Fact Sheet - Retail energy bills

Retail in context

The energy industry in Australia is complex, and comprises several major sectors. Retail is the customer-facing part of the industry, where retailers purchase gas and electricity from wholesale suppliers and pay networks to transport energy to consumers' premises. Retailers compete with one another across much of Australia, with consumers able to choose an energy plan from retailers in the relevant jurisdictional market.

Retail gas and electricity bills in several states have increased significantly over the past seven years or so. This has occurred for different reasons, including network infrastructure upgrades, and government mandated green schemes.

More recent increases in bills can be attributed to the wholesale cost of gas and electricity:

The cost of gas is increasing because we are switching to higher cost sources of gas which are more expensive to produce. The creation of gas exports out of Queensland has put further demand on east coast gas supplies. This gas shortage has been amplified by state governments bans (Victoria) and moratoria (NSW, NT) on unconventional gas development.

The cost of electricity has increased sharply in the last year, since the closure of the Northern Power Station in South Australia and the Hazelwood Power Station in Victoria.

The (independent) Australian Energy Market Commission (AEMC) described these conditions in its 2017 Retail Energy Competition review:

Consumers are currently experiencing increases in retail energy prices. This is being driven by increases in wholesale energy market costs, which affect the costs of businesses competing in the retail sector. The increases in wholesale energy market costs and hence retail energy prices, are driven by factors that are unrelated to the state of competition within the retail energy sector itself.

It is important to note this final point – the independent energy policy expert has stated that retail price increases are not related to the state of retail competition. However, we note that given its role as the customer-facing part of the industry, retail is the focus of political and media attention.

Federal concerns about retail energy

Last week the Prime Minister and Energy Minister wrote to seven energy retailers raising concerns about high energy prices and linking these to retail energy practices (and implicitly the state of retail competition in general).

There appears to be a particular concern that retailers 'push' consumers from discounted market rates to higher prices without the consumers being aware of it, and that consumers are 'stuck' on uncompetitive rates.

We believe there is a need to clarify that this is not how the markets work. The Australian retail energy markets provide a basic 'standing' offer for all consumers, which acts as form of default plan on regulated terms and conditions. Consumers then have the ability to move off this offer on to a 'market contract', which is a plan that varies from the standing offer in different ways, such as offering additional benefits, bundling in different services, and/or trading off certain elements of the standing offer (such as replacing paper bills with electronic bills) for cheaper prices. It is an important part of the regulatory regime that consumers must give consent to enter such contracts.

As with contracts for other services, retail energy market contracts set out the terms and conditions for service, including the prices and the means by which prices can be changed. This means that consumers who sign up for these contracts are provided information about any relevant periods of particular benefits or lower prices. If a consumer's market contract comes to an end and they do not consent to an alternative, they will fall back on the standing offer (this is so they can continue to receive supply). If a fixed benefit period under a market contract comes to an end, the price will also change as per the terms of the contract.

To be clear: these are contractual arrangements that a consumer consents to. This is not about retailers arbitrarily 'pushing' consumers on to different rates. Consumers also have the opportunity to end their contracts and choose another retailer or another plan.

In its recent review of retail energy competition the AEMC found that there is a proportion of customers who remain disengaged from the market. Retailers use a range of techniques to engage with these customers, including telephone marketing. In fact, retail energy markets are characterised by high levels of marketing activity. There, is, however, only so much that retailers can do to encourage consumers to make different choices in the market.

Specialised assistance for vulnerable consumers

Retailers provide specialised assistance to residential consumers who need support in paying their energy bills. This support comes in a number of forms, such as extensions of time to pay, and payment plans that allow a consumer to repay debt over a long period and remain on supply. Retailers have hardship programmes to support consumers in particular need, where payment plans may grant additional flexibility and in some cases even provide for some or all of the debt to be waived. Retailers also have connections with welfare agencies and financial counsellors, so that consumers may receive additional support and advice.

The matter of how to best assist residential consumers who are struggling to pay energy bills has been at the heart of retailers' policy and operational agendas for some years. However, bill affordability is a complex issue and about much more than energy bills. Energy bills are paid in arrears and are often paid last in the list of household expenses. Policy to assist consumers who are in financial hardship needs to be based on a system-wide approach that also accounts for consumers' income and other sources of household debt.

Standing offers

There are about 21.5 per cent of small electricity customers, mainly households, on standing offers in the NEM.

Effectively the standing offer represents the electricity price cap and market offers are discounted against this.   All NEM jurisdictions – NSW and ACT, Victoria, Queensland, South Australia, Tasmania – previously had regulated retail prices which were known as the standing offers.

NEM Region	2016 electricity standing offer %	Competitive retailers [1]
South East Queensland[2]	27	13
New South Wales	23	22
Australian Capital Territory	77	5
Victoria	10	22
South Australia	14	16
Tasmania	89	2
Total NEM	27.1	-
Fully deregulated NEM regions[3]	18.5	-

[1]Only active retailers are include; [2] Regional Queensland has 723,000 customers, with nearly all on regulated offers. [3] NSW, VIC, SEQ, SA. SOURCE: AEC Analysis of AEMC 2017 Retail Energy Competition Review Data