms and Conditions for Your DailySaver First Month Free Energy Plan

**Energy Plan period**

This Energy Plan is for 12 months from the Supply Start Date unless it ends earlier.

**Benefits**

Under this Energy Plan you receive the following discount(s):

- Guaranteed discount on the usage Charges for 12 months from the Supply Start Date.
- First Mth Free discount on the usage Charges and supply Charges from the Supply Start Date for 1 month.
While we do not know whether similar transfer issues affect many customers, we note that transfer issues make up a significant proportion of energy ombudsman offices caseload. In NSW, the Energy and Water Ombudsman (EWON) states in its latest newsletter that 8% of all issues raised by customers relates to transfers.\textsuperscript{51} In Victoria, the Energy and Water Ombudsman (EWOV), reported that 10% of electricity issues and 16% of gas issues raised in the April to June 2015 quarter were transfer issues.\textsuperscript{52}

Delayed and/or cancelled transfers also raise the issue of what happens after the 12 month long benefit period is over. A customer actually being transferred to Origin’s offer will not receive a discount after 12 months and will therefore effectively be charged Origin’s base-rate. If the customer therefore decides to switch again she/he may find themselves on the base-rate for months before the transfer is finalised. To avoid this, a customer actually needs to examine whether there is an alternative offer available after just nine months of supply from Origin Energy. If a customer is on an offer that has an exit fee, we assume that an early exit fee will be charged if a customer accepts another offer prior to the contract period being completed, even if the retailer is the customer’s supplier throughout the period. In these cases, a customer does not even have to snooze in order to lose.

Finally, we note that this difference also impacts on market offer customers that are unable to pay their bills on time. With record high pay on time discounts available, these discounts do obviously not reflect the cost incurred by retailers if customers pay their bills after the due date. In Queensland, for example, we found that market offer customers who pay their bills late will on average pay $220 more per annum compared to customers that pay on time.\textsuperscript{53} While it is plausible that the size of the late payment penalty may actually make customers prioritise electricity bills over other costs, customers that do not have the money to pay within the due date will still have to simply accept a much higher bill. Again, it could appear as if customers unable to pay on time actually subsidise the discounts received by others. Just like the sticky customers on their standing offers and the snoozy customers on offers with expired benefit periods, the late paying customers are also paying the base-rate with its significant premium.

We believe this highlights that the electricity retail market model requires urgent changes. While one would expect that the standing offer price is somewhat higher than the retailer’s market offer, it is impossible to justify retailers earning 50% more from customers paying the base-rate compared to market offer customers receiving a discount. It is inefficient and it causes social harm. Why should Energy Australia be able to take $450 more per annum from a 90 year old customer in Bright compared

\textsuperscript{51}EWONews, A Newsletter from the Energy and Water Ombudsman NSW, Issue 31 June 2015
\textsuperscript{53}Includes loss of pay on time discount and late payment fee (if applied by retailer) for four bills per annum and based on annual consumption of 8000kWh/annum. See St Vincent de Paul Society, Queensland energy Prices July 2015, by Alviss Consulting July 2015, 18
to the 30 year old customer in Ringwood? Why should anyone unable or unwilling to switch to a market offer pay their retailer more than $700 per annum on top of the $800 paid to the network, $200 for the electricity generated, another $200 for a smart meter roll out, and $150 in green scheme costs? The AEMC’s analysis of standing offer customers in Victoria, NSW and South East Queensland combined with our bill calculations above, indicate that this is the reality in the current retail market.

Benefiting from shopping around is a positive aspect of competitive markets and consumer choice, and we have a solid track record in encouraging consumers to get involved and seek a better price. However, with the outrageous retail premiums that customers are currently being charged, we need the market model fixed rather than blaming consumers for losing when snoozing.

For many years we have advocated for a change to standing offer arrangements based on evidence from Victoria and now in other jurisdictions such as NSW and South Australia.

Under the current arrangements the retailers have no incentive to adjust their standing offer prices in an environment where prices are falling. Instead, retailers increase their pay on time discounts off usage rates or, less commonly, off the bill. This is a good strategy for retailers. They get to charge non-participants a premium, they get to advertise big discounts to prospective customers, they get to not provide the discount advertised if a bill is paid after the due date and they get to charge the customer a non-discounted price as soon as the benefit period is over. With some advertised discounts being as much as 35%, both late paying customers and customers slow to react to the expired benefit term provide significant extra earnings for the retailers.

Policy makers and regulators have, anecdotally, shown concern about retailers’ tendency to discount. It has even been discussed whether it would be best to remove standing offers all together (and hence leave nothing to discount). The issue is that we do need standing offers. Due to the essentialness of the service standing offers are in place to ensure that the price of electricity for customers that have not

54 Bright is a town in northeast Victoria and Ringwood is a suburb in eastern Melbourne. Both places are in SP AusNet’s network area where Energy Australia is the incumbent retailer.

55 AEMC, 2015 Retail Competition Review, Final Report, AEMC, 30 June 2015, iii
entered into a contract is known. Standing offers are also required to charge for default connections and to safeguard a retailer of last resort event if a retailer quickly exits the market. Furthermore, the problem is not the standing offers per se. The problem relates to how and when retailers announce them.

Currently the only restriction on retailers is how frequently they can gazette new standing offers (once every six months). Incumbent retailers, the only retailers that actually have a significant number of standing offer customers, typically gazette new standing offers once a year to reflect changes to the underlying network charges. However, price reductions due to lower network tariffs, wholesale prices etc. are not passed through in full. Instead they reduce standing offers somewhat and increase discounts on market offers. Smaller retailers may change their standing offers to reflect the price of the incumbent or they keep their old prices (as prices have fallen) and increase their discounts to compete for new customers.

To minimise the negative price impact this arrangement has on standing offer customers, to promote competition on price (rather than pay on time discounts) and to increase transparency, we therefore continue to recommend a requirement for all retailers to gazette their standing offer prices on an agreed date every six months. A brief statement explaining why prices have increased, decreased or remained unchanged, should also accompany these gazettes.

We understand that some 2nd tier retailers may not welcome this proposal as it is much more difficult to come up with your own price than it is discounting someone else’s. Some may also argue that the proposed arrangement will make it more difficult for new market entrants. In our view, however, the purpose of 2nd tier retailers and new entrants is to drive competition and deliver efficient prices to consumers. 2nd tier retailers basing their standing offer prices on the incumbents and offering some pay on time discounts are not doing that. We need competition in the base price, not around temporary and conditional discounts, in order to deliver benefits to consumers.

We acknowledge that some consumers will still not switch to a better market offer but at least the proposed arrangement will subject the base-price to some competitive pressures. Lower base-prices should reduce the outrageous premiums currently paid by the sticky, snoozy and late paying customers and, combined, this customer group is large enough to impact on the overall competitiveness of the market.

On 1 September 2015 the Victorian Government introduced the Energy Legislation Amendment (Consumer Protection) Bill 2015 to the Victorian Parliament. The bill proposes various measures strengthening consumer protections in Victoria including the proposal to allow the Minister to specify “a date on which, or period within

“Lower base-prices should reduce the outrageous premiums currently paid by the sticky, snoozy and late paying customers and, combined, this customer group is large enough to impact on the overall competitiveness of the market.”
which, licensees may publish a notice...to vary a licensed retailer’s standing offer tariff, published in the Government Gazette by the retailer.”

Clearly we welcome this proposal by the Victorian Government but the issue remains unsolved for all the other NEM jurisdictions that have already adopted the National Energy Customer Framework (NECF). The National Energy Retail Rules (NERR) simply requires retailers to publish standing offer variations in a newspaper and on their website and that such changes cannot occur more frequently then every six months.

In our 2013 report, we highlighted that the national framework was single-mindedly focusing on harmonisations of codes and guidelines, at the expense of responding to retail market issues. We argued that:

“The problem is that while the focus has been on harmonising customer protections for a future market, very little attention has been paid to customer protection requirements in actual, and changing, retail markets.”

In our view, there appears to be a lack of political interest and engagement with the NECF and we are concerned about the direction, and slow progress, of the review announced by the Council of Australian Governments’ (COAG) Energy Council in December 2014. The Council announced that it would assess the effectiveness of the NECF in a changing energy market and it stated:

“The Council considers significant progress has been made to implement the energy market reform agenda in retail markets. This has increased competition, helped to place downward pressure on energy prices, and provided more options to most consumers. However, the Council considers it important that existing energy market reforms are progressed through to completion to ensure consumers receive the full benefits.... work on building consumer education and awareness will be undertaken alongside ongoing work to assess whether the existing consumer protection framework addresses the needs of consumers in a changing energy market.”

After its next meeting in July 2015, the Council reaffirmed its commitment to a review of the NECF as part of a strategic work programme that addresses issues relating to technology, innovation and market change. The Council stated:

57 NERR, Model terms and conditions for standard retail contracts, Clause 8.2, 111
59 COAG Energy Council, Meeting Communiqué, Adelaide 11 December 2014, 2
“It was agreed that officials should develop a comprehensive strategic work programme to progress the above work aimed at addressing key issues relating to technology, innovation and market change. This work programme will also revisit the recommendations to ensure no duplication with existing work and identification of opportunities for integration. Noting the importance of ensuring the long term interests of consumers, this strategic work programme will also incorporate the Review of the National Energy Customer Framework (NECF) announced in December 2014, which proposed assessing whether the NECF requires enhancement in light of ongoing changes in energy markets.”

According to the Implementation Plan, however, the focus of this NECF review has been on how new products and services in the energy market should be regulated and not whether the NECF is a suitable and effective framework for energy retail markets more broadly. In terms of the key objective of this review, the Implementation Plan states:

“To maintain a NECF that is flexible and responsive to changing circumstances, ensuring consumers are protected as levels of consumer choice and engagement increase and new product offerings become available”.

The key action to be undertaken is to:

“Assess whether the NECF requires enhancement in light of the ongoing change taking place in competitive energy markets particularly as it regards the introduction of new technologies, products and services”.

In regards to the status of key milestones and timeframes, the Implementation Plan states that a key milestone to be delivered in late 2015 is to “assess issues raised in the new products and services consultation”. The key action of this consultation, however, is to undertake a review of:

”[H]ow new products and services in the electricity market should be regulated, particularly when they are offered by parties not currently covered by the national energy laws”.

As such, it appears as if a much needed review into the NECF’s effectiveness in terms of delivering benefits to consumers in today’s, already changed market, has turned into a review of the NECF in relation to tomorrow’s market.

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60 COAG Energy Council, Meeting Communiqué, Perth 23 July 2015, 5
62 Ibid.
63 Ibid.
64 Ibid, 3
We are not suggesting that assessing the NECF in light of third parties and new energy products and services is not an important exercise (we believe it is), we are merely suggesting that the Council’s agenda and work streams also need to look at the status quo. Is the NECF, and the broader retail market design, actually delivering the benefits to consumers anticipated by a competitive retail market? In our view, based on the analysis presented in this report, it could be significantly improved.

The proposed Victorian legislation shows that political initiatives and processes in relation to the design and regulation of energy retail markets are still required. While we do not oppose the NECF per se, and we acknowledge the efficiencies that streamlining legislation and regulation across the NEM will bring, it is a concern that the political institutions and processes in place appear to be inefficient and ineffective when it comes to addressing issues occurring in the energy retail market. Energy retail markets are not static, and having rules designed for tomorrow’s market without acknowledging that these rules may need to be reviewed in order to deliver as intended is a remarkably optimistic view on people’s ability to foresee market behaviour. Unless a change to this approach comes about, Australian households will continue to pay an inefficient price for an essential service. It is time to stop winging it and get the framework right.

We strongly recommend that the Federal Minister for Energy, Minister Frydenberg, in his role as the chair of COAG’s Energy Council, initiate a review of the NECF in relation to retail pricing in deregulated markets. This review should focus on current market arrangements and aim to ensure that the legislation, regulation and rules are able to promote energy retail competition that delivers efficient prices and long term benefits to consumers.

“Unless a change to this approach comes about, Australian households will continue to pay an inefficient price for an essential service. It is time to stop winging it and get the framework right.”