



Retail energy markets 2016 competition review

The Australian Energy Market Commission's third annual review of retail competition across the National Electricity Market has found competition in electricity and gas markets is becoming more dynamic. Effective competition is delivering new types of retail deals and services to consumers as the market transforms to give consumers greater control over how they manage and use energy.

About the review

Through retail energy markets, customers can choose from a range of products and services offered by retailers and retailers can compete to attract customers. Effective competition in these markets encourages innovation, improved services and competitive prices.

The AEMC is required under the Australian Energy Market Agreement to assess the effectiveness of competition in retail energy markets. This is an annual review under the approach agreed by the Council of Australian Governments Energy Council.

In these reviews, the AEMC assesses the current state and possible future development of retail competition across the NEM using objective measures and analysis, and comment on NEM-wide issues affecting competition. The retail competition reviews focus on small customers in retail energy markets. These include residential and small business customers and exclude larger industrial and commercial energy users.

Key findings

Competition is effective in most jurisdictions. Overall, retail competition remains effective for electricity markets in South East Queensland, New South Wales, Victoria, and South Australia. Energy retail competition is less effective in the Australian Capital Territory and effective competition is yet to emerge in Tasmania and regional Queensland. Retail gas markets have effective competition in New South Wales, Victoria and South Australia.

Customer satisfaction has improved in jurisdictions with effective competition. The AEMC's customer survey found that customers' satisfaction with their energy retailers and the value for money that they provide improved in 2016. Around 70 per cent of customers were happy with the quality of service provided by their retailers. Customers are shopping around, with about 30 per cent of customers investigating their options in the last 12 months and around 19 per cent of electricity customers and 17 per cent of gas customers changing retailer in 2015.

Customers have greater choice of retailers, and have more potential to save in jurisdictions with effective competition. New retailers have entered in these markets, second tier retailers have increased their market share and market concentrations have declined. In 2015, there were six new retail electricity market entrants in New South Wales, five in Victoria, and two in South Australia and South East Queensland. Customers in jurisdictions with effective competition can now save between 8 per cent and 30 per cent on their electricity bill if they shop around regularly.

Retail price regulation should be removed where competition is effective.

Competition is sufficient in South East Queensland electricity and New South Wales gas markets to remove retail price regulation. Price deregulation is likely to promote further competition in these markets to deliver innovation, a greater range of offers and competitive prices. Following deregulation of electricity prices in New South Wales on 1 July 2014 there is evidence of new retailer entry, declines in market concentration and an expanded range of offers.

There is low awareness of the government-run comparator websites that can assist customers to find the most suitable energy deal

Customers could make significant savings by simply comparing offers and switching to a better one. For typical customers switching from an electricity standing or default offer to a competitive market offer savings could be up to; \$140 in South East Queensland; \$256 in New South Wales; \$383 in Victoria; and \$312 in South Australia. The proportion of customers on generally higher priced standing offers has declined, however the 2016 customer survey suggests around 50 per cent of customers have not switched electricity retailer in the last five years. These customers could probably find a better deal in today's market.

A market-wide awareness and engagement strategy can make energy-shopping easier and improve customer confidence. The Commission considers there remains a need for a strategic and coordinated approach to increase customers' awareness of the tools available to help them access competitive retail market offers and investigate new products and services. The 2014, 2015 and 2016 retail competition reviews have all highlighted the low customer awareness of the government-run comparator websites that can assist customers to find a suitable energy plan.

Different groups of customers will require different approaches to increase awareness and engagement. The AEMC's customer research was designed to better understand the broad nature of customer vulnerability across retail energy markets and to help identify the groups of customers that may require further support to engage in the market. Some customers with higher indicators of vulnerability would benefit from targeted information about the tools available, so that they can investigate their options and capture the savings available from competitive market offers. Others require information about the support services available. The research also suggests that some customers who may be eligible for concessions are not aware of them, and that others who are particularly vulnerable may not be eligible for them.

Customer outcomes and protections related to new and emerging technologies need to be considered further. The Commission's research on new and emerging technologies found that many customers find new technologies appealing but there are significant gaps in information about what these technologies mean for them. This may indicate a need to build customer confidence, knowledge and understanding to improve customer outcomes. There is also a need to consider how consumer protection frameworks should evolve.

Recommendations

The Commission has made recommendations for consideration by jurisdictions that seek to improve customer outcomes and promote competition in retail energy markets.

Many of the recommendations have been made in previous competition reviews and remain important to address. The AEMC recommend that:

- Jurisdictions continue to phase out retail price regulation for electricity and natural gas where effective retail competition can be demonstrated, as agreed under the Australian Energy Market Agreement.
- Jurisdictions coordinate the development of NEM-wide awareness and engagement programs to make it easier for customers to access the best options for their circumstances and improve customer confidence in the energy markets.
- Jurisdictions review concession policies to assess opportunities to better target them to customers most in need and to harmonise their structure across jurisdictions, where substantive differences exist.
- Jurisdictions continue to harmonise regulatory arrangements to reduce the long-term costs of competing across jurisdictions.

Assessing competition

Similar to previous reviews, the 2016 review focused on five competitive market indicators:

- the level of customer activity in the market;
- customer satisfaction with market outcomes;
- barriers to retailers entering, expanding or exiting the market;

Information on a range of indicators needs to be considered collectively before judgement can be formed on the overall state of competition.

- the degree of independent rivalry; and
- whether retail energy prices are consistent with a competitive market.

The AEMC used these indicators as a framework for assessing competition in each retail market. The Commission considered information on the indicators collectively to form a judgement on the overall state of competition in each market.

The AEMC drew from a range of information sources, gathered in 2015 and early 2016, to form an evidence base to assess the state of competition against the indicators. These included submissions to the approach paper, quantitative customer research, retailer surveys and data provided by Ombudsmen, retailers, jurisdictional regulators, the Australian Energy Regulator and Australian Energy Market Operator.

The 2016 review also looked at two additional issues related to the effectiveness of competition in retail energy markets – customer experiences and outcomes related to new and emerging energy products and services, and those for vulnerable customers.

Additional detail on our customer and retailer research is available in consultant reports on the AEMC website.

About the AEMC

The Australian Energy Market Commission is the independent body responsible since 2005 for providing advice to Australian governments on the electricity and gas sector. It makes energy market rules which are applied and enforced by the Australian Energy Regulator.

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