The NEM -
A hazy retail maze

Observations from the Vinnies’
Tariff-Tracking Project
Disclaimer
The energy offers, tariffs and bill calculations presented in this paper and associated workbooks should be used as a general guide only and should not be relied upon. The workbooks are not an appropriate substitute for obtaining an offer from an energy retailer. The information presented in this paper and the workbooks is not provided as financial advice. While we have taken great care to ensure accuracy of the information provided in this paper and the workbooks, they are suitable for use only as a research and advocacy tool. We do not accept any legal responsibility for errors or inaccuracies. The St Vincent de Paul Society and Alviss Consulting Pty Ltd do not accept liability for any action taken based on the information provided in this paper or the associated workbooks or for any loss, economic or otherwise, suffered as a result of reliance on the information presented. If you would like to obtain information about energy offers available to you as a customer, go to the relevant regulator’s website or contact the energy retailers directly.

The National Energy Market – A hazy retail maze
Observations from the Vinnies’ Tariff-Tracking Project

Gavin Dufty, St Vincent de Paul Society, Victoria
May Mauseth Johnston, Alviss Consulting
Melbourne, December 2016

St Vincent de Paul Society
www.vinnies.org.au

Alviss Consulting Pty Ltd
www.alvissconsulting.com

© St Vincent de Paul Society and Alviss Consulting Pty Ltd
This work is copyright. Apart from any use permitted under the Copyright Act 1968 (Ctw), no parts may be adapted, reproduced, copied, stored, distributed, published or put to commercial use without prior written permission from the St Vincent de Paul Society.

Cover photo: Kim Walvisch (@sublurb on Instagram)
Acknowledgements
This project was funded by Energy Consumers Australia (www.energyconsumersaustralia.com.au) as part of its grants process for consumer advocacy projects and research projects for the benefit of consumers of electricity and natural gas.

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.
Table of Contents

Background: The Tariff-Tracking Project ............................................................. 4
Overview .................................................................................................................. 5
1. How energy prices are tracking ......................................................................... 8
   1.1 Electricity prices ......................................................................................... 8
   1.2 Gas prices ................................................................................................. 9
2. Electricity bills: Who gets what? ......................................................................... 11
3. Who takes what part: fixed vs. variable charges ............................................. 22
4. Interstate differences and retention markets .................................................... 33
5. The ‘big three’ – month by month .................................................................... 36
6. Solar offers ....................................................................................................... 46
7. Observations and recommendations .................................................................. 49
   7.1 De-link cost components to drive innovation ........................................... 49
   7.2 Consumer awareness can drive consumer engagement .......................... 50
   7.3 A better informed community ................................................................... 54
**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. 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. 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.

---

1 As Tasmania does not have regulated/standing offers for gas, only three workbooks have been produced for this jurisdiction.
2 The Victorian workbooks contain regulated/standing offers from July 2008 to July 2016 and market offers from July 2010 to July 2016. The NSW workbooks contain regulated offers from July 2009 to July 2015 and market offers from 2011 and 2016. The Queensland and South Australian workbooks contain regulated/standing offers from July 2009 to July 2016 and market offers from July 2012 to July 2016. The ACT workbooks contain regulated/standing offers from July 2009 to July 2016 and market offers from July 2013 to July 2016. The Tasmanian workbooks contain regulated electricity offers from July 2009 to July 2016, market (pay as you go) electricity offers from July 2009 to July 2016 and gas market offers from July 2013 to July 2016. From 2016, we have also developed workbooks containing solar offers available to new customers in all of the jurisdictions.
Overview

This report is comprised of seven sections.

Section 1 ‘How energy prices are tracking’ analyses changes to electricity and gas prices across Australia from July 2009 to July 2016 in order to explore where and when prices have increased or decreased.

In relation to electricity, we find that regulated and standing offer prices (the base-rate) are up in most jurisdictions compared to July 2015. However, the size of the increases and key causes vary between jurisdictions. In relation to gas, prices have decreased in South Australia and the ACT while they have increased in other jurisdictions. The highest prices in the country continue to be in South Australia for Electricity and Queensland for gas.

Section 2 ‘Electricity bills: Who gets what?’ 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.

Similarly to last year, our estimates show that between 37-44% of the bills paid by Victorian households goes to the retailer. At the same time the amount that goes to pay for the actual electricity used (wholesale), has increased to 14-16% of the bill (compared to 9–11% last year). In all Victorian network areas except Ausnet, the retail cost 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 34-36% of the total bill and in South Australia the retail proportion is now 36%. The retail component remains lowest in the ACT and Tasmania.

Section 3 ‘Who takes what part: fixed vs. variable charges’ analyses the same components but rather than looking at the total cost we assess the bill-stack for the fixed supply charge and the variable consumption charge separately, as well as for two separate scenarios: guaranteed bills and conditional bills. Calculations for the guaranteed bills include rates as well as any guaranteed discount while calculations for the conditional bills also include pay on time discounts.

The analysis covers market offers in NSW, South Australia, Queensland and Victoria and we argue that the fixed charge component of retail bills is high in all jurisdictions, and especially in Victoria, and explore reasons for why none of the retailers have sought to differentiate themselves by not loading up the retail component in the fixed charges.

Section 4 ‘Interstate differences and retention markets’ takes a closer look at differences in retail costs in the four jurisdictions. As all the market offers in this inter-state analysis has a limited benefit period of 12 months, it also compares potential average annual retail component for a two year period where customers received discounts and other benefits in the first year but not in the second.
The analysis finds that Victoria, the jurisdiction with the most active retailers, is also where the retail proportion of bills is significantly greater than in other jurisdictions and we speculate whether the incumbent retailers in Victoria are focusing on retaining current customers rather than acquiring new ones.

Section 5 ‘The ‘big-three’ – month by month’ compares AGL, Energy Australia and Origins’ market offers to new customers from month to month.

On average, the maximum difference to the annual bill between the three retailers’ offers (including pay on time discounts and one off incentives) from August 2015 to September 2016 was $90 in NSW, $95 in Queensland, $155 in South Australia and $70 in Victoria. Considering that the average annual bill, for households using 6,000 kWh per annum, for the same period was $1,500 in NSW, $1,800 in Queensland, $1,975 in South Australia and $1,430 in Victoria, we argue that the difference between the big retailers’ offers is relatively low and ask whether there is healthy rivalry in a market where the big players do not appear to compete?

Section 6 ‘Solar offers’ compares solar offers available to new customers across the NEM. Collecting solar offers and analysing solar bills was a new feature of the Tariff-Tracking project in 2016 and the analysis therefore only looks at offers post July 2016.

It shows that while South Australian customers have the highest electricity bills in general, South Australian solar customers have, on average, lower annual bills compared to customers in Tasmania and Victorian customers in the Powercor and Ausnet networks.

The difference in South Australia is partly explained by retailers, on average, offering higher FIT rates compared to other jurisdictions but also because solar customers avoid kWh (because of their own generation) that non-solar customers do not. This generation/avoided purchase becomes even more valuable when the tariff applied is an inclining block tariff where the price per kWh increases significantly with increase in overall consumption. Currently, many of the retail offers in South Australia are inclining block tariffs with fairly steep price increases for each consumption block.

Section 7 ‘Observations and recommendations’ highlights some of the issues identified in this report and proposes recommendations for how they can be addressed. Specifically, we recommend that:

- Price and Product Information Statements and bills should clearly separate market-based charges (retail and wholesale) from other charges, such as regulated network charges and policy costs that apply to all customers within a jurisdiction/network.

- The AER, as well as the ESC in Victoria, define the term ‘benefit period’ and investigate what actually happens to customers when the benefit period and/or contract terms finish. Furthermore, they should assess whether the
retailers’ processes and procedures are within the rules, and, if the rules are deemed adequate, publish clear guidelines on what should happen.

• That all retailers operating in the NEM, with the ability to bundle all cost components into a single price, should be required to explain why their base rates (standing offers) have changed.
1. How energy prices are tracking

This section analyses changes to electricity and gas prices across Australia from July 2009 to July 2016 in order to explore where and when prices have increased or decreased.

1.1 Electricity prices

Regulated and standing offer prices (the base-rate) are up in most jurisdictions compared to July 2015. However, the size of the increases 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 2016. The dotted lines represent electricity bills in the Northern Territory and Western Australia, the two non-NEM jurisdictions. It shows that prices have increased (compared to July 2015) in all jurisdictions except Victoria and the Northern Territory.

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 $1,100 now. Prices in Victoria, NSW and Queensland, on the other hand, are becoming increasingly similar.

“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 $1,100 now. Prices in Victoria, NSW and Queensland, on the other hand, are becoming increasingly similar.”

3 Note that Tasmania introduced carbon exclusive prices from 1 July 2014 (rather than backdating new prices after the repeal) and Tasmania’s July 2014 price is therefore carbon exclusive.
The Australian Energy Regulator (AER) regulates the network component of electricity bills in the NEM. Network prices increased in the ACT and NSW on 1 July 2016, however in Queensland (Energex), South Australia and Tasmania, network prices decreased. Therefore, unlike ACT and NSW, it is not the network component that caused price increases in these jurisdictions. In Victoria, new network prices take effect on 1 January every year and in January 2016 the network prices decreased in all five Victorian network areas.

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 2 below compares annual gas bills across Australia (except the Northern Territory) from July 2009 to July 2016 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. Compared to last year (July 2015), gas prices have decreased in South Australia and the ACT while they have increased in other jurisdictions.

---

*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 2016, and AGL’s regulated/standing offer prior to that. In Queensland, the price is based on the average retail standing offer in July 2016 and the 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 NSW are not included in this chart.*
Chart 2 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 around 55-60%.

**Chart 2** Changes to gas prices in Australia July 2009 to July 2016 as estimated annual bills (nominal, inc GST) for gas regulated/standing offers, 30,000MJ per annum\(^5\)

---

\(^5\) 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 2016 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.
2. Electricity bills: Who gets what?

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, NSW and Queensland, 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 of the carbon tax) before declining, to various extents, post the repeal and with new network tariffs taking effect in July 2015. In July 2016, however, electricity bills increased in most jurisdictions.

Chart 3 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. In 2016 it also decreased in the Victorian networks and Tasmania, and again (slightly) in South Australia. It also shows that the NUOS charges, as well as the price changes, vary significantly between the networks. Households in Tasmania (Aurora’s network) continue to pay the highest NUOS charges in the NEM. The NUOS charges are lowest in Victoria’s Citipower and United Energy networks and the ACT (ActewAGL’s network). Except for 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 NSW) in chart 1 above.
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.
### Chart 4 NUOS charges (excl GST) from July 2009 to July 2016 as proportion (%) of annual retail bill (incl. GST) for electricity regulated/standing offers, 6,000kWh per annum, single rate

Chart 5 compares the NUOS proportion of bills in July 2015 to July 2016. It shows that the biggest decrease occurred in Tasmania, partly due to higher wholesale costs, and that Victoria’s Jemena network is the only network where the NUOS proportion increased.

---

7 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 Queensland the retail bills are based on the regulated rates as well as AGL and Origin’s average standing offer post retail deregulation (July 2016). 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.
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 1 below deducts estimated cost components from the average annual retail bill for households using 6,000kWh per annum as of July 2016.

As we do not know exactly what retailers pay for wholesale energy we have used several data sources in order to arrive at an estimated wholesale cost. The AEMC’s last price trend report reported on wholesale and retail costs combined (as the ‘competitive market’ price component) because the risk of inherent error and uncertainty could lead to misleading results. However, the AEMC did commission a consultant report into wholesale prices and this estimated that the energy purchase cost in 2016/17 (financial years) would be approximately:

- $45/MWh in the ACT;
- $46/MWh in NSW;
- $69/MWh in Queensland;
- $69/MWh in South Australia;
- $45/MWh in Tasmania; and
- $50/MWh in Victoria.

---

8 Ibid.
9 AEMC, 2015 Residential Electricity Price Trends (December 2015), 44
10 Frontier Economics, 2015 Residential Electricity Price Trends Report, A report prepared for the AEMC November 2015), figures 26-29. Note that this report presented energy purchase costs for each network area and we have used the approximate amount (Net System Load Profile) for each jurisdiction as shown in the base case scenario for both years.
The Australian Energy Market Operator (AEMO) publishes average spot-prices and the average annual spot price for 2015/16 was:

$43/MWh in NSW and the ACT;
$56/MWh in Queensland;
$50/MWh in South Australia;
$70/MWh in Tasmania; and
$38/MWh in Victoria.  

Since retailers are to various degrees exposed to high spot-prices but also manage this risk through hedging contracts, we believe a starting point for estimating wholesale costs are somewhere in between the spot-price and the estimated cost of purchasing. The wholesale cost we apply to bills as of July 2016 is therefore:

**Table 1 Estimated electricity wholesale costs**

<table>
<thead>
<tr>
<th></th>
<th>Cost per MWh</th>
</tr>
</thead>
<tbody>
<tr>
<td>ACT</td>
<td>$44</td>
</tr>
<tr>
<td>NSW</td>
<td>$45</td>
</tr>
<tr>
<td>Queensland</td>
<td>$64</td>
</tr>
<tr>
<td>South Australia</td>
<td>$60</td>
</tr>
<tr>
<td>Tasmania</td>
<td>$58</td>
</tr>
<tr>
<td>Victoria</td>
<td>$44</td>
</tr>
</tbody>
</table>

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 $795 (in Victoria’s Powercor network). Chart 6 below shows the same bill deductions as those included in table 2.

---

Table 2 Deduction of bill components for regulated/standing offers, average annual bill based on offers taking effect post July 2016 (6,000kWh per annum, single rate)\textsuperscript{12}

<table>
<thead>
<tr>
<th></th>
<th>Retail bill incl. GST\textsuperscript{^a}</th>
<th>Retail bill excl. GST</th>
<th>Retail bill excl. GST and NUOS\textsuperscript{*}</th>
<th>Retail bill excl. GST, NUOS, wholesale and “green scheme” costs\textsuperscript{**}</th>
<th>Retail bill excl. GST, NUOS, wholesale, “green scheme” costs and smart meter costs\textsuperscript{***}</th>
</tr>
</thead>
<tbody>
<tr>
<td>Citipower</td>
<td>1,838</td>
<td>1,671</td>
<td>1,187</td>
<td>923</td>
<td>796</td>
</tr>
<tr>
<td>Powercor</td>
<td>2,067</td>
<td>1,879</td>
<td>1,287</td>
<td>1,023</td>
<td>896</td>
</tr>
<tr>
<td>Ausnet</td>
<td>2,222</td>
<td>2,020</td>
<td>1,269</td>
<td>1,005</td>
<td>878</td>
</tr>
<tr>
<td>Jemena</td>
<td>2,069</td>
<td>1,881</td>
<td>1,297</td>
<td>1,033</td>
<td>906</td>
</tr>
<tr>
<td>UE</td>
<td>1,946</td>
<td>1,769</td>
<td>1,258</td>
<td>994</td>
<td>867</td>
</tr>
<tr>
<td>ActewAGL</td>
<td>1,390</td>
<td>1,264</td>
<td>715</td>
<td>451</td>
<td>300</td>
</tr>
<tr>
<td>Aurora</td>
<td>1,901</td>
<td>1,728</td>
<td>704</td>
<td>356</td>
<td>299</td>
</tr>
<tr>
<td>Energex</td>
<td>2,010</td>
<td>1,827</td>
<td>947</td>
<td>563</td>
<td>339</td>
</tr>
<tr>
<td>Ausgrid</td>
<td>1,897</td>
<td>1,725</td>
<td>951</td>
<td>681</td>
<td>582</td>
</tr>
<tr>
<td>Endeavour</td>
<td>1,847</td>
<td>1,679</td>
<td>978</td>
<td>708</td>
<td>609</td>
</tr>
<tr>
<td>Essential</td>
<td>2,133</td>
<td>1,939</td>
<td>1,041</td>
<td>771</td>
<td>671</td>
</tr>
<tr>
<td>SAPN</td>
<td>2,442</td>
<td>2,220</td>
<td>1,346</td>
<td>986</td>
<td>810</td>
</tr>
</tbody>
</table>

\textsuperscript{^a} As per chart 1 above
\textsuperscript{*} As per chart 3 above
\textsuperscript{^^} As per table 1 above
\textsuperscript{**} 3.73 c/kWh in Qld, 2.51 c/kWh in ACT, 2.95 c/kWh in SA, 1.66 c/kWh in NSW, 2.12 c/kWh in Vic, and 0.96 c/kWh in Tasmania\textsuperscript{13}
\textsuperscript{***} Based on AER estimated AMI charges for 2016\textsuperscript{14}

Chart 6 below compares the total retail bill and the retail component for 2016 (as per table 2 above) to the analysis presented in last year’s report.\textsuperscript{15} The columns show the total bill (including GST) in 2015 and 2016 while the white round markers show the retail component in 2015 and the black line marker the retail component

\textsuperscript{12} This table is based on the same offers used for July 2016 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.

\textsuperscript{13} The “green scheme” costs include Renewable Energy Targets, Feed in Tariffs and other jurisdictional schemes. The AEMC report, 2015 Residential Electricity Price Trends (December 2015) estimated the cost of environmental policies for each jurisdiction and costs used for this report are based on the average cost of environmental policies (c/kWh) in 2015/16 and 2016/17 multiplied by 6 MW.

\textsuperscript{14} To estimate the impact of the Victorian smart meter rollout on the bill-stack, we used AER’s indicative average annual metering bill for 2016. See table 1-2 in AER, Advanced Metering Infrastructure, Transition charges applications, Draft Decision (September 2016)

\textsuperscript{15} See table 2 in St Vincent de Paul Society and Alviss Consulting, The NEM – Still winging it? September 2015
in 2016. It shows that the retail component is significantly greater in South Australia (SAPN) in 2016 compared to 2015, while in the Energex network, the overall bill increased in 2016 but the retail component is somewhat lower. In the ACT and Tasmania, where the standing offer is regulated, the overall bill has increased but the retail component has remained the same. In NSW, both overall bills and retail components have increased, while in Victoria, where the overall bills have decreased, the retail component has decreased in three network areas but remained the same in Ausnet and increased in United Energy.

Chart 6 Total annual bills and retail components in July 2015 and July 2016 (for electricity regulated/standing offers, 6,000kWh per annum, single rate, excluding GST)\(^{16}\)

![Chart 6](chart6.png)

Chart 7 below is based on the same calculations presented in table 2 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 7 clearly illustrates that the cost of retail is significant in some network areas.\(^{17}\)

Similarly to last year, our estimates show that between 37-44% of the bills paid by Victorian households goes to the retailer. At the same time the amount that goes to pay for the actual electricity used (wholesale), has increased to 14-16% of the bill (compared to 9-11% last year). In all Victorian network areas except Ausnet, the retail cost 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 34-36% of the total bill and in South Australia the retail proportion is now 36%. The retail component remains lowest in the ACT and Tasmania.

\(^{16}\) This chart is based on the calculation used table 1 above

\(^{17}\) Cost of retail includes both retail costs and margins (profits).
A longstanding feature of market offers in the NEM retail markets has been to offer a discount on the published rates. The vast majority of retail offers now include a conditional discount that the customer will receive if the bill is paid by the due date.

As the calculations for the charts above are based on standing and/or regulated prices, a bill-stack analysis for market offers is included below. 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 post July 2016. 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 $144 in the ACT and $195 in Queensland, and as high as $410 (in Victoria’s Powercor network). By comparing these figures to the regulated/standing offers examined in table 1 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 most network areas. We do note, however, that not all customers will receive these conditional discounts and that the retail component will in reality be greater than this.

---

18 This chart is based on the calculation used for table 2 above
19 These offers were collected between mid-July and mid-September 2016.
20 Note that Tasmania experienced exceptionally high wholesale costs during this period.
Table 3 Deduction of bill components for market offers (including pay on time discounts), average annual bill based on offers taking effect post July 2016 (6,000kWh per annum, single rate)\(^{21}\)

<table>
<thead>
<tr>
<th>Retailer</th>
<th>Retail bill incl. GST(^{\wedge})</th>
<th>Retail bill excl. GST</th>
<th>Retail bill excl. GST and NUOS(^{\wedge\wedge})</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>1,464</td>
<td>1,331</td>
<td>847</td>
<td>583</td>
<td>456</td>
</tr>
<tr>
<td>Powercor</td>
<td>1,644</td>
<td>1,495</td>
<td>902</td>
<td>638</td>
<td>511</td>
</tr>
<tr>
<td>SP Ausnet</td>
<td>1,764</td>
<td>1,604</td>
<td>853</td>
<td>589</td>
<td>462</td>
</tr>
<tr>
<td>Jemena</td>
<td>1,634</td>
<td>1,485</td>
<td>902</td>
<td>638</td>
<td>511</td>
</tr>
<tr>
<td>UE</td>
<td>1,539</td>
<td>1,399</td>
<td>888</td>
<td>624</td>
<td>497</td>
</tr>
<tr>
<td>ActewAGL</td>
<td>1,218</td>
<td>1,107</td>
<td>558</td>
<td>294</td>
<td>144</td>
</tr>
<tr>
<td>Aurora</td>
<td>1,901</td>
<td>1,728</td>
<td>704</td>
<td>356</td>
<td>299</td>
</tr>
<tr>
<td>Energex</td>
<td>1,851</td>
<td>1,683</td>
<td>803</td>
<td>419</td>
<td>195</td>
</tr>
<tr>
<td>Ausgrid</td>
<td>1,615</td>
<td>1,468</td>
<td>695</td>
<td>425</td>
<td>325</td>
</tr>
<tr>
<td>Endeavour</td>
<td>1,648</td>
<td>1,498</td>
<td>797</td>
<td>527</td>
<td>428</td>
</tr>
<tr>
<td>Essential</td>
<td>1,927</td>
<td>1,752</td>
<td>854</td>
<td>584</td>
<td>484</td>
</tr>
<tr>
<td>SAPN</td>
<td>2,119</td>
<td>1,926</td>
<td>1,053</td>
<td>693</td>
<td>516</td>
</tr>
</tbody>
</table>

\(^{\wedge}\) Based on market offers available post July 2016 (including guaranteed and pay on time discounts) offered by the same retailers included in the analysis of standing/regulated offers (table 2), except for the ACT where the standing offer is regulated. In the ACT, the market offer bill is based on the average retail market offer.

\(^{\wedge\wedge}\) As per table 1 above.

** 3.73 c/kWh in Qld, 2.51 c/kWh in ACT, 2.95 c/kWh in SA, 1.66 c/kWh in NSW, 2.12 c/kWh in Vic, and 0.96 c/kWh in Tasmania\(^{22}\).

*** Based on AER estimated AMI charges for 2016\(^{23}\).

Chart 8 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\(^{24}\).

\(^{21}\) 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.

\(^{22}\) The “green scheme” costs include Renewable Energy Targets, Feed in Tariffs and other jurisdictional schemes. The AEMC report, 2016 Residential Electricity Price Trends (December 2016) estimated the cost of environmental policies for each jurisdiction and costs used for this report are based on the average cost of environmental policies (c/kWh) in 2015/16 and 2016/17 multiplied by 6 MW.

\(^{23}\) To estimate the impact of the Victorian smart meter rollout on the bill-stack, we used AER’s indicative average annual metering bill for 2016. See table 1-2 in AER, Advanced Metering Infrastructure, Transition charges applications, Draft Decision (September 2016)

\(^{24}\) Cost of retail includes both retail costs and margins (profits).
Chart 8: Estimated bill-stack for market offers, average annual bill based on the offers taking effect post July 2016 (6,000kWh per annum, single rate, excluding GST)²⁵

Chart 8 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 7). That said, the size of the retail component of the total market offer bill is still concerning in many network areas.

Compared to last year’s market offers (July 2015), the retail component has increased in some network areas and decreased in others. Chart 9 below shows the estimated retail component (%) of market offer bills in 2016 compared to 2015. It shows that the retail component of market offer bills has increased the most in South Australia and Victoria’s United Energy network while it has decreased the most in the ACT (ActewAGL) and Queensland (Energex).

²⁵ This chart is based on the calculation used for table 3 above
Chart 9 Retail proportion of market offers, average annual bill based on the offers taking effect post July 2015 and 2016 (6,000kWh per annum, single rate, excluding GST)\(^{26}\)

\(^{26}\) This chart is based on the calculation used for table 3 above as well as table 13 in St Vincent de Paul Society and Alviss Consulting, *The NEM – Still winging it?* September 2015
3. Who takes what part: fixed vs. variable charges

The above analysis focused on the ‘bill-stack’ as a whole. In this section, we analyse the same components but rather than looking at the total cost we will assess the bill-stack for the fixed supply charge and the variable consumption charge separately, as well as for two separate scenarios: guaranteed bills and conditional bills. Calculations for the guaranteed bills include rates as well as any guaranteed discount while calculations for the conditional bills also include pay on time discounts.

The supply charge is a fixed daily charge that is paid in addition to the consumption charges for electricity 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. Furthermore, as the cost of energy increases, consumers, as well as governments, may want to invest in solutions that can reduce their consumption but if a large proportion of costs are loaded up in the fixed charges, behavioural changes and energy efficiency initiatives will have less impact on reducing costs.

The following example analyses and allocates the bill components for customers on Origin Energy’s ‘Saver’ product in Victoria’s Citipower network (where Origin is the incumbent retailer). If a customer using 6,000 kWh per annum signed up to Origin’s offer in February 2016, this customer would be charged 102.79 cents per day in fixed supply charge (excluding GST) and 21.77 cents for every kWh consumed (excluding GST). If the customer pays the bills on time, Origin would reduce the consumption charge by 26%, bringing it down to 16.1098 c/kWh. If the customer signed up online, Origin would also credit the customer’s account with $25.

Chart 10 shows that the customers guaranteed maximum annual bill would be $375 in fixed charges and $1,306 in consumption charges (excluding GST). If the customer signs up online and always pays bills by the due date, however, the annual bill would still be $375 in fixed charges but the consumption charges will be reduced to $942 (Chart 11).

---

27 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.
Chart 10  Citipower, Origin Energy’s Saver offer available in February 2016, 6,000 kWh per annum - Guaranteed annual retail bill (excl GST)

Chart 11  Citipower, Origin Energy’s Saver offer available in February 2016, 6,000 kWh per annum - Conditional annual retail bill (excl GST)

Origin would be required to pay the Citipower network a fixed daily supply charge as well as a charge for each kWh consumed by the customer. As of February 2016 the Network Use of System (NUOS) charge in Citipower’s network was 20.55 cents/day in fixed charges and 6.8195 c/kWh. Charts 12 and 13 below show the total guaranteed and conditional bills as above but the top section show the NUOS component of the bill. After the NUOS component is deducted from the bill, the customer still pays Origin $300 per annum in fixed supply charges. In relation to the consumption charge, $897 is the guaranteed amount excluding NUOS (chart 12) and for the conditional offer the NUOS exclusive consumption charge is now down to $532 (chart 13).
Chart 12  Citipower, Origin Energy’s Saver offer available in February 2016, 6,000 kWh per annum - Guaranteed annual retail bill with NUOS component excluded (excl GST)

Chart 13  Citipower, Origin Energy’s Saver offer available in February 2016, 6,000 kWh per annum - Conditional annual retail bill with NUOS component excluded (excl GST)

Based on the estimated wholesale cost for Victoria in table 1 above ($44/MWh), the annual wholesale cost would be $264 for this consumption level (6,000 kWh) and as the wholesale market does not charge any fixed charges, we allocate this amount to the variable charge. Charts 14 and 15 below shows that the cost of the fixed component excluding NUOS and wholesale costs is still $300 for both guaranteed and conditional bills while the variable supply component is now $633 for the guaranteed bill and $268 for the conditional bill.
Chart 14 Citipower, Origin Energy’s Saver offer available in February 2016, 6,000 kWh per annum - Guaranteed annual retail bill with NUOS and wholesale components excluded (excl GST)

Chart 15 Citipower, Origin Energy’s Saver offer available in February 2016, 6,000 kWh per annum - Conditional annual retail bill with NUOS and wholesale components excluded (excl GST)

The AEMC has estimated that the cost of environmental policies or so-called green schemes will be 2.16 c/kWh in Victoria in 2016/17.\(^{28}\) We therefore deduct $130 from the retail component and allocate this cost to the green scheme component. Charts 16 and 17 below show that the cost of the variable supply component excluding NUOS, wholesale and green scheme costs is now $503 for the guaranteed bill and $139 for the conditional bill while the fixed component is still $300.

\(^{28}\) This includes the LRET, SRES, feed in tariff schemes and the Victorian Energy Efficiency Target (VEET) scheme. AEMC, 2015 Residential Electricity Price Trends, December 2015, 62
While the variable retail supply component for customers that obtain conditional discounts or one off incentives appear quite reasonable, many customers are of course not able to obtain these discounts. Only the retailers know the exact proportion of customers that receive pay on time discounts or account credits from signing up online, but if we assume that 50% of customers do and the rest do not, the variable retail supply component will be $321 per annum in addition to the fixed retail component of $300 per annum.

Furthermore, Victorian customers still also pay for the roll out of smart meters. The AER has estimated that customers in the Citipower network will pay approximately
$100 in smart meter charges in 2016.\textsuperscript{29} As this cost is not relative to usage, we have allocated the smart meter charge to the fixed component in chart 18 below.

Chart 18 shows the bill stack for this specific example (Origin Energy’s market offer in Victoria’s Citipower network with 50% of customers obtaining conditional discounts) and it highlights that the retailer takes just under 30% of the variable charges as well as an astonishingly high 53% of the fixed charges.

\textbf{Chart 18} Bill-stack for Origin Energy’s ‘Saver’ market offer in Victoria’s Citipower network. Based on annual bill for new customer as of February 2016, 6,000 kWh per annum, single rate, GST excluded

Charts 19 – 21 below show analysis using the same methodology in South Australia (AGL’s Savers), NSW (Energy Australia’s Flexi Saver in the Ausgrid network) and Queensland (Origin’s Saver in the Energex network), and while the retailer proportion of the variable charges is lower in these jurisdictions, the retail component is 50% or more in both South Australia and NSW. In Queensland, the retail component of the fixed charges is 57% but it also has a $70 shortfall in the variable charges (see chart 21).

\textsuperscript{29} AER, Draft Decision: AMI Transition Charges Applications, September 2016, 7
**Chart 19** Bill-stack for AGL’s ‘Savers’ market offer in South Australia’s SAPN network. Based on annual bill for new customer as of February 2016, 6,000 kWh per annum, single rate, GST excluded

![Chart 19](chart19.png)

**Chart 20** Bill-stack for Energy Australia’s ‘Flexi Saver’ market offer in NSW’s Ausgrid network. Based on annual bill for new customer as of February 2016, 6,000 kWh per annum, single rate, GST excluded

![Chart 20](chart20.png)

---

30 Same data sources as used for Origin/Citipower bill-stack above. Average wholesale cost: $60/MWh and green scheme costs of 2.9c/kWh. Note that NUOS is based on prices that took effect 1 July 2016.

31 Same data sources as used above. Average wholesale cost: $45/MWh and green scheme costs of 1.73c/kWh. Note that NUOS is based on prices that took effect 1 July 2016.
Charts 18 – 21 above show there are significant differences between the jurisdictions. As Origin, AGL and Energy Australia are national retailers it is possible that Victorian customers contribute more to their overall earnings compared to, for example, Queensland customers.

Chart 22 below shows the estimated annual retail component of the variable consumption charges (based on annual consumption of 6,000 kWh) in each jurisdiction. The blue column to the left shows the retail component of annual consumption charge when the customer receives the conditional pay on time discount as well as a one-off incentive. The red column shows the retail component if half of the customers receive conditional pay on time discounts as well as one off incentives while half of them do not. The green column to the right shows the retail component of the annual consumption charge when the customer does not receive conditional discounts or one-off incentives.

32 Same data sources as used above. Average wholesale cost: $64/MWh and green scheme costs of 3.67c/kWh. Note that NUOS is based on prices that took effect 1 July 2016.
Retailers also collect a proportion of the fixed daily supply charge. As none of these retailers apply discounts to the supply charge, however, there is no difference between the retail components of the fixed supply charges that customers on the same retail offer pay. Chart 23 shows the retail component of the annual fixed supply charge.

**Chart 23** Retail component of annual fixed supply charges. Based on annual bill for new customer as of February 2016, 6,000 kWh per annum, single rate, GST excluded

---

33 Based on the same retail offers and assumptions used for the above analysis.

34 Ibid.
The Chair of the Essential Services Commission (ESC) Victoria discussed the issue of retailers applying fixed as well as variable charges in a paper written in August 2016.  

Dr Ron Ben-David poignantly asked:

“We have become so accustomed to energy retailers charging fixed and variable charges we don’t bother ourselves with the simplest and most obvious question: Why?”

One possible explanation is that the fixed retail charge component is simply a hang-over from the days when retail prices were regulated and that fixed charges are too attractive to retailers to move away from the ‘old style’ pricing structure. Accompanying this, we have energy customers that were already accustomed to pay a fixed and a variable charge, and thus do not question why it is charged or its’ size.

While it is beyond the scope of this paper to investigate retail pricing structures and pricing legacy issues in other countries, we are aware of one country where retailers have offers containing variable charges only (price per kWh consumed). In Norway some retailers have a fixed charge (typically around $6 per month) while others charge for energy consumed only (albeit typically at a higher price per kWh). When full retail competition was introduced in Norway, the network charge (which contains both fixed and variable charges) continued to be billed separately by the distribution businesses. It is therefore possible that this influenced consumers perception of retail services, i.e. that the retailer is regarded as nothing more than a business that should make a few cents per kWh for running the shop.

In the UK electricity market, which the NEM was very much modelled on, a daily standing charge is still standard although there have been examples of retailers offering variable charges only.

As discussed above, there may be legacy issues impacting on retailers’ tariff structures and customers’ acceptance of these offers, but this does not explain why no retailer has attempted to offer a variable charge only or at least a supply charge that is based on a standing network charge pass-through only. Fixed annual retail
components of $200 or more certainly do not come across as highly efficient pricing to us, but as Ben-Davis has stated:

“[W]hile much effort goes into trying to ‘prove’ the retail energy market is competitive, very little effort goes into testing whether it is efficient.”

In our view, findings like this should encourage the AEMC to investigate more specific components of the retail market to ascertain whether it actually delivers efficient outcomes to consumers. There may be 20 retailers offering electricity products to Victorian households but if all of them insist on charging every customer, say, $180 - $200 in fixed supply charges, the question ought to be why not a single one of them attempts to offer a pricing structure based on low, or no, fixed supply charge.

In lieu of such investigations and market efficient outcomes, regulatory instruments may be used to trigger more efficient outcomes. As we highlighted last year, customers actually exercise choice in relation to (what should be) a relatively small component of their electricity bills. Nonetheless, customers are required to compare offers amounting to significant annual bills. In reality, a retail offer could be as simple as 10 c/kWh and a list of pass-through costs such as network and wholesale prices that actually do not vary greatly from retailer to retailer (within the same area).

“There may be 20 retailers offering electricity products to Victorian households but if all of them insist on charging every customer, say, $180 - $200 in fixed supply charges, the question ought to be why not a single one of them attempts to offer a pricing structure based on low, or no, fixed supply charge.”

---

41 Dr Ron Ben-David, *Shock Therapy. Reviving retail competition in the energy market*, Draft Paper, 22 August 2016, 10

42 REF
4. Interstate differences and retention markets

If we combine the retail component of the fixed supply charge and the variable consumption charges, we get positive retail component numbers in all jurisdictions but, as shown in section 2 above, retail costs vary significantly between jurisdictions as well as between customers that obtain conditional pay on time discounts versus those who do not. Again the blue column to the left shows the retail component of annual bills where the customer receives the conditional pay on time discount as well as a one-off incentive. The red column shows the retail component if half of the customers receive conditional pay on time discounts as well as one off incentives while half of them do not. The green column to the right shows the retail component of the annual bill when the customer does not receive conditional discounts or one-off incentives.

**Chart 24** Retail component of annual bills. Based on annual bill for new customer as of February 2016, 6,000 kWh per annum, single rate, GST excluded

Furthermore, as all of the offers included in this chart have a benefit period of 12 months only, the blue column can also be seen as the minimum annual retail proportion the first year after the customer signed up and the green column the potential retail proportion for the second year. Chart 25 below shows the average annual retail component (over two years) for customers that do not switch, or negotiate a similar discount, after 12 months.

---

43 Ibid.

44 We acknowledge that retailers may still offer customers some discounts after 12 months but they also have the ability to increase their rates at any time as these are not fixed price products.
In Victoria, the jurisdiction with the most active retailers, the retail proportion of bills is significantly greater than in other jurisdictions. While all markets with rivalling suppliers may be called competitive, these charts alone clearly warrant some questions about what is going on in Victoria.

As the analysis in section 3 was limited to single (incumbent) retailers in each jurisdiction, we have also compared retail components for all retailers competing with Origin’s ‘Saver’ offer in Victoria’s Citipower network.

Chart 26 shows the retail component of the annual bill for 19 retailers in the Citipower network. The retail component is assuming that 50% of customers receive conditional pay on time discounts and that 50% do not (as per the red columns in above charts). The blue markers show the three big retailers while the red markers are 2\textsuperscript{nd} tier retailers. Firstly we note that over half (11) of the retailers have a retail component of more than $500, including two of the three ‘big three’ retailers. Secondly, only two retailers have a retail component of $300 or less per annum. Third, and finally, we note that only a few of the Victorian retailers have retail components similar to those shown for Queensland, South Australia and NSW in chart 24 above.

---

\textsuperscript{45} Ibid.
The question of why retailing in Victoria is more expensive than in other jurisdictions therefore remains unexplained. A different approach to the issue is to focus on these offers being their published offers to new customers only. It is possible that the larger retailers are focusing on retaining their current customers and the incentives offered (e.g. discounts) to customers “threatening” to leave the company are significantly better than the incentives offered to new customers. Energy retailers also have a major advantage compared to retailers of many other products and services as they can easily contact customers that have left and propose a better offer if they are willing to return (so called “win-back calls”).

We realise that “win-back calls” can be a good outcome for individual customers (especially in the short term) but we are concerned about the impact it may have on competition in the long term.

Retention markets and “win-back calls” do nonetheless not explain why none of the 2\textsuperscript{nd} tier retailers are able to offer lower prices than they do and why the cost of retailing appears to be generally much higher than in other states. While competitive markets should deliver efficient price, in theory, the on-going high cost to consumers may warrant an investigation into structural, as well as strategic, barriers to achieving market efficiencies in otherwise competitive retail markets.

\textsuperscript{46} Ibid. Note that wholesale costs are based on average spot market price and therefore assumes that all retailers face the same wholesale costs.
5. The ‘big three’ – month by month

This section analyses monthly changes to the ‘three big’ retailers’ (AGL, Energy Australia and Origin) electricity market offers from August 2015 to September 2016 in NSW, Queensland, South Australia and Victoria.\(^{47}\) It compares differences to annual bills including pay on time discounts as well as one off inducements such as account credits and waivers. It also compares changes to market retail offers with changes to the wholesale spot-market price. It shows that the difference between the big three retailers’ offers is remarkably low in some jurisdictions and/or months. Increases in wholesale costs also appear to result in lower discounts being offered while a drop in wholesale prices does not appear to have an immediate effect on the discounts offered.

The maximum difference between the annual bills produced by the big three is typically $100 - $200, depending on jurisdiction and time of year. Charts 27 - 30 below show the retail offers as annual bills for customers using 6,000 kWh per annum for each of the jurisdictions.

In NSW’s Ausgrid network area, the maximum price-spread between the three retailers was $137 in November 2015. The difference was lowest in May – June 2016 (approximately $20) and as of September 2016 the difference was $110. Energy Australia’s offers (the incumbent retailer) produced the lowest bills throughout the period, while the difference between AGL and Origin’s offers is negligible. All three retailers increased their rates in July 2016 when new regulated network prices took effect.

**Chart 27 NSW (Ausgrid), Annual retail bills August 2015 – September 2016 inclusive of pay on time discount (6,000kWh per annum, single rate, GST incl)**

\(^{47}\) In NSW the comparison is based on offers in the Ausgrid network and in Victoria it is based on offers available in Citipower’s network. The offers compared are Energy Australia’s ‘Flexi Saver’, AGL’s ‘Savers’ and Origin’s ‘Daily Saver Plus’ until it was discontinued in October 2015 and Origin’s ‘Saver’ product was introduced.
In Queensland’s Energex network area, the maximum price-spread between the three retailers was $176 from February to April 2016. The main reason for the difference in annual bills being higher during these three months was AGL’s move to make their discounts conditional upon direct debit.48 The difference was lowest in September 2015 (no difference) and as of September 2016 the difference was less than $40. Origin’s offers produced the highest bills throughout the period, except for the four months when AGL’s discount was conditional upon direct debit payments, but the difference between the three retailers is otherwise very small. All three retailers increased their rates in July 2016 when new regulated network prices took effect.

**Chart 28** Queensland (Energex), Annual retail bills August 2015 – September 2016 inclusive of pay on time discount (6,000kWh per annum, single rate, GST incl)

In South Australia, the difference between the three big retailers’ offers is greater. As of September 2016 the difference was approximately $210 and it has not been lower than $100 during the entire period, although no changes were made to the retail offers from December 2015 to June 2016. All three retailers increased their rates in July 2016 when new regulated network prices took effect.

“*The difference was lowest in September 2015 (no difference) and as of September 2016 the difference was less than $40.*”

---

48 Direct debit discounts as well as additional discounts for customers that sign up for dual fuel offers are not included in this analysis.
In Victoria’s Citipower network, the maximum price-spread between the three retailers was $50 in November 2015. The difference was lowest in January 2016 (less than $20) and as of September 2016 the difference was $50. When new regulated network prices took effect in January 2016, AGL reduced its rates while Origin increased theirs slightly. Energy Australia reduced its rates somewhat from February 2016.

Charts 31 – 33 below show when the retailers increased, or decreased, their offers in the four states. While we would expect the retailers to change their offers when new network charges take effect (in July in NSW, SA and Qld, and January in Victoria) these charts indicate that some of the retailers make additional adjustments to their
offers in all states at the same time. Origin Energy, for example, reduced their discounts in all four jurisdictions in October 2015 (see chart 31). AGL reduced their discounts in all states except Queensland in December 2015 (see chart 32) and Energy Australia did the same one month later (see chart 33).

**Chart 31** Origin Energy, Annual retail bills August 2015 – September 2016 inclusive of pay on time discount (6,000kWh per annum, single rate, GST incl)

**Chart 32** AGL, Annual retail bills August 2015 – September 2016 inclusive of pay on time discount (6,000kWh per annum, single rate, GST incl)
These changes could reflect changes in the wholesale market. While retailers do enter hedging contracts in order to manage risk exposure caused by price volatility, significant changes in wholesale costs may result in retailers reducing the discount offered to new customers.

Charts 34 - 37 compare retail price changes to price changes in the spot market. In Victoria (chart 34) increases and decreases in retail prices appear to somewhat reflect increases and decreases to wholesale costs, except for the brief peak in the spot price in June 2016.
South Australia (chart 35) shows a similar tendency to Victoria but we note that the spot price is generally higher than in Victoria and that the peak in wholesale costs (July 2016) coincided with new network tariffs taking effect.

**Chart 35** South Australia (SAPN), Annual retail bills (inclusive of pay on time discount) and average spot-market price, August 2015 – September 2016 (6,000kWh per annum, single rate, GST incl)

In NSW (chart 36), the peak in wholesale costs (June 2016) occurred just before new network tariffs took effect (July 2016). It is otherwise difficult to conclude whether changes to wholesale costs have much impact on changes to the retail costs.

**Chart 36** NSW (Ausgrid), Annual retail bills (inclusive of pay on time discount) and average spot-market price, August 2015 – September 2016 (6,000kWh per annum, single rate, GST incl)
In Queensland, changes to the wholesale price appear to have less impact on the retail prices offered (see chart 37).

**Chart 37** Queensland (Energex), Annual retail bills (inclusive of pay on time discount) and average spot-market price, August 2015 – September 2016 (6,000kWh per annum, single rate, GST incl)

As mentioned above, all three retailers have offered various one off incentives (i.e. account credits for signing up online and supply charge waivers) since August 2015. The value of these one off incentives has not been included in the annual bill calculations presented in the above analysis. Charts 38 - 41 show annual bills for each jurisdiction from August 2015 to September 2016 inclusive of one off incentives. They show that the maximum price spread is somewhat higher in Queensland and Victoria when we include these incentives in the annual bill calculation while they make little difference to the maximum price spread in NSW and South Australia.

---

49 Not including incentives or discounts conditional upon dual fuel contracts.
Chart 38 Victoria (Citipower), Annual retail bills August 2015 – September 2016 inclusive of pay on time discount and one off incentives (6,000kWh per annum, single rate, GST incl)

Chart 39 Queensland (Energex), Annual retail bills August 2015 – September 2016 inclusive of pay on time discount and one off incentives (6,000kWh per annum, single rate, GST incl)
On average, the maximum difference to the annual bill between the three retailers’ offers (including pay on time discounts and one off incentives) from August 2015 to September 2016 was $90 in NSW, $95 in Queensland, $155 in South Australia and $70 in Victoria. Considering that the average annual bill, for households using 6,000 kWh per annum, for the same period was $1,500 in NSW, $1,800 in Queensland, $1,975 in South Australia and $1,430 in Victoria, the difference between the big retailers’ offers must be considered relatively low.
According to the AEMC, the market share of the ‘big three’ is approximately 90% in Queensland (Energex), 91% in NSW, 63% in Victoria and 79% in South Australia.\textsuperscript{50} We acknowledge that this market share has decreased over time with competition but it is still possible that the ‘big three’ are not pursuing new customers as much as they are focusing on retaining their current share and they still have advantages over 2nd tier retailers that enable them to offer a “middle of the road” price. Nonetheless, we ask whether there is healthy rivalry in a market where the big players do not appear to compete? An analogy would be three major supermarket chains without an interest in price wars and we thought competition was high just because there were quite a few corner stores competing for a small number of customers.

\textsuperscript{50} AEMC, 2016 Retail Competition Review, June 2016, Table 10.1, 121
6. Solar offers

This year was the first time the Tariff-Tracking project covered offers available to solar customers and compared offers based on both electricity bought and feed in tariff (FIT) rates for electricity sold. The workbooks allow users to compare offers for 3 kW and 1.5 kW capacity systems, based on nominated consumption levels and location (network and urban or non-urban setting). The analysis presented below is based on 3 kW systems in urban locations and the assumptions applied are shown in table 4.

Table 4 Assumptions: Generation capacity and export (%) in capital cities, 3 kW systems

<table>
<thead>
<tr>
<th>Capital cities</th>
<th>Annual generation per kW installed</th>
<th>Export rates (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adelaide</td>
<td>1.680 MWh</td>
<td>51.8%</td>
</tr>
<tr>
<td>Brisbane</td>
<td>1.736 MWh</td>
<td>53.4%</td>
</tr>
<tr>
<td>Melbourne</td>
<td>1.539 MWh</td>
<td>47.4%</td>
</tr>
<tr>
<td>Hobart</td>
<td>1.185 MWh</td>
<td>47.4%</td>
</tr>
<tr>
<td>Canberra</td>
<td>1.801 MWh</td>
<td>55.1%</td>
</tr>
<tr>
<td>Sydney</td>
<td>1.614 MWh</td>
<td>49.9%</td>
</tr>
</tbody>
</table>

Chart 42 shows average annual bills for solar customers (3 kW systems installed) in metropolitan areas using 6,000 kWh (imported as well as generated) per annum. While South Australian customers have the highest electricity bills in general, South Australian solar customers with this consumption level have, on average, lower annual bills compared to customers in Tasmania and Victorian customers in the Powercor and Ausnet networks.

---

51 The export rates and generation capacities (Except for Hobart and Canberra) are based on Melbourne and were used for the analysis presented in a report for the Alternative Technology Association (ATA) by Alviss Consulting (Alviss Consulting, Retail Offers and Market Transparency for New Solar Customers, June 2013). The Tasmanian 1.185 MWh generation capacity is based on small-scale technology certificates (STC) for zone 4. The Export rate is based on Melbourne assumptions and may therefore be slightly higher than the Tasmanian average. The Canberra assumptions are based on non-metropolitan NSW rates and will therefore be somewhat high for ACT housing experiencing overshadowing.

52 Based on average market offer (all retailers) including guaranteed discounts, pay on time discounts, FIT credits and GST. NSW’s Essential network is not included as it covers rural NSW only.
The difference in South Australia is partly explained by retailers, on average, offering higher FIT rates compared to other jurisdictions (see table 5 below) but also because solar customers avoid kWh (because of their own generation) that non-solar customers do not. This generation/avoided purchase becomes even more valuable when the tariff applied is an inclining block tariff where the price per kWh increases significantly with increase in overall consumption.
Table 5 Annual average FIT credit, market offers, 6,000kWh per annum, single rate

<table>
<thead>
<tr>
<th>Jurisdiction</th>
<th>Average annual FIT credit ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>SA</td>
<td>$205</td>
</tr>
<tr>
<td>QLD</td>
<td>$200</td>
</tr>
<tr>
<td>NSW</td>
<td>$147</td>
</tr>
<tr>
<td>VIC</td>
<td>$139</td>
</tr>
<tr>
<td>ACT</td>
<td>$119</td>
</tr>
<tr>
<td>TAS</td>
<td>$112</td>
</tr>
</tbody>
</table>
7. Observations and recommendations

This final section highlights some of the issues identified in this report and proposes recommendations for how they can be addressed.

7.1 De-link cost components to drive innovation

As discussed in section 3 above, none of the retailers have seen an opportunity in dramatically reducing their fixed charges since retail deregulation. In Victoria, the retail energy market has been deregulated for almost eight years and more than 20 retailers offer contracts to residential consumers. Still, the retail component of the daily fixed charge continues to increase year after year.

Retailers are typically quick to highlight that any proposed regulation can stifle innovation, yet in one area where they are not facing any regulation, structuring their tariffs and setting their prices, we have hardly witnessed any innovation at all.

In our view, retailers need an incentive to innovate around where they load up the cost (e.g. in fixed or variable charges). To date, the retailers have had an incentive to hide behind the network businesses’ service to property charge to significantly inflate the fixed charge. Clearly a fixed charge is favoured by retailers and as long as most customers remain unaware of why this charge is as high as it is, there is a lack of incentive for retailers to innovate. Retailers’ description of the daily supply charge also alludes to the majority of this cost being to pay for major infrastructure. Powerdirect, for example, explains:

“Daily supply charges cover some of the costs of maintaining and operating the Distribution and Transmission networks (see explanation of Network Costs above), and some of the operational costs of servicing our customers.”

Similarly, Energy Australia explains:

“The supply charge is the cost per day that is charged for providing you with electricity (including the maintenance of poles and wires).”

---

53 See, for example, retailers’ submissions to the ESC Energy Hardship Inquiry at http://www.esc.vic.gov.au/document/energy/26283-energy-hardship-inquiry-draft-report/. In relation to flexible pricing, or time of use pricing, Victorian retailers have faced limitation in terms of the tariff structure but not in regards to other tariffs/meter types.
Red Energy is somewhat less specific in their explanation but they still make it sound like it is a given, unquestionable charge:

“Service To Property Charge: This is the cost to supply and maintain your property with electricity.”

What customers are not told, is that only a small part of the fixed charge goes to the network businesses, which is the same for everyone within the network, and the rest goes to retailers even though they may already charge you extra for posting a bill, processing your payment and any other ‘additional service’ they provide to keep your account open.

As illustrated in the Origin Energy/Citipower example in chart 18 above, 53% of the daily fixed charge is a retail charge while the remaining 47% is network charges, including additional smart meter charges. If customers actually knew that Origin charges them (in this instance) 50 cents a day purely for being their customer, and without using a kW of electricity, they may ask themselves whether other retailers can do it for less. And if customers start asking we will hopefully see some innovation. As household consumption levels vary significantly, such new products could result in very useful product innovation for customers. With the ever increasing cost of energy, consumers, as well as governments, may want to invest in solutions that can reduce their consumption, but if a large proportion of costs are loaded up in the fixed charges, behavioural changes and energy efficiency initiatives will have less impact on reducing costs.

Recommendation

In order to ensure that customers are aware of what they are paying for and retailers can more easily innovate, we strongly recommend that all Price and Product Information Statements and all bills clearly separate market based charges (retail and wholesale) from other charges, such as regulated network charges and policy costs that apply to all customers within a jurisdiction/network.

7.2 Consumer awareness can drive consumer engagement

In a recent performance report, the AER found that customer switching rates “were flat or declined” in 2015-16. As discussed above, this could be because retailers are focusing on retailing customers rather than gaining new ones and we note that the switching rates do not include customers that have switched to a different offer with the same retailer. However, it could also mean that many customers are unaware of

---

a common market contract feature called “limited benefit period” and falsely think they are still on a good offer after they last switched, say 18 months prior. The limited benefit period applied by many retailers (and all of the ‘big three’) simply means that the ‘benefits’ associated with the contract (typically the discounts applied) will cease when the benefit period is finished (typically after 12 or 24 months). Some retailers appear to use the term ‘benefit period’ as interchangeable with terms such as ‘contract length’ or ‘contract term’. Covau’s Price and Product Information Statements (PPIS), for example, simply states:

“Ongoing contract with benefit period.” (Covau)

Other retailers use it as an additional feature by, for example, stating:

“Your market contract has no contract term. However, at the end of your 1 year benefit period, you will be placed on a new energy plan. We will notify you if there are any differences between these plans.” (AGL)

“Ongoing contract which continues until you or we end it. The benefit period is 12 months. When the benefit period ends we'll still supply you with energy under our contract but you'll no longer receive the benefit.” (Origin)

“The Benefit Period is for 1 year. We will provide you with notice of your options prior to the end of the Benefit Period. Your contract will continue until it is ended by either party.” (Energy Australia)

It is however somewhat unclear whether, and how, retailers’ actually notify their customers about the benefit period ending. In the case of Red Energy, for example, their commitment to contact the customer prior to the benefit period ending is less clear:

“This is an ongoing Contract with a benefit period of 2 years. We may contact you prior to the end of your benefit period to advise options available to enter into a new benefit period, otherwise your Contract will continue until it is ended by you or us.” (Red Energy - our emphasis)

Furthermore, not all retailers define benefits as additional discounts only. Alinta and Simply Energy, for example, explicitly state that the customer may be required to pay standing offer prices after the benefit period is over.

“The 24 month benefit period commences from the commencement date. The rates are based on Alinta Energy’s published Standing Tariffs which are subject to change in accordance with applicable laws and may change during the 24 month benefit period. At the end of the 24 month benefit period the benefits will end but the agreement will continue. We may offer you, in accordance with our market offer terms and conditions, and as set out in the offer, new benefits for an additional benefit period. If we do not, you will be
required to pay Alinta Energy’s then applicable published *Standing Tariffs* with no pay on time discount.” (Alinta – our emphasis)

“Ongoing contract which continues until it is ended in accordance with our Contract Terms and Conditions. The benefit period is for 24 months. The contract starts from the day you accept our offer. The *benefit period* for this energy plan starts on the day we start selling you energy. We will let you know before your benefit period expires what your options are. We may offer you another energy plan or a replacement contract. If you don’t accept another offer from us before your initial energy plan expires, your rates and charges will become the same as our then current *standing offer prices*.” (Simply Energy – our emphasis)

While Alinta currently applies their standing offer rates to their market offers (which then offers a discount on these rates), Simply Energy has standing offer rates that are higher than their market offer base rates (prior to discounts). A Simply Energy customer could therefore end up with a significantly higher base rate and no additional discount when the benefit period of the contract is over.

Urth Energy does not use the term ‘benefit period’, and they operate with a 3 year long contract term, but they do nonetheless automatically transfer customers to standing offer rates when the contract term finishes.

“Your agreement term is 36 months. At the conclusion of this energy plan, you will be *automatically* transferred to our standard residential offer. You can then decide if you wish to continue with Urth Energy as your retailer.” (Urth Energy – our emphasis)

Some retailers’ ‘benefit periods’ and explanations of what happens when the benefit period is over are just confusing. Momentum’s PPIS for Smile Power contracts in NSW, for example, does not include any additional ‘benefits’ such as discounts, and exit fees are applied if the customer decides to leave Momentum before the contract term is over. Still Momentum states that it is an “[o]ngoing contract with benefit period” and that:

“At the end of the 1, 2 or 3 year benefit period, the energy contract, including all product features, applicable discounts and account credits, will continue for a further benefit period, unless we advise you otherwise or your contract is terminated. You must provide us with 20 days notice at anytime after the Cooling-off Period if you want to end the Contract.” (Momentum)

Powerdirect also offers customers ‘ongoing contract with benefit period’ but they do offer an additional pay on time discount and do not charge exit fees for early termination. Still Powerdirect states that there is a minimum term and offer a rather vague explanation for what will occur when contract/benefit period is over:
“At the end of the 24 month minimum term, your agreement may be extended for a further benefit period if we have notified you of that extension and you have not notified us that you do not wish to extend.” (Powerdirect – our emphasis)

The clearest contract terms we came across during this process were those offered by Commander and Dodo:

“No term contracts do not expire until you notify us in accordance with our Energy Market Terms and Conditions.” (Commander and Dodo)

While this explanation still requires the customer to read the retailers’ Terms and Conditions, it is less confusing as they do not apply a limitation on their own offer. As most retail offers (apart from some fixed price contracts) will state that the retailer can make changes to the offers at any time as long as the customer is notified, the concept of a ‘benefit period’ is fairly redundant. As stated in Commander and Dodo’s PPISs:

“We may vary your rates and charges by providing you notice of that change. Notice will be provided as soon as practicable and in any event no later than your next bill, or as outlined in our terms and conditions.” (Commander and Dodo)

It is important that customers are aware of how frequently they need to reassess their current contracts and in order to effectively communicate this message effectively to customers, a clear mutual understanding of what the terms mean and what happens to customers after a ‘benefit period’ and/or ‘contract term’ expires is required.

Recommendations

Firstly we recommend that the AER, as well as the ESC in Victoria, define the term ‘benefit period’. In January 2013, the ‘big three’ started using this term in Victoria and it has since become a widespread contract term used by many retailers across the NEM. In the beginning it was understood to only refer to the additional benefits (such as discounts) offered as part of the contract but as discussed above, the term is now used when there are no additional discounts offered (e.g. Momentum), it is used to refer to the whole contract, base rates as well as discounts (e.g. Alinta and Simply) and in more recent developments, the benefit term also includes a higher FIT rate.58 The AER has undertaken significant work to ensure that the PPISs convey clear and concise information about the offers, but the fields setting out ‘contract

58 Origin Energy is now offering a product with a fixed benefit term of 12 months where the higher FIT rate will be reduced when the benefit period is over.
terms’ and ‘contract expiry details’ are becoming useless with retailers inventing, and applying, new terminology.

Secondly, it is crucial that consumers, as well as the sector more broadly, understands what happen to customers when:
A) A benefit period is over; and
B) A contract term is finished.

From the above discussion of energy retailers’ PPISs, retailers appear to have very different approaches to what may happen as well as how clearly the customer is notified. We strongly recommend that the AER, and the ESC in Victoria, investigates the various retailers’ processes and procedures, assess whether these processes and procedures are within the rules, and, if the rules are deemed adequate, publish clear guidelines on what must happen when customers’ benefit period and/or contract terms finish.

7.3 A better informed community

Victorian retailers are now required to gazette their standing offers on the same day as well as providing an explanation for why prices have increased, decreased or remained unchanged. This has been an issue that we have advocated for in Victoria, as well as other states, and we welcomed the Victorian Government’s initiative.

On 1 December 2016, retailers operating in Victoria gazetted new standing offer prices to take effect in January 2017. These standing offer prices therefore had to reflect future network prices (to take effect on 1 January 2017) as well as changes to wholesale prices and the anticipated impact of the closure of the Hazelwood power Station in March 2017.

The price changes varied significantly between retailers (from zero to 38%) and only a few actually provided a reason for these increases. Dodo (which did not increase electricity prices) probably had the most detailed statement in regards to reasons for increases to gas prices: “due to increases in the cost of purchasing gas and supplying gas.” AGL stated increasing wholesale costs as a reason, GloBird announced significant price increases and explained it was due to wholesale costs and other cost increases. Momentum also gave wholesale costs as a reason for their increases together with transmission and distribution costs. While we certainly hope more retailers will produce statements in the future, and that the content of these statements will be more informative, the requirement on retailers to gazette on the same day is a good start to ensure that retailers set their base rates (standing offers) according to costs rather than other retailers’ prices. We will continue to monitor the retailers’ statements as well as the impact this initiative has on the retail market. We do,

59 Victorian government Gazette, S371, 1 December, 2016
60 Ibid., 163
however, recommend that retailers’ increase their efforts to explain to customers why the prices are changing. As long as retailers have the opportunity to bundle all cost components into a single price (which we recommend changing in section 7.1 above), we believe retailers also have a responsibility to explain why prices are altering.

Recommendation

That all retailers operating in the NEM, with the ability to bundle all cost components into a single price, should be required to explain why their base rates (standing offers) have changed.