



Victoria's energy retail markets

AEMC review of competition in electricity and gas retail markets

The AEMC has found that competition is effective in Victoria's electricity and gas markets, and it is delivering benefits to customers through choice of retailers and energy plans. Retailers are competing for residential and small business customers by offering a range of energy deals and discounts, and many Victorian customers are shopping around.

A wide range of energy choices are available in Victoria

Energy price regulation was removed in Victoria in 2009. Victorians now have access to a wide range of energy plans and have become the most active energy consumers in the National Electricity Market (NEM). Around 75 per cent of energy customers have chosen a market offer, rather than a standing offer with regulated terms and conditions (other than price).

Customers can choose between around 16 electricity retailers and 8 gas retailers, each of which offers a range of plans. This choice means that different types of customers can choose an energy plan that suits their specific needs and wants.

Six electricity retailers and three gas retailers have said they are expanding their activities over the next five years. A further 2 retailers tell us they are considering entering the gas market. This would provide further options for customers and reflects retailer views that Victoria is the preferred jurisdiction for retailer entry, innovation and expansion due to low barriers to entry.

Customers can save money by shopping around

With a range of energy plans available, it can pay to shop around. Last year, 28 per cent of electricity customers and 27 per cent of gas customers changed their retailer in search of a better deal. Others found a better deal with their existing retailer.

Conservative estimates show that customers could save at least \$240 a year if they had changed their electricity plan in 2012-13. This does not include the additional savings if a customer switched to the best advertised offer or negotiated a lower price than advertised. Possible savings may be even higher now, with new offers available.

Many customers find it difficult to compare "apples with apples"

The energy plans available differ in a number of ways. This includes differences in prices, discounts, fees and charges, sign up bonuses, fixed price and variable contracts, ability to purchase renewable energy certificates, and the payments offered to customers with solar panels.

Our research shows that customers want choices, but they find it difficult to compare their options. They are seeking more transparent and meaningful information from retailers and governments to help them shop around with confidence.

A government-run website is available to simplify comparing energy plans

Many customers say they want a trusted tool that makes it easier to compare offers and find possible savings. Just one per cent of customers surveyed were aware that the Victorian Government offers these tools. These price comparator tools enable customers to compare electricity prices across energy retailers in Victoria and can be accessed through the government's *Your Choice* website.

Greater awareness of these tools could increase customer confidence in shopping around for a better energy deal. However, some customers may require additional support as set out in the AEMC's customer engagement blueprint published in 2013.

Rivalry appears strong between both large and small retailers, with the second tiers retailers successfully attracting customers away from the incumbents.

Victorian retailer margins

The 2013 AEMC Retail Price Trends Review found that estimated gross retail margins appear higher in Victoria than in other jurisdictions. Similar work has been performed by other bodies, including the Essential Services Commission of Victoria.

Competition is a process and retailer margins can be expected to fluctuate over time. Estimates of retailer margins should therefore be interpreted with caution. Our broader analysis of a range of competitive market indicators suggest the Victorian market has the right conditions in place to promote rivalry between retailers and we have not found a systemic issue on the retailer-side of the market that suggests competition is not working.

Around 25 per cent of customers remain on more expensive standing offers. These customers may be more likely to switch if they are aware of the potential savings they can make and the government comparator websites available to help compare offers. Encouraging energy customers to shop around could result in greater competition between retailers, while placing downward pressure on margins.

The requirement for retailers to provide a standing offer may create an artificial benchmark for retailers' pricing strategies and can make it difficult for some customers to compare offers. This issue may warrant further investigation as the market continues to mature.

Recommendations to all governments

The AEMC has made a number of recommendations to all governments. Of relevance to Victoria, we have recommended the Government: consider options to increase awareness of the tools available for comparing offers to increase customer confidence; ensure concession schemes are working properly; and harmonise regulations across jurisdictions to reduce costs, such as implementing the National Energy Customer Framework.

About the review

This is the AEMC's first National Electricity Market-wide competition review under a revised annual approach agreed by the COAG Energy Council (formerly the Standing Council on Energy and Resources) and the Council of Australian Governments.

The Review is an assessment of customer and retailer activity and outcomes as indicators of competition. The AEMC has assessed competition against five competitive market indicators. It is important to consider all five indicators together to provide a comprehensive assessment: each only provides one part of the picture.

We have interviewed customers and retailers, consulted with stakeholders, and analysed data from the Australian Energy Regulator, Ombudsmen, regulators, the Australian Energy Market Operator and retailers to understand what is happening in each market.

Additional details of our customer research and retailer interviews are available in consultant reports on our website.

Later this year we will be consulting publicly on the approach for future retail competition reviews.

About the AEMC

The Australian Energy Market Commission is the independent body responsible since 2005 for providing policy 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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