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Performance and competitiveness of the retail energy market 2017-18

The Australian Energy Council (the Energy Council) welcomes the opportunity to make a submission to the Independent Pricing and Regulatory Tribunal's (IPART) Performance and competitiveness of the retail energy market 2017-18 Information Paper.

The Energy Council is the industry body representing 21 electricity and downstream natural gas businesses operating in the competitive wholesale and retail energy markets. These businesses collectively generate the overwhelming majority of electricity in Australia and sell gas and electricity to over 10 million homes and businesses.

The markets for electricity and gas in NSW have continued to evolve in 2017-18. This review is timely in light of recently published reports by the Australian Competition and Consumer Commission (ACCC) and the Australian Energy Market Commission (AEMC) into this sector. The Energy Council has welcomed these reports. We acknowledge that some consumers find the market confusing and we are committed to working with policy makers to implement appropriate and sustainable solutions to deliver good outcomes for customers. Critically, both of these reports highlight that while steps need to be taken to enable consumers to more easily engage with the market, re-regulation of retail energy markets at this time would not be in the interests of consumers.

Electricity Pricing in 2017-18

The Energy Council notes that as a result of number of factors impacting the wholesale market, retail prices were high in 2017-18¹. Positively, wholesale electricity prices have cooled in recent months, and we are now seeing the reduction in costs beginning to flow through to customer bills. Retail costs have not been the primary driver of increased energy bills. This point was reiterated by the ACCC in the Electricity Supply Inquiry that analysed retailer data and found that the retail component in NSW has remained relatively steady in recent years, despite the increases in the overall bill².

The benefits of competition

Retail competition remains the best mechanism to deliver good outcomes for energy consumers in NSW. The ACCC reiterated this, noting that poorly designed re-regulation would result in reduced innovation and result in a disincentive for retailers to adopt new technology and service models³. It would also likely result in some retailers exiting the market to the detriment of consumers. We agree with the ACCC that many smaller retailers in the market are at the forefront of innovation and are providing improved offerings to consumers.

¹ AER, Electricity wholesale performance monitoring – NSW Electricity Market Advice, December 2017

² ACCC, Retail Electricity Pricing Inquiry – Final Report, 11 July 2018, Melbourne, pg. 37

³ Ibid, pg. 250

Monitoring the gas market

The Energy Council welcomes the expanded terms of reference to monitor the competitiveness and performance of the gas market as part of this review. Since July 2017 when the market was deregulated, we have seen a continued evolution in price and service offerings. The number of retailers offering gas to small customers has increased, and this increased competition has delivered better outcomes for consumers. This improvement has resulted in an approximately 5% reduction in retail gas complaints to the Energy and Water Ombudsman of NSW in the first three quarters 2017-18 when compared to 2016-17⁴.

We recommend IPART reference the ACCC's Gas Inquiry Interim Reports⁵, and the Australian Energy Market Operator's Gas Statement of Opportunities⁶ when analysing the state of the gas market.

Metrics and methodology

The Energy Council is comfortable with IPART's proposed metrics to determine the effectiveness of retail energy markets. Unlike previous years, the ACCC's Electricity Supply Inquiry Data and AEMC's Retail Competition Data provide IPART a comprehensive breakdown of retail cost components and their drivers. Given these reports have only recently been released, we consider their analysis should be utilised where possible when assessing price changes in 2018 to avoid unnecessary duplication.

Ongoing interventions in the retail energy market

The AEMC points out in its 2018 Retail Energy Competition Review that since April 2017, there have been at least 25 new rules, policies or programs introduced by governments and market bodies that affect consumers.⁷ In the retail market, the frequency of these interventions has intensified following the Prime Minister holding round table meetings with seven of the largest NEM retailers in August 2017.

The Energy Council has been overwhelmingly supportive of this work-stream, and industry has worked hard with regulators and rule makers to ensure the competitive market functions in the interest of consumers. Key changes have included redevelopment of Energy Price Fact Sheets to enable a reference price that will facilitate easier comparison between offers for consumers, and introduction of rules requiring retailers to notify customers of benefit changes. In addition, the AEMC has made a draft decision to require retailers to notify customers at least 5 business days in advance of price changes, following recommendations made by IPART in 2017.

Given we are in an environment of change, we urge IPART to limit further recommendations designed to make it easier for consumers to shop around until the benefits of the most recent set of rule changes flow through to the retail market. The Energy Council strongly supports tools that allow consumers to feel confident when engaging in the retail market, however we believe that in the short term, the best outcomes will come from the implementation of the AER's new price fact sheets, an improved EnergyMadeEasy and timely notifications from retailers to consumers about changes in their energy products. In coming years, we would welcome IPART reviewing the implementation of these interventions in the retail market to determine their overall effectiveness.

Any questions about our submission should be addressed to me by email to ben.barnes@energycouncil.com.au or by telephone on (03) 9205 3115.

Yours sincerely,

Ben Barnes

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⁴ Data obtained from <https://www.ewon.com.au/page/publications-and-submissions/reports/Quarterly-Activity-Reports>, downloaded 1 August 2018

⁵ ACCC, Gas Inquiry 2017-20 July Interim Report, 2 August 2018, Canberra

⁶ AEMO, 2018 Gas Statement of Opportunities, June 2018, Melbourne

⁷ AEMC, 2018 Retail Energy Competition Review, Final Report, 15 June 2018, Sydney, pg. xi