Inquiry into the National Electricity Market

August 2019 Report

20 August 2019
Summary

- The Australian Competition and Consumer Commission (ACCC) is undertaking a seven year inquiry (the Inquiry) to monitor outcomes in the National Electricity Market (NEM) as reforms are progressed to improve electricity affordability. This is our second report in the Inquiry.

- Reforms to retailer pricing and advertising came into effect on 1 July 2019. These reforms include implementation of a Default Market Offer (DMO) and Victorian Default Offer (VDO), which are aimed at:
  - reducing excessive prices of electricity plans for customers who do not, or cannot, access market offers
  - improving the ability for customers who do shop around to compare prices by providing a common benchmark or reference price, increasing competition between retailers and placing downward pressure on prices.

- It is only very early days, but we have observed some positive outcomes after 1 July 2019, including:
  - Prices for many standing offer customers have fallen, often significantly.
  - Market offers continue to provide opportunities for a better deal, with smaller retailers providing some of the cheapest offers available.
  - Retailers are moving away from advertising conditional discounts based on inflated and inconsistent base rates, enabling customers to more easily identify a better deal for their circumstances and gain the benefits of competition.

- An examination of the cost components (or ‘cost stacks’) of electricity bills continues to highlight the importance of progressing policies to restore electricity affordability. Cost stacks presented in this report for 2017–18 will provide a benchmark for future assessments.
  - In 2017–18, the average electricity bill for a residential customer in the NEM was $1549, with network costs and wholesale costs making up 42 per cent and 33 per cent respectively. This is followed by retail costs (11 per cent) environmental green schemes (8 per cent) and retail margin (6 per cent).
  - Ensuring that supporting new investment in generation occurs in a way that enhances competition to place downward pressure on wholesale prices; writing down state-owned network asset bases or providing rebates on network charges for privatised assets and abolishing green schemes that are no longer needed would have a tangible impact on reducing customer bills.

Energy affordability continues to be a key concern for Australians, with households and businesses having felt the pressure of rising energy costs for a number of years. In the Retail Electricity Pricing Inquiry (REPI), which concluded in June 2018, the ACCC made 56 recommendations for reforms that spanned the entire electricity supply chain to address the issues that had led to high electricity prices and a lack of consumer confidence.

We are now conducting a seven year inquiry into the supply of electricity in the NEM to monitor outcomes as reforms are considered and progressed to help restore electricity affordability and Australia’s competitive advantage. Consumer and competition issues
arising from opaque and confusing pricing of essential services in energy also remain a current enforcement priority for the ACCC.¹

Our first report in the Inquiry, released in March 2019, set out the analytical framework for monitoring and provided information about our expectations of market outcomes and market participant behaviour.

In this second report in the Inquiry, we provide some initial analysis of the impact of significant reforms to retailer pricing and advertising that came into effect on 1 July 2019, including the DMO and VDO. We provide an update on the progress of implementation of the REPI recommendations and highlight a number of remaining opportunities for significant downward impact on prices. We also examine the cost components of electricity bills using finalised 2017–18 data obtained from retailers to set the scene for our future monitoring of electricity affordability. We intend to report on 2018-19 data before the end of the year.

Reforms to retailer pricing and advertising from 1 July 2019

Significant reforms to retailer pricing and advertising came into effect on 1 July 2019. These reforms address recommendations made by the ACCC in the REPI that had two broad objectives:

1. reducing excessive prices for standing offers, which are the default electricity plans for customers who do not, or cannot, select a market offer

2. improving the ability for customers to compare prices across standing and market offers so that they can identify a better deal and drive more effective competition.

Specifically, the Australian Government has introduced the Competition and Consumer (Industry Code—Electricity Retail) Regulations 2019 (the Electricity Retail Code), which applies to retailers operating in South Australia (SA), New South Wales (NSW) and South East Queensland (SEQ). The main requirements of the Electricity Retail Code, which the ACCC is responsible for enforcing, are that retailers must:

- not set their standing offer prices for certain residential and small business customers at a level that exceeds the DMO, an annual price amount independently determined by the Australian Energy Regulator (AER)

- clearly present information showing how their standing offers and market offers compare to the DMO

- not present conditional discounts as their headline discount.

The Victorian Government has introduced similar reforms for retailers operating in Victoria based on recommendations made in the Independent Review of the Electricity and Gas Retail Markets in Victoria (commonly referred to as the Thwaites Review). The requirements include that retailers must:

- replace their standing offer prices for certain residential and small business customers with the VDO, a tariff independently determined by the Essential Services Commission of Victoria (ESCV)

- state how their discounted market offer compares to the estimated annual cost of the VDO.

There are important differences in the policy objectives of the DMO and VDO, which are relevant in any analysis of the effect of the reforms. The DMO is intended to reduce the ‘loyalty tax’ paid by standing offer customers whilst still allowing sufficient scope for competition between retailers in setting their market offers. Importantly, competition is seen

¹ ACCC, 2019 ACCC compliance and enforcement priorities, 26 February 2019, p. 1.
as the most important driver of lower prices and the new advertising requirements of the Electricity Retail Code are aimed at improving competition in the retail market.

In contrast, the VDO is intended to provide standing offer customers in Victoria with universal access to a ‘fair’ price. Consistent with these objectives, the VDO is currently set at a level that is lower than the DMO.\(^2\)

Given the limited time that has passed since the reforms came into effect, initial analysis presented in this report has focussed on changes to retailer pricing and advertising primarily for residential customers shortly after 1 July 2019. It is important to recognise that it is only very early days and not all the changes we have identified will have been due to the reforms. More time and information is needed to draw conclusions about the effect of the reforms. However, as explained below, we have observed that:

- Prices for many standing offer customers have reduced, sometimes significantly.
- Market offers continue to provide opportunities for a better deal for customers, with smaller retailers providing some of the cheapest offers available.
- Retailers are moving away from advertising conditional discounts based on inflated and inconsistent base rates, enabling customers to more easily identify a better deal for their circumstances and reap the benefits of competition.

**Reduced prices for many standing offer customers from 1 July 2019**

Standing offers had become some of the most expensive electricity plans, meaning that customers who had not engaged in the market for whatever reasons were paying some of the highest prices. Recent figures show that there were around 680 000 (12 per cent) residential and 114 000 (22 per cent) small business customers on standing offers in SA, NSW and SEQ.\(^3\) In Victoria, there were around 126 031 (5 per cent) residential and 43 279 (16 per cent) small business customers on standing offers.\(^4\)

In section 3 of this report, we show that the majority of residential flat rate standing offers were priced above the DMO and VDO prior to 1 July 2019. We observe that the majority of these standing offers have reduced after 1 July 2019, meaning that many standing offer customers will have had a price reduction. Notably:

- The majority of retailers in SA, NSW and SEQ have changed their residential flat rate standing offer prices to be at or just below the DMO. This represents savings of between $130 (NSW Ausgrid distribution zone) and $190 (SA Power Networks distribution zone) annually.\(^6\) This report does not include analysis of small business standing offers, but the AER had estimated savings for those customers of between $457 and $896.\(^7\)
- In Victoria, where the VDO is set at a lower level than the DMO due to different policy objectives as discussed above, the median residential flat rate standing offer has decreased by between $310 (Citipower distribution zone) and $430 (AusNet distribution zone).

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\(^2\) A discussion of the components of the VDO, and the different policy objectives of the VDO and DMO, is included in section 3.

\(^3\) AER, Quarterly retail performance report Q3 2018-19, June 2019, Schedule 2.


\(^5\) A flat rate tariff includes a fixed daily supply charge, and a variable charge reflecting the volume (in kilowatt hours [kWh]) of electricity consumed. Usage charges do not vary by time of day, but may change based on overall consumption in a period (block tariffs) or the time of the year (seasonal tariffs). See: AER, Final determination—Default market offer prices 2019-20, April 2019, p. 21.

\(^6\) Based on movements in the median, where the median is the value such that a number is equally likely to fall above or below it.

\(^7\) AER, Final determination—Default market offer prices 2019-20, April 2019, p. 9.
zone). The ESCV had estimated savings of between $1380 and $2050 for small business standing offer customers.⁸

A small number of retailers appeared to still have standing offers above the DMO shortly after 1 July 2019. In its role enforcing the Electricity Retail Code, the ACCC has contacted those retailers regarding potential non-compliance and will be continuing to monitor and address issues of non-compliance. The ESCV has recently stated that it has taken a similar course of action with respect to retailers in Victoria that had appeared not to have changed their standing offers to the VDO.⁹

**Market offers continue to provide opportunities for a better deal, with smaller retailers providing some of the cheapest offers**

Many market offers have traditionally represented lower priced electricity plans compared to inflated standing offers. In section 3 of this report, we show that this continues to be the case in DMO and VDO distribution zones after 1 July 2019, highlighting that customers should shop around to get the best deals.

**Impact in DMO distribution zones**

Figure 1 below shows that the spread of residential flat rate market offers, where the spread is the difference between the lowest and highest priced offer, has generally remained relatively steady or slightly reduced between June 2019 and July 2019 in SEQ and NSW. There has been a more notable reduction in the spread of offers in SA. Where there has been a reduction in the spread, it is generally driven by an increase in the cheapest market offer available. For example, the cheapest market offer increased by $26 and $87 in SEQ and SA respectively. In NSW, the cheapest offer in the Essential distribution zone increased by $71 but was relatively unchanged in the Endeavour and Ausgrid zones. In SA, the most expensive market offer also decreased substantially, by $136. It is important to note that other factors, such as network cost determinations from 1 July, have an impact on retail prices.

Important, the number of residential flat rate market offers above the DMO has fallen in all distribution zones from 1 July 2019, while there remains a significant number of market offers below the DMO. This outcome is not unexpected given the new advertising requirements discussed further below, which require retailers that have market offers priced above the DMO to present information showing that this is the case and by how much.

For consumers, this means that shopping around can potentially result in significant savings.

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⁸ ESCV, Victorian default offer to apply from 1 July 2019—Advice to Victorian Government, 3 May 2019, p. 3.
In comparison to the market as a whole, it is demonstrated in figure 2 below that there has been a more noticeable reduction in the range of residential flat rate market offers available from the ‘tier 1’ retailers AGL, EnergyAustralia and Origin in every distribution zone except SAPN. This is due to a combination of the removal of market offers that were above the DMO as well as an increase in the cheapest market offers available. For example, the most expensive market offer available from the three retailers fell in price by $55 in SA, $75–$175 in NSW and $70 in SEQ. The cheapest market offer available increased in price by $55 in SA, $70–130 in NSW and $70 in SEQ.

Figure 2 also shows that in NSW and SEQ, AGL, EnergyAustralia and Origin have increased the price of their cheapest market offers between 1 June and 12 July 2019 to a noticeably larger extent compared to the rest of the market. Other retailers’ cheapest offers have not displayed the same shift, such that the cheapest market offers in these states are now more likely to be offered by smaller retailers.

It follows that customers who do shop around should consider looking at retailers other than the ‘tier 1’ retailers AGL, EnergyAustralia and Origin to see if they have the best deals for their circumstances. As at 12 July 2019, the cheapest market offer is $290–$380 lower than the DMO in NSW, $260 lower in SEQ and $300 lower in SA. Indeed, the Australian Energy Market Commission (AEMC) recently observed that the number of retailers had increased across the NEM and smaller retailers were starting to increase their market share with the

Source: ACCC and AER analysis of Energy Made Easy data.
greatest increase in switching rates being from the three tier 1 to tier 2 retailers. As noted by the AEMC, this provides an insight into how effectively the incumbent retailers are competing for customers. We will be watching to see how these figures change in future periods to inform our understanding of the effectiveness of the reforms for improving competition and consumer outcomes.

Figure 2: Spread of AGL, EnergyAustralia and Origin residential flat rate market offers compared to all retailers as at 1 June 2018, 1 June 2019 and 12 July 2019 (all available discounts applied)

Source: ACCC and AER analysis of Energy Made Easy data.

**Impact in Victorian distribution zones**

The spread of residential flat rate market offers increased in every Victorian distribution zone from 1 July 2019, shown in figure 3 below. Unlike the DMO distribution zones, there remains a significant number of market offers available above the VDO, while there are also many available below the VDO. However, the increase in spread appears largely driven by a single retailer, 1st Energy, that has introduced a significant number of higher priced market offers and excluding these offers reverses the trend.

The cheapest market offers available are more mixed. The cheapest market offer has fallen by $21, $41 and $19 in the Citipower, Jemena and Powercor distribution zones respectively, but remained unchanged in the AusNet and United distribution zones.

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Similarly to the DMO distribution zones, there was a notable reduction in the spread of residential flat rate market offers available from the ‘tier 1’ retailers AGL, EnergyAustralia and Origin in every Victorian distribution zone. This is shown in figure 4. This is mainly due to the removal of market offers that were above the VDO. The most expensive market offer available fell in price by $320–$480. The cheapest offer available fell in price in some distribution zones and increased in others. As at 15 July 2019, the overall cheapest offer from the ‘tier 1’ retailers AGL, EnergyAustralia and Origin is $110–$130 below the VDO.

As with the DMO distribution zones, customers who shop around can potentially find deals that are better for their circumstances rather than accepting the VDO. As at 15 July 2019, the cheapest market offer is $250–$300 lower than the VDO, depending on the distribution zone, and the cheapest offers are with tier 2 retailers.

Figure 3: All retailers’ residential flat rate market offers as at 1 June 2018, 1 June 2019 and 15 July 2019 (all available discounts applied)

Source: ACCC and AER analysis of Energy Compare data provided by the Department of Environment, Land, Water and Planning (Victoria)(DELWP).
Customers better able to identify cheaper plans with retailers no longer advertising discounts based on inflated and inconsistent base rates

Prior to the reforms introduced on 1 July 2019, it had become common practice for retailers to advertise their market offer prices with a headline discount calculated off inflated and inconsistent base rates, leaving customers confused about which market offers were in fact a better deal and in some cases resulting in them unwittingly signing up to higher priced market offers. In addition, many advertised discounts were conditional on, for example, the customer paying their bill on time with significant price penalties if such conditions were not met.

In section 3 of this report, we provide an example where one market offer in SA with an advertised conditional discount of 9 per cent ($2344) was $560 more expensive than the cheapest market offer with no advertised discount ($1784) because the former had higher underlying charges. The offer became more expensive if even one bill was not paid on time.

In figures 5 and 6 below, we show that advertised discounts were in some cases as high as 40 per cent or more prior to 1 July 2019, but are generally less than 20 per cent after 1 July 2019. This is not unexpected given that retailers are now required to compare their prices to the DMO and VDO, which act as a consistent benchmark or reference price, rather than being able to inflate their base rates in order to advertise a high discount and thus give the illusion of a cheaper offer.
There also appears to have been a significant shift away from the use of conditional discounts after 1 July 2019. Figure 5 below shows that more than 75 per cent of residential flat rate market offers in SA, NSW and SEQ now have no conditional discounts, compared with, for example, 39 per cent in NSW a year earlier. These outcomes are also not unexpected given that the Electricity Retail Code prohibits retailers from presenting conditional discounts as their headline discount in SA, NSW and SEQ. Figure 6 shows that, in Victoria, 67 per cent of residential flat rate market offers now have no conditional discounts, compared with 19 per cent as at 1 June 2018.

Figure 5: Conditional ‘headline’ discounts for flat rate residential market offers (NSW, SEQ and SA) as at 1 June 2018, 1 June 2019 and 12 July 2019

Source: ACCC and AER analysis of Energy Made Easy data.
The good news is that customers who do shop around can now have greater confidence that discounts advertised on retailers’ websites are a fairer reflection of how the prices compare to other deals. Also, changes in advertising that improve the transparency and certainty of prices that customers are likely to face when signing up to an electricity plan are a positive step that enables customers to more easily identify a better deal for their circumstances and reap the benefits of competition. As discussed earlier, there continue to be many market offers that present opportunities for customers who do shop around to make significant savings on their electricity costs.

We are monitoring the advertising and communication of electricity plan information in SA, NSW and SEQ to ensure compliance with the Electricity Retail Code and to identify any practices that may not be in the best interests of customers, which will inform whether any changes are needed to improve its effectiveness. In Victoria, the ESCV is responsible for overseeing retailers’ compliance with advertising requirements, although we will also be monitoring outcomes in Victoria as part of the Inquiry.

These reforms also highlight the work that still needs to be done to improve the conduct of some third party intermediaries, which are often relied upon by customers to compare electricity plans. In the REPI, the ACCC recommended a mandatory code of conduct for energy comparator websites to address concerns that these services do not always present information that delivers the best outcomes for consumers. In August 2018, the Australian Government announced that it would accept our recommendation, and we look forward to the government progressing reforms to ensure that customers get better information to help them choose the best offer.

An examination of cost components of electricity bills highlights the importance of progressing reforms to restore electricity affordability

Since the REPI concluded in June 2018, there has been significant progress in a number of areas, such as the reforms to retailer pricing and advertising discussed above. However, while we recognise that some of the recommendations made by the ACCC are challenging
and more time is needed to implement them, we also note that there appears to be an unwillingness to move in some areas where significant positive impacts on customer bills and electricity affordability could be achieved.

An examination of the cost components that make up a customer’s electricity bill provides particularly useful insight into where reforms are likely to have significant impacts, and monitoring changes in the cost components over time will be important for informing our understanding of the effects of policy changes and market conditions on pricing outcomes and affordability. In the REPI, the ACCC collected information from retailers on costs from 2007–08 to 2016–17 and some forecast data for 2017–18. In section 4 of this report, we present cost stacks for 2017–18 using finalised data collected from retailers, which will provide a benchmark for our future assessments.

In figures 7, 8 and 9 below we show the costs component of an average bill for a residential customer in the NEM and how these have changed over the last ten years, highlighting the rising electricity costs that Australians have paid. The average bill for a residential customer in the NEM in 2017–18 was $1549, with network and wholesale costs making up 42 per cent and 33 per cent of the cost stack respectively. This is followed by retail costs (11 per cent), environmental green schemes (8 per cent) and retail margin (6 per cent).

As seen in figure 8 below, all cost components increased between 2007–08 and 2017–18. Environmental costs was the largest cost increase driver over this period, accounting for 32 per cent of the overall cost increase. Network and retail component costs also increased significantly, accounting for 29 and 26 per cent of the total cost increase respectively. Wholesale costs accounted for 14 per cent of the total cost increase.
Figure 7: Components of a residential customer bill across the NEM, 2017–18, real $2017–18, excluding GST

Source: ACCC analysis based on retailers’ data.

Figure 8: Change in average bill for a residential customer in the NEM from 2007–08 to 2017–18, real $2017–18, excluding GST

Source: ACCC analysis based on retailers’ data.

11 The ACCC has based its calculations on the mean revenue figures provided by retailers for each year of data that was requested. The average revenue figures are somewhat different to estimates based on constructing a ‘representative customer bill’ based on median electricity usage.
Figure 9 below shows the increase in the average effective price in c/kWh for a residential customer in the NEM between 2007–08 and 2017–18. Overall the effective price increased by 49 per cent in real terms, compared to an increase of 25 per cent in the average bill shown in figure 8. The difference between these two is due to a 16 per cent decrease in electricity usage across the same period. We found in the REPI that this decrease was primarily due to a more widespread usage of solar PV systems in 2017–18 compared to 2007–08. The proportion of solar customers in the NEM was less than 0.2 per cent in 2007–08, compared to more than 12 per cent in 2017–18. These consumers use less grid-sourced electricity than they otherwise would have.

**Figure 9: Change in average effective price (cents/kWh) for a residential customer in the NEM from 2007–08 to 2017–18, real $2017–18, excluding GST**

Source: ACCC analysis based on retailers’ data.

There are, however, some differences between regions. These differences arise due to numerous factors, including (but not limited to) different electricity profiles due to sources of energy available in the region and different policy approaches taken by state governments over the years. For instance, differences between each state’s environmental costs reflect jurisdictional specific schemes and differences in take up of solar PV usage. Households with solar panels installed will likely have lower grid-based usage than other households. In regions where solar panel installation is more widespread, the impact of this lower grid demand from solar households is reflected in a less dramatic rise in average annual bills compared to the increase in the price of electricity.

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13 ibid.
Historical over investment in networks is keeping prices high

The largest component of the residential customer bill is generally the cost incurred for transmitting electricity over transmission and distribution networks. In section 4 of this report, we show that there was a decrease in network costs in all regions from 2016–17 to 2017–18, by around $55 per customer or 7.8 per cent. However, these costs are still significant in SEQ (45 per cent), NSW (44 per cent) and Tasmania (42 per cent), and marginally lower in SA (37 per cent) and Victoria (39 per cent).

Earlier this year, the AEMC released a package of reforms that will facilitate stand-alone power systems. Supplying electricity through a stand-alone power system instead of being connected to the grid has the potential to reduce overall network costs and thus result in savings for all consumers.

Network costs are also forecast to be lower in future years, in part due to determinations by the AER that have the effect of reducing the costs that network businesses are allowed to recover.

However, a further opportunity exists for Queensland, NSW and Tasmanian state governments to write-down state-owned network assets or provide rebates on network charges for privatised assets. In these states there has been historical over-investment that has led to inefficiently high electricity prices, and a write-down could provide savings to residential customers of at least $100 per year.14

More competition in wholesale markets will help reduce prices

In contrast to network costs, wholesale costs significantly increased in every region from 2016–17 to 2017–18, by around $113 per customer or 28 per cent. Wholesale costs are most significant in Tasmania (41 per cent) and SA (39 per cent), with SA being the only region in 2017–18 where wholesale costs were a greater contributor than network costs. In other regions they were between 31 per cent (Victoria) and 36 per cent (SEQ).

These results reflect retailers' overall wholesale costs, which include their activities in hedging their spot market exposure. While wholesale costs on a c/kWh basis are highly correlated to the wholesale spot price in each jurisdiction over time, there is some delay between changes in the spot price and wholesale costs in retailers’ cost stacks. This is because many retailers will hedge their wholesale costs to reduce volatility. In the REPI, the ACCC observed that increases in wholesale costs appear to occur about one to two years after increases in the wholesale spot prices.15 While we have not undertaken a detailed analysis of wholesale costs for this report, we intend to in future reports.

Significant progress has been made on developing a mechanism for wholesale demand response in the NEM. The AEMC released a draft determination on 18 July 2019 proposing to allow third parties as well as retailers to offer demand response directly into the wholesale market.16 This is an important reform which can limit the need for additional generation and enhance competition in the wholesale market, leading to lower prices for consumers.

In the REPI, the ACCC recommended that the Australian Government should operate a program to encourage new entry, promote competition and enable Commercial & Industrial (C&I) users to access low-cost new generation.

15 ACCC, Restoring electricity affordability and Australia’s competitive advantage, Retail electricity pricing inquiry—final report, June 2018, p. 33.
The Australian Government is developing a program for encouraging investment in new generation and has shortlisted twelve projects with a combined capacity of 3818 MW and a range of fuel types.

We maintain the view that the scheme will be most effective if: it facilitates new entrants into the wholesale market and does not further entrench the market position of established players; the level of support from government is only sufficient to provide certainty for debt financing and does not underwrite equity; and projects have firm commitments from customers to acquire energy from the project.

**Improving competition in the retail market should drive down prices**

Combined retail costs and margins are higher in Victoria and NSW, contributing 21 per cent and 18 per cent respectively to the average bill in those regions. They are relatively lower at between 8 per cent in Tasmania and 13 per cent in SEQ. These combined costs remained relatively steady or reduced slightly from 2016–17 to 2017–18.

In section 4 of this report, we also take a closer look at the main drivers of retail costs. This includes retailers’ costs to serve (CTS), which are the operating costs retailers face in servicing their customers, and customer acquisition and retention costs (CARC), which are sometimes referred to as the ‘costs of competition’.

We show that CTS decreased by $14 per customer between 2016–17 and 2017–18, while CARC increased by a similar amount resulting in total costs remaining relatively stable. In fact, CARC increased by 29 per cent from 2016–17 to 2017–18 to an average of $63 per customer, its highest level since 2007–08.

The main drivers of CTS in this period were labour and customer service and IT, while the main drivers of CARC included labour and third party sales. Interestingly, the results indicate that retailers other than the ‘tier 1’ retailers AGL, EnergyAustralia and Origin, are more heavily reliant on third party acquisition channels, such as commercial comparators and brokers.

The recent reforms to retailer pricing and advertising are intended to improve the state of competition and enable customers to reap the benefits. In section 2 of this report, we also note some other changes happening in the retail market that are likely to improve competition for the benefit of consumers.

These changes include developments to make switching between retailers easier, with a rule change request submitted by the Australian Energy Market Operator (AEMO) that will streamline the transfer process and reduce switching times from 30 days to no more than two days. Related to this, a recent rule change to speed up the roll-out of smart meters will ensure that more customers across the NEM can better understand and control their electricity use and costs and access new products and services, such as demand response.

We will be monitoring trends in retail costs and margins alongside changes in the retail market more broadly to understand the drivers of these costs and how competition is working for consumers.

**Abolishing environmental green schemes that are no longer needed will also reduce prices**

We show in section 4 of this report that the costs of environmental green schemes increased in every region except SEQ from 2016–17 to 2017–18, with these costs being highest in SA at 13 per cent and between 6 and 8 per cent in the other regions. Although environmental green scheme costs are a relatively smaller component compared with other cost.
components, they are still significant enough that a reduction would have positive impacts for electricity users.

The reduction in green scheme costs in SEQ, by around $61 per customer or 41 per cent, highlights the impact for customers of the Queensland Government’s decision to absorb the cost of the Solar Bonus Scheme from 2017–18 to 2019–20. The Queensland Government’s 2019–20 budget includes $247.6 million to cover the cost of this premium feed-in-tariff (FiT) scheme.

There are opportunities for all governments to provide additional savings to customers by removing subsidies or costs of environmental green schemes. For example, the subsidy for the installation of small-scale renewable energy systems is no longer required given the dramatic fall in the cost of solar installations. Abolishing the scheme would have a tangible impact on reducing customer bills. The AEMC estimated that the scheme would cost the average residential customer in the NEM $36 in 2020–21.\footnote{AEMC, 2018 Residential electricity price trends review, Final report, 21 December 2018, p. 59.}

Future reporting

We expect to provide our next report to the Treasurer before the end of 2019. This report will continue the cost stack series, updated with 2018–19 data obtained from retailers. It will also contain further analysis of the impacts of the reforms to retailer pricing and advertising and update on progress in implementing the remaining REPI recommendations. In later reports, we also expect to obtain data from retailers to understand what retail offers customers are on and how much they are actually paying as well as taking a deeper dive into other parts of the electricity supply chain.
List of abbreviations

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<td>Essential Services Commission Victoria</td>
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<tr>
<td>FCAS</td>
<td>Frequency Control Ancillary Services</td>
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<tr>
<td>Finkel Review</td>
<td>Independent Review into the Security of the National Electricity Market</td>
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<tr>
<td>FiT</td>
<td>feed-in tariff</td>
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<tr>
<td>GW</td>
<td>gigawatt</td>
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<td>GST</td>
<td>goods and services tax</td>
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<tr>
<td>GWh</td>
<td>Gigawatt hour</td>
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<tr>
<td>ICRC</td>
<td>ACT Independent Competition and Regulatory Commission</td>
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<td>IPART</td>
<td>Independent Pricing and Regulatory Tribunal</td>
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<tr>
<td>kW</td>
<td>kilowatt</td>
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<td>kWh</td>
<td>kilowatt hour</td>
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<tr>
<td>LGC</td>
<td>large-scale generation certificates</td>
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<tr>
<td>LRET</td>
<td>Large-scale Renewable Energy Target</td>
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<tr>
<td>MLO</td>
<td>Market Liquidity Obligation</td>
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<tr>
<td>MW</td>
<td>Megawatt</td>
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<tr>
<td>MWh</td>
<td>megawatt hour</td>
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<td>NECF</td>
<td>National Energy Customer Framework</td>
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<td>NEG</td>
<td>National Energy Guarantee</td>
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<tr>
<td>NEL</td>
<td>National Electricity Law—a schedule to the National Electricity (South Australia) Act 1996</td>
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<tr>
<td>NEM</td>
<td>National Electricity Market</td>
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<tr>
<td>NER</td>
<td>National Electricity Rules—made under National Electricity (South Australia) Act 1996</td>
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<td>NERL</td>
<td>National Energy Retail Law—a schedule to the National Energy Retail Law (South Australia) Act 2011</td>
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<tr>
<td>NERR</td>
<td>National Energy Retail Rules—made under National Energy Retail Law (South Australia) Act 2011</td>
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<td>NSW</td>
<td>New South Wales</td>
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<td>OAIC</td>
<td>Office of the Australian Information Commissioner</td>
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<tr>
<td>OTC</td>
<td>‘over-the-counter’</td>
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<td>OTTER</td>
<td>Office of the Tasmanian Economic Regulator</td>
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<tr>
<td>Abbreviation</td>
<td>Description</td>
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<tr>
<td>PIAC</td>
<td>Public Interest Advocacy Centre</td>
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<td>PV</td>
<td>Photovoltaic</td>
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<td>QCA</td>
<td>Queensland Competition Authority</td>
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<td>QLD</td>
<td>Queensland</td>
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<tr>
<td>RAB</td>
<td>regulatory asset base</td>
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<td>REPI</td>
<td>Retail Electricity Pricing Inquiry</td>
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<td>RERT</td>
<td>Reliability and Reserve Trader</td>
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<td>RET</td>
<td>Renewable Energy Target</td>
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<td>RIT</td>
<td>Regulatory Investment Test</td>
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<td>RIT-D</td>
<td>Regulatory Investment Test—Distribution</td>
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<td>RIT-T</td>
<td>Regulatory Investment Test—Transmission</td>
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<td>RRO</td>
<td>Retailer Reliability Obligation</td>
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<td>SA</td>
<td>South Australia</td>
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<td>SAPN</td>
<td>SA Power Networks</td>
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<tr>
<td>SAPS</td>
<td>Stand-alone power systems</td>
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<tr>
<td>SEQ</td>
<td>South East Queensland</td>
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<tr>
<td>SME</td>
<td>Small &amp; Medium Enterprise</td>
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<tr>
<td>SRES</td>
<td>Small-scale Renewable Energy Scheme</td>
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<tr>
<td>Tier 1 retailers</td>
<td>AGL, EnergyAustralia and Origin</td>
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<tr>
<td>TNSP</td>
<td>transmission network service provider</td>
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<tr>
<td>ToU</td>
<td>time-of-use</td>
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<tr>
<td>TUOS</td>
<td>transmission use of system</td>
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<td>VCR</td>
<td>value of customer reliability</td>
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<td>VDO</td>
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Appendix A: Terms of Reference
Appendix B: REPI recommendation progress
Appendix C: Machine-readable version of cost stack data
1. Background to the inquiry

This section provides some background information about the origin and nature of the current inquiry. It does so in the context of the Australian Competition and Consumer Commission’s (ACCC) broader roles in the electricity sector and the work of other agencies. It also sets out the focus and structure of this report.

1.1. Retail Electricity Pricing Inquiry

The current inquiry follows the ACCC’s Retail Electricity Pricing Inquiry (REPI) into the supply of retail electricity and the competitiveness of retail electricity prices in the National Electricity Market (NEM) that was conducted throughout 2017 and 2018.

The REPI was undertaken at the direction of the then Treasurer following concerns that electricity prices had been increasing over recent years and that retail electricity markets did not appear to be operating as effectively as they could.

The then Treasurer asked the ACCC to, amongst other things, identify and report on the key cost components of electricity retail pricing and how they affect the retail offers made to customers. The REPI examined whether electricity retailers’ margins and profitability are in line with their costs and risks. It also considered impediments to consumer choice, such as the transparency and clarity of contracts that energy companies offer to consumers.

The final REPI report was provided to the then Treasurer in June 2018 and published on 11 July 2018. It examined the entire electricity supply chain to determine the root causes of high electricity prices in the NEM and set out a package of 56 recommendations to bring down prices and restore consumer confidence and Australia’s competitive advantage.

These recommendations focussed on four key areas:

- boosting competition in generation and retail
- lowering costs in networks, environmental schemes and retail
- enhancing consumer experiences and outcomes
- improving business outcomes.

The ACCC welcomes moves by governments to implement several reforms it recommended in the REPI, some of which are covered in detail in sections 2 and 3 of this report. Other key recommendations are still under consideration. Appendix B provides a status update on the progress of implementation of all the REPI recommendations.

1.2. Electricity Market Monitoring Inquiry 2018–2025

Since August 2018, the ACCC has been holding a public inquiry into the supply of electricity in the NEM (the Inquiry).

Pursuant to the Terms of Reference for the Inquiry, which are reproduced at Appendix A, the ACCC is required to monitor and report on:

(i) electricity prices faced by customers in the NEM
(ii) wholesale market prices
(iii) electricity generators’ and retailers’ profits

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18 Morrison, S (Treasurer), Terms of reference for ACCC inquiry into retail electricity supply, ACCC, 27 March 2017.
19 ACCC, Restoring electricity affordability and Australia’s competitive advantage, Retail electricity pricing inquiry—final report, June 2018.
Inquiry into the National Electricity Market
— August 2019 Report

25
(iv) contract market liquidity, and
(v) the effects of policy changes in the NEM.20

The ACCC is also to make recommendations to government(s) to take any proportional and
targeted action considered necessary to remedy any failure by market participant(s) (or the
market as a whole) to deliver competitive and efficient electricity prices for customers.21

In accordance with the Terms of Reference, we published our first report in March 2019
setting out our analytical framework for monitoring and expectations of market outcomes and
market participant behaviour.22

The ACCC is required to report to the Australian Government no less frequently than every
six months.23 In that regard, the ACCC’s current intention is to report bi-annually in May and
November, while also providing additional information to the market as appropriate. This
report in August is required to meet the obligation to report at least every six months.

The Inquiry is to conclude with a final report to the Treasurer by 31 August 2025.24

1.3. The ACCC’s other electricity sector functions

The ACCC’s statutory role of enforcing the Competition and Consumer Act 2010 (Cth)
(CCA), which includes the Australian Consumer Law (ACL), applies across the economy,
including the electricity sector.

The ACCC’s compliance and enforcement policy and priorities sets out the principles we
adopt to achieve compliance with the CCA, and currently includes consumer and
competition issues arising from opaque and complex pricing of essential services, in
particular those in energy and telecommunications, as an enforcement priority.25

The ACCC has recently instituted proceedings in the Federal Court against comparator
website iSelect Limited for engaging in misleading or deceptive conduct and false or
misleading representations in relation to its energy plan comparison service, in contravention
of the ACL.26

In another proceeding instituted by the ACCC, the Federal Court ordered a penalty of
$900 000 against energy retailer Amaysim Energy Pty Ltd (trading as Click Energy) for
making false or misleading marketing claims about potential discounts and savings available
to Victorian and Queensland consumers, in breach of the ACL.27

On 18 July 2109, the ACCC announced that M2 Energy Pty Ltd (Dodo) and CovaU Pty Ltd
had paid penalties totalling $37 800 and $12 600 respectively after the ACCC issued each
energy retailer with infringement notices for alleged misleading claims about discounts
available on their energy plans. Both retailers also committed to refund affected customers.

The ACCC is also responsible for enforcing the mandatory Competition and Consumer
(Industry Code—Electricity Retail) Regulations 2019 (the Electricity Retail Code), which is
binding on all retailers that supply electricity to small customers in the applicable distribution
regions of New South Wales (NSW), South Australia (SA) and South East Queensland

20 Morrison, S (Treasurer), Terms of reference for ACCC inquiry into retail electricity supply, ACCC, 27 March 2017.
21 ibid.
23 Morrison, S (Treasurer), Terms of reference for ACCC inquiry into retail electricity supply, ACCC, 27 March 2017.
24 ibid.
26 ACCC, iSelect in court for alleged misleading conduct and claims about energy plan comparisons, media release,
12 April 2019.
27 ACCC, Click Energy to pay $900,000 for misleading claims, media release, 27 March 2019.
More detail about the Electricity Retail Code is included in sections 2 and 3 of this report.

The ACCC is also the lead regulator for implementing the Consumer Data Right (CDR), working in consultation with the Office of the Australian Information Commissioner (OAIC) and the Data Standards Body. The CDR is a data portability right, giving consumers the right to access and safely transfer their data to accredited third parties. The CDR is an economy-wide data right being rolled out on a sector-by-sector basis, starting with the banking sector, to be followed with the electricity sector. This in turn will make it easier for customers to compare and switch between products and services given their specific circumstances. It will also encourage competition between service providers, leading not only to better prices for customers but also more innovative products and services. This is further discussed in section 2 of this report.

1.4. Agencies with important electricity sector functions

There are a number of bodies with important electricity sector functions. The ACCC performs its functions by collaborating with these bodies as much as possible. These bodies include:

- The Council of Australian Governments (COAG) Energy Council is a Ministerial forum for the Commonwealth, states and territories and New Zealand to work together in the pursuit of national energy reforms.  
  
- The Australian Energy Regulator (AER) regulates electricity networks in all jurisdictions except Western Australia (WA) by setting the amount of revenue that network businesses can recover from customers. The AER is responsible for enforcing the laws for the NEM in southern and eastern Australia, and monitors and reports on the conduct of market participants and effectiveness of competition. It also has retail energy market functions covering NSW, SA, Tasmania, the Australian Capital Territory (ACT) and Queensland.

- The Australian Energy Market Commission (AEMC) makes and amends the national electricity and energy retail rules and provides energy policy advice to Australian governments. The AEMC also regularly monitors and reports on a range of matters including the level of competition in energy retail markets, future price trends, and energy market performance.

- The Australian Energy Market Operator (AEMO) is responsible for operating electricity markets and power systems including the NEM and the Wholesale Electricity Market (WEM) in WA.

- The Energy Security Board (ESB) was established by the COAG Energy Council to coordinate the implementation of the reform blueprint produced by Australia’s Chief Scientist, Dr Alan Finkel AO. The ESB’s annual Health of the NEM report tracks the performance of the electricity system, the risks it faces and opportunities for improvement.

- Essential Services Commission of Victoria (ESCV) publishes codes and guidelines that regulated electricity businesses must follow; it monitors, investigates and enforces

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compliance with Victoria’s energy regulatory framework and publishes reports on the performance of energy retailers and distributors in the Victorian energy market.\(^{34}\)

- NSW Independent Pricing and Regulatory Tribunal (IPART) monitors and reports annually on the performance and competitiveness of the retail electricity market in NSW.\(^{35}\)

- Queensland Competition Authority (QCA) sets regulated electricity prices for regional Queensland customers and monitors the retail electricity market in SEQ.\(^{36}\)

- Office of the Tasmanian Economic Regulator (OTTER) monitors and reports on the performance of the Tasmanian electricity supply industry. Among its other roles, OTTER is responsible for setting maximum retail prices for the sale and supply of electricity to standing offer customers in Tasmania.\(^{37}\)

- ACT Independent Competition and Regulatory Commission (ICRC) is responsible for licensing electricity distribution networks, monitoring compliance with licence conditions, and determining industry codes.\(^{38}\) The ICRC also regulates the price for the supply of electricity to small customers in the ACT purchased from ActewAGL Retail.\(^{39}\)

- Essential Services Commission of South Australia (ESCOSA) is responsible for administering the licensing regime for electricity entities in SA including the issuing and ongoing monitoring of those licences, monitoring and reporting on the performance of licensed entities, making industry codes regulating the behaviour of licensed entities and enforcing compliance with licensees’ regulatory obligations.\(^{40}\)

1.5. Focus and structure of this report

This is the ACCC’s second report for the Inquiry. While this report covers aspects of the whole supply chain, the focus of this report is on the recent policy reforms to retailers’ pricing and advertising practices and updates on other significant policy developments.

This report also contains ‘cost stack’ analysis based on updated data for 2017–18 obtained from retailers using the ACCC’s information gathering powers. ‘Cost stacks’ provide valuable insights in the underlying cost components of customers’ bills, including retailer costs and profits.

When the final REPI report was being drafted, finalised ‘cost stack’ data for 2017–18 was not yet available. We therefore used the retailers’ data on the forecasted changes in wholesale costs, network costs, environmental and green scheme costs and retail costs from 2016–17 to 2017–18. In light of the ACCC being directed to undertake the Inquiry, we have therefore sought to finalise the 2017–18 data from retailers before reporting on 2018–19 data and beyond.


\(^{39}\) ibid.

The remainder of this report is structured as follows:

- Section 2 provides an update on the progress of REPI recommendations.
- Section 3 provides some observations on the reforms to retailer pricing and advertising.
- Section 4 presents finalised 2017–18 data for the ‘cost stack’ analysis which was forecast in REPI, based on updated data obtained by the ACCC.
- Appendix A provides the Terms of Reference for the Inquiry.
- Appendix B presents a status update on the progress of implementation of the REPI recommendations.
- Appendix C presents a machine-readable version of the cost stack data in section 4.
2. Progress on the REPI recommendations

- Significant reforms to retail pricing and advertising came into effect on 1 July 2019. These reforms introduced by the Australian Government follow recommendations the ACCC made in the REPI. The Victorian Government has introduced similar reforms. These changes improve the information provided to customers about electricity offers and limit high standing offer prices.

- One year on from the delivery of our final REPI report, there is progress to implement some recommendations, while others have not progressed at all.

- Some recommendations made in the REPI are challenging to implement and more time is needed. Market bodies are currently undertaking several work streams to advise governments on complex policies to improve wholesale market prices in the long term.

- The Australian Government’s program to encourage investment in new generation will be most effective if it facilitates new generators into the wholesale market and does not further entrench the market position of established players; the level of support from government is only sufficient to provide certainty for debt financing and does not underwrite equity; and projects have firm commitments from customers to acquire energy from the project.

- There has been limited action to provide savings to customers by implementing recommendations in networks (to remedy past over investment) and environmental policies. These are areas where reductions in customer bills could be achieved.

The ACCC made 56 recommendations in the final REPI report to help restore electricity affordability and Australia’s competitive advantage. The recommendations were widespread and address policy, regulatory design and promotion of competition in the NEM. In our March 2019 report, we tracked the progress of the recommendations. One year on from the delivery of our final REPI report, there are still recommendations that have not been implemented while progress continues on others. Some recommendations may be challenging in the absence of a commitment by all participants—governments, industry, regulators, policy makers, consumer bodies and consumers themselves. We urge all participants to continue to work to deliver the transformation that is required.

The ACCC under the Inquiry will continue to monitor the progress of implementation of the REPI recommendations. Set out below is commentary on more recent progress of selected recommendations, grouped under the supply chain elements that they relate to—retail, wholesale, networks, and environmental schemes. Appendix B provides a detailed update on the development of each of the 56 recommendations.

2.1. Retail

A number of REPI recommendations were aimed at addressing problems we found in the retail market. Energy affordability remains a key concern for households, small business, and large energy users. To date, some retail reforms proposed in the REPI have been implemented while others still require action. The changes to date have been aimed at providing consumers with the information they need in a way that can be easily understood to make an informed decision about the best electricity offer for their circumstances.
In the REPI, the ACCC made several recommendations aimed at harmonising and streamlining regulatory obligations on retailers operating in multiple jurisdictions of the NEM. In particular, in recommendation 26, we considered that Victoria should join the National Energy Customer Framework (NECF). There has been no progress on these recommendations. Indeed, the recent retail reforms introduce further differentiated obligations on retailers in Victoria and in jurisdictions where the Retail Electricity Code applies.

**Default offer reforms**

The Australian Government and Victorian Government have implemented reforms in the retail electricity market for households and small business. These address high prices and increase transparency of the presentation of offers aimed at improving customer engagement. The introduction of the Retail Electricity Code and the Victorian Default Offer (VDO) are key reforms and our analysis of the initial impacts of these reforms is set out in section 3.

We remain committed to ensuring that, where retailers are presenting information, the information is consistent and easily understood so that consumers can make an informed choice. The use of confusing marketing practices by retailers and their agents is an area the ACCC is monitoring and is reflected in the 2019 compliance and enforcement priorities noted in section 1. The ACCC is also monitoring and enforcing the Retail Electricity Code which has penalties for non-compliance. More detail on the Retail Electricity Code is provided in section 3.

**Conditional discounting**

The REPI identified concerns with the use of conditional discounting, and noted that the size of these discounts had increased over time but often discounts were off inflated base rates. These discounts are typically conditional on a customer paying their bill on time. We considered that customers who did not meet the condition essentially paid very high prices that were not commensurate with the cost to the retailer. REPI recommendation 33 said that conditional discounts should be no higher than the reasonable savings that a retailer expects that it will make if a consumer satisfies the conditions attached to the discount. The retailer should also justify that the magnitude of the discount is reasonable. Conditional discounting is discussed further in section 3.

The Minister for Energy, the Hon. Angus Taylor MP, submitted a rule change request in February 2019 to regulate conditional discounting, in line with this recommendation. On 1 August 2019 the AEMC published a consultation paper seeking stakeholder submissions on this request. Submissions are due by 19 September 2019.

**Third party intermediaries**

The conduct of third party intermediaries that have commercial arrangements with retailers is a continuing area of concern for the ACCC. REPI recommendation 34 was for the Australian Government to prescribe a mandatory code of conduct for third party intermediaries. This was to address our findings that, in several areas, these services are not delivering good

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42 ibid., p. 257.
43 Taylor, A (Minister for Energy), Cracking down on sneaky late payment fees, media release, Department of the Environment and Energy, 18 February 2019.
outcomes for consumers. While some conduct by third party intermediaries is likely to breach the ACL, we found that some conduct by third party intermediaries that is not likely to breach the ACL is still leading to poor consumer outcomes. Additional regulation is required to address these issues. Two key concerns are that third party intermediaries:

- do not always make recommendations that are in the best interests of consumers
- do not always adequately disclose the number of retailers and offers that they consider in making a recommendation to a consumer.45

We considered that offers should be recommended based on price benefit to the consumer rather than the size of the commission received by the third party and that there should be civil penalty provisions for any breaches.46

On 12 April 2019 the ACCC instituted proceedings against iSelect for misleading and deceptive conduct and false or misleading representations in relation to its energy plan comparison service. The ACCC alleges that iSelect did not compare all available plans, and did not necessarily recommend the most competitive plan, but rather limited the number of plans it compared based on the commercial arrangement it had with retailers.47

In August 2018, the then Treasurer announced that the Government will accept the ACCC recommendation to establish a mandatory code of conduct for energy comparator websites.48 The AEMC has also recommended that the Australian Government develop a mandatory code for commercial comparator sites as a priority.49 There has been some progress on this recommendation. In April 2019, the NSW Parliament passed the Fair Trading Legislation Amendment (Reform) Act 2018 No 65. The new law requires intermediaries to take reasonable steps to ensure that consumers are aware of the existence of an arrangement under which the intermediary will receive a financial incentive, for example a commission or referral fees, before the consumer acts under that arrangement.

**Consumer Data Right**

There were a number of REPI recommendations aimed at improving the customer experience that have progressed. REPI recommendation 31 was for the Consumer Data Right (CDR) to be applied to the electricity sector as a priority. The CDR provides a data-portability right that will allow consumers to access and safely transfer their data to accredited third parties. This will make it easier for customers to compare products and services appropriate to their individual circumstances and more easily switch retailers and offers. The CDR is an economy-wide data right being rolled out on a sector-by-sector basis, starting with the banking sector, followed by the electricity sector.50 The Treasury Laws Amendment (Consumer Data Right) Bill 2019, the legislation to enact the CDR, was passed by Parliament on 1 August 201951 and commenced on 13 August 2019. The ACCC is the lead regulator and is working in consultation with the Office of the Australian Information Commissioner (OAIC) and the Data Standards Body to implement the CDR.52

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46 ibid., p. 282.
47 ACCC, *iSelect in court for alleged misleading conduct and claims about energy plan comparisons*, media release, 12 April 2019.
48 Morrison, S (Treasurer) and Frydenberg, J (Minister for the Environment and Energy), *Driving prices down*, media release, 20 August 2018.
50 Frydenberg, J (Treasurer), A new data right for all Australians, media release, 4 December 2018.
In February 2019 the ACCC consulted on three data access models for the CDR to apply in the energy sector. The CDR will also encourage competition between service providers, leading to better prices and innovation in products and services.

**Smart meter roll-out**

REPI recommendation 15 highlighted that support should be given to encourage the uptake of smart meters. The AEMC made a rule change in December 2018 to improve the speed of the roll-out of advanced digital meters, or smart meters. Smart meters have been installed across Victoria mandated by the Victorian Government, whereas in other jurisdictions consumer choice is driving the demand for smart meters. However, customers have experienced metering installation delays that were considered unsatisfactory. The AEMC, AER and AEMO worked collectively to address these issues and supported changes to the rules to prescribe timeframes for new installations and upgrades of meters. The new rule will ensure that more customers across the NEM can better understand and control their electricity use and costs and access new products and services, such as demand response.

The AEMC has been running a smart meter monitoring program and has announced its plans to extend the program to include the general rollout of smart meters across the national grid. The AEMC is also developing an approach to understand challenges and opportunities linked to the increased uptake of smart meters. One of the AER’s compliance and enforcement priorities for 2019–20 is supporting the transition to metering contestability to ensure consumer and market benefits are delivered. In addition, the AER has started reporting on smart meter installations and complaints through its retail market performance reporting.

These are encouraging developments which will help to support the take up of smart meters, and ensure customers receive the benefits of this technology.

**Making switching easier**

The roll out of smart meters will facilitate easier switching. The average transfer time in the NEM can be up to 30 days for customers with accumulation meters because they need to be manually read, and if the losing retailer did not agree to a special meter read, this could be three months. A reduction in transfer times will improve retail competition and allow customers to benefit from better offers sooner. REPI recommendation 8 was for AEMO to amend its rules to remove the requirement for the losing retailer to receive advanced notice of the switch. REPI recommendation 9 was for the AEMC to look at ways customers could self-read their meters to speed up the customer transfer process.

AEMC and AEMO stated in their letter to the Senior Council of Officials that the existing customer transfer process is outdated and is in need of review and this was important to support consumer choice, engagement and confidence in the retail market. AEMO submitted a rule change request in May 2019 that includes a high level design, and associated rule changes for an improved, streamlined and transparent customer transfer process for the retail market. The overarching objective is to put in place a customer transfer

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process that enables a customer to transfer within a two-day time period after the end of the cooling off period, irrespective of metering type. On 4 July 2019 the AEMC initiated consultation on the rule change request.\textsuperscript{59}

The ACCC welcomes this important reform that will reduce customers’ switching times and allow consumers to more easily move to better deals.

**Embedded networks**

Embedded networks are privately owned networks, such as in shopping centres, apartment blocks and retirement villages. Under the current regulations, embedded network customers do not have access to retail competition or the same consumer protections as grid-connected customers. High density development is driving the number of embedded networks and these arrangements impact an increasing number of small customers.

COAG Energy Council requested in December 2016 that the AEMC undertake a review of the treatment of embedded networks under the national energy laws.\textsuperscript{60} The purpose of the review was to identify issues for embedded network customers accessing the competitive market. On 20 June 2019 the AEMC recommended a package of reforms for customers in embedded networks aimed at ensuring customers across the NEM can benefit from retail competition and have the same consumer protections as grid-connected customers, which the ACCC supports.\textsuperscript{61} The COAG Energy Council is expected to consider the recommendations.

### 2.2. Wholesale

REPI recommendations relating to the wholesale market were aimed at ensuring a competitive wholesale market that could deliver affordable electricity into the future. We identified that the NEM wholesale market had contributed to the high price of electricity. Wholesale costs have increased as a proportion of customer bills in 2017–18 (26 per cent in 2016–17 to 33 per cent in 2017–18). Section 4 provides cost stack analysis of 2017–18 retailer data. The exit of coal-fired generation and significant shortages in competitively priced gas have been factors impacting the cost of wholesale generation. AER, AEMC, AEMO and the ESB are working on a range of reforms to implement changes that will bring down the cost of electricity generation while maintaining system security and reliability.

**Supporting new generation investment**

REPI recommendation 4 proposed that the Australian Government should operate a program to encourage new entry, promote competition and enable C&I users to access low-cost new generation. The recommendation was aimed at supporting the development of a competitive market by introducing additional independent firm supply and reducing concentration. The mechanism aims to assist C&I customers to directly source their full electricity requirements from a party other than an existing large retailer and address the barriers faced by new entrants to large-scale generation projects.

The Australian Government is developing a program called Underwriting New Generation Investments and shortlisted 12 projects in March 2019. These shortlisted projects represent a combined capacity of 3818 MW of new generation and a range of fuel types. This includes six renewable pumped hydro projects, five gas projects and one coal upgrade project.


\textsuperscript{61} AEMC, Updating the regulatory frameworks for embedded networks, Final report, 20 June 2019.
program will be open for four years, until 2022–23. The Government is currently developing the program guidelines, and the delivery model for the program.62

The ACCC considers that it will be critical to ensure that the program supports new entrants and does not exacerbate market concentration. The ACCC considers that the underwriting scheme will be most effective in reducing the impact of wholesale prices on consumers if:

1. the scheme facilitates new entrants into the wholesale market and does not further entrench the market position of established players
2. the level of underwriting from government is only sufficient to provide certainty for debt financing and does not underwrite equity
3. projects have firm commitments from customers to acquire energy from the project.

**Wholesale demand response**

Significant progress has been made on developing a mechanism for wholesale demand response in the NEM as put forward in REPI recommendation 21. The AEMC’s draft determination proposes to allow third parties as well as retailers to offer demand response directly into the wholesale market.63 Under the AEMC mechanism, a new category of registered participant, a demand response service provider (DRSP), would be able to bid demand response directly into the wholesale market as a substitute for generation. A DRSP could also engage directly with a customer without the involvement of that customer’s retailer. The initial focus is on demand response from large energy users. While small customers are not initially included, the AEMC has committed to review from the end of 2019 the energy-specific consumer protections for small customers that would apply for non-traditional energy services, including wholesale demand response.

This is an important reform which can limit the need for additional generation and constrain the power of generation businesses, both leading to a more competitive market and lower prices for consumers. The REPI found that retailers were not employing demand response at an efficient level and this is likely to change by having third parties as well as retailers offering demand response.64 The ACCC will continue to engage with the AEMC as it works towards implementing this development in the reform of the NEM.

**Treasury Laws Amendment (Prohibiting Energy Market Misconduct) Bill 2018 (Cth)**

The Australian Government has signalled its intention to re-introduce the *Treasury Laws Amendment (Prohibiting Energy Market Misconduct) Bill 2018 (Cth)* (the Bill) in 2019.65 The Bill introduced in 2018 was focussed on addressing the government’s concern with certain conduct in the electricity retail, contract and wholesale markets. On 6 December 2018 the Senate referred the Bill to the Senate Economics Legislation Committee for inquiry and report. On 18 March 2019 the Committee recommended the Bill be passed.66

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64 ACCC, *Restoring electricity affordability and Australia’s competitive advantage*, Retail electricity pricing inquiry—final report, June 2018, p. 204.


The Bill sets out three new kinds of ‘prohibited conduct’. These are where:

- a retailer fails to make reasonable adjustments to its prices to small customers to reflect sustained and substantial reductions in its underlying cost of procuring electricity (‘retail pricing prohibition’)
- a corporation that generates electricity refuses to offer financial contracts for the purpose of substantially lessening competition (‘electricity financial contract liquidity prohibition’)
- generators engage in conduct which undermines the effective operation of the spot market—there is a basic case (fraud, dishonesty or bad faith; or for the purpose of distorting or manipulating prices) and an aggravated case (both elements of the basic case) (‘electricity spot market prohibition’).

The Bill provides for a range of responses where the ACCC reasonably believes that a corporation has engaged or is engaging in prohibited conduct. These are:

- issue a public warning notice
- issue an infringement notice
- accept a court enforceable undertaking from the corporation
- apply to the court for an injunction
- apply to the court for a pecuniary penalty.

In addition to these the Bill introduces two measures:

- the Treasurer’s contracting orders, which would require an electricity generation business to make contracts available to third parties—to remedy prohibited conduct under the financial contract liquidity and electricity spot market (aggravated case) categories
- court ordered divestiture—to remedy prohibited conduct under the electricity spot market (aggravated case) category.  

The Bill also gives the AER new compulsory information gathering powers. It supports the AER in undertaking its Commonwealth functions and allows the AER to share information with other agencies.

While the Bill does not implement specific recommendations from the REPI, the intention of the Bill expressed in the Regulation impact statement is to allow the ACCC or the government, over the course of the ACCC’s inquiry, to take action to address identified misconduct. The legislation would sunset in 2025, matching the term of the ACCC’s inquiry, unless a review determined that it should continue to operate beyond 2025.

The prohibitions within the Bill raise complex new issues of application. In the event that this or a similar Bill is passed into legislation, the ACCC would seek to develop a guide as to its approach in enforcing the new provisions and would envisage publicly consulting on this guide.

2.3. Networks

Recommendations to reduce network costs require action by federal, state and territory governments. We identified in the REPI that network costs have been the major driver of price increases for several years. Recommendation 11 was that the Queensland, NSW and Tasmanian state governments should take immediate steps to voluntarily write down

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As expressed in the explanatory memorandum to the Bill (p. 53) this is intended to be used as a last resort in the most exceptional circumstances where other responses available to the ACCC and the Treasurer would not sufficiently address the alleged prohibited conduct.

state-owned network assets or provide rebates on network charges for privatised assets to remedy past over-investment.

Network business revenues are forecast to be lower than in the past due to efficiencies in operating costs, lower capital expenditure as demand has fallen and lower financing costs as interest rates have declined. Lower revenues are also driven by improvements in assessment tools and techniques, such as benchmarking, implemented by the AER.

Section 4 provides cost stack analysis of 2017–18 retailer data, which shows a decrease in network costs as a proportion of customer bills. However, a further opportunity is for Queensland, NSW and Tasmanian state governments, where there has been historical over-investment that has led to inefficiently high electricity prices, to write-down state-owned network assets or provide rebates on network charges for privatised assets. Such steps could provide savings to residential customers of at least $100 per year.69

**Value of customer reliability**

REPI recommendation 16 said that responsibility for setting network reliability requirements should be placed on the AER or another NEM market body, based on a value of customer reliability (VCR), in line with customer preferences on affordability. VCRs are expressed in dollars per kilowatt hour and represent the value customers place on reliability under different conditions. VCRs play a significant role in network planning and investment and inform decisions around a range of standards and other parameters in the NEM, such as state and territory reliability standards.

VCRs have been estimated a limited number of times, with no single body responsible for determining VCRs. A rule change made by the AEMC in July 2018 gave responsibility for regularly updating and reviewing VCRs to the AER.70 Assigning responsibility for developing the VCR methodology and calculating VCR estimates to the AER will help remove unnecessary duplication and improve consistency. As part of the review, the AER has formed a VCR Consultative Committee to consult with a range of stakeholders. The AER must make a VCR determination by 31 December 2019.71

In addition, the Premier of NSW has asked IPART to recommend changes to electricity distribution reliability standards that could deliver bill savings to NSW customers, taking into account the VCR values to be published by the AER.72 The ACCC supports moves by state and territory jurisdictions to review their reliability standards to ensure customer affordability preferences and the long term interests of consumers are incorporated in regulatory settings.

**Standalone power systems**

The development and maintenance of assets at the fringe of the grid are a costly expense paid for by all customers. Supplying electricity through stand-alone power systems instead of being connected to the grid could reduce overall network costs. REPI recommendation 23 set out that it was essential that customers in areas with stand-alone power systems receive enforceable consumer protections in terms of supply, reliability and security, the same as grid-connected customers. It was also essential that regulatory arrangements should be consistent across the NEM and should also be operated under a contestable framework where customers would still have access to retail competition.


Earlier this year the AEMC released a package of reforms to the national energy laws that would provide a regulatory framework for stand-alone power systems to be established.\textsuperscript{73} The ACCC welcomes these developments.

2.4. Environmental schemes

The REPI found a number of opportunities to reduce the burden on electricity users by decreasing the costs associated with environmental schemes. Savings could be realised by removing subsidies which are transferred to electricity users. This largely relates to incentives provided by the Australian and state governments for small-scale solar installations.

Across Australia there is now over 9 GW of small-scale installations with around 7.7 GW installed in the NEM.\textsuperscript{74} Environmental policy costs continued to increase as a proportion of customer bills in 2017–18. Section 4 provides cost stack analysis of 2017–18 retailer data. This demonstrates the rising cost of the Small-scale Renewable Energy Scheme (SRES) and the notable benefits that flow to electricity consumers by governments taking premium feed-in tariff schemes on budget as has been done by the Queensland Government.

The SRES creates an incentive for the installation of small-scale renewable energy systems such as solar PV and solar water heaters. At the time the SRES was designed, the cost of small scale solar installations was much higher than it is today. This along with the significant uptake by households in recent years and state-based schemes providing a further subsidy means that the support provided by the SRES is no longer required. Customers are likely to have a sufficient incentive to invest in small-scale solar technology to reduce their electricity bills. REPI recommendation 24 urged that the SRES be wound down and abolished by 2021. While the number of certificates received for each system will decline each year, without the implementation of this recommendation the SRES will continue to add to customer bills until the Renewable Energy Target scheme ends in 2030. The AEMC estimated that the scheme would cost the average residential customer in the NEM $36 in 2020–21.\textsuperscript{75}

Premium Feed-in-tariff

Feed-in-tariff (FiT) schemes were originally introduced by state governments as an incentive for households and small businesses to install solar PV. These early arrangements were offered at very generous rates. The cost of these state-based policies were collected by distribution network businesses who recovered the cost of the FiT schemes through higher regulated network charges which ultimately resulted in higher electricity charges for all customers irrespective of whether they received a FiT or not.

All premium FiT schemes are now closed to new entrants. However these schemes will incur significant legacy costs for their duration. REPI recommendation 25 said that state governments should absorb the remaining costs of premium solar FiT schemes. This would reduce electricity bills and result in a more equitable result for electricity users not on these schemes.

The Queensland Government has absorbed the cost of the Solar Bonus Scheme for three years from 2017–18 to 2019–20 at a cost of $771 million.\textsuperscript{76} The 2019–20 Queensland Government budget includes $247.6 million to cover this premium FiT scheme cost.\textsuperscript{77}

\textsuperscript{73} AEMC, Review of the regulatory frameworks for stand-alone power systems—priority 1, Final report, 30 May 2019.
\textsuperscript{75} AEMC, 2018 Residential electricity price trends review, Final report, 21 December 2018, p. 59.
\textsuperscript{76} Queensland Government, Queensland budget 2018-19, Budget strategy and outlook budget paper no. 2, p. 163.
ACCC analysis shows that the decision by the Queensland Government to pay the costs of the premium FiT scheme has contributed to an average saving for South East Queensland (SEQ) customers of $61 between 2016–17 and 2017–18. SA, in contrast, had the highest premium FiT costs in 2017–18 of $89 per customer.

In 2017–18 total environmental policy costs were lowest in SEQ costing average customers $87 annually. In other jurisdictions costs ranged between $113 in Victoria and $208 in SA, with an average across the NEM of $122. Section 4 provides more detail.

The contrast in costs to consumers in different jurisdictions illustrates the opportunities to provide additional savings to customers by removing subsidies or costs of environmental green schemes.

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3. Reforms to retailer pricing and advertising

- Reforms to retailer pricing and advertising came into effect on 1 July 2019. These reforms include implementation of the Default Market Offer (DMO) and VDO and are aimed at:
  - reducing excessive prices of electricity plans for customers who do not, or cannot, access market offers
  - improving the ability for customers who do shop around to compare prices by providing a common benchmark or reference price, increasing competition between retailers and placing downward pressure on prices.

- It is only very early days, but we have observed some positive outcomes after 1 July 2019, including:
  - Prices for many standing offer customers have fallen, often significantly.
  - Market offers continue to provide opportunities for a better deal, with smaller retailers providing some of the cheapest offers available.
  - Retailers are moving away from advertising conditional discounts based on inflated and inconsistent base rates, enabling customers to more easily identify a better deal for their circumstances and gain the benefits of competition.

Energy affordability continues to be a key concern for households, businesses and governments. We highlighted in the REPI a number of concerns over retailers’ pricing and advertising practices that had led to many customers in the non-price regulated jurisdictions of SA, NSW, SEQ and Victoria paying more than they should for electricity.78

A number of reforms to retailer pricing and advertising have been implemented since the REPI was finalised. This includes a new rule which took effect from 1 July 2018 that prohibits retailers from some discounting practices involving inflating the base rate of market offers so that they could advertise a larger discount.79 Similar reforms are also being considered by the Victorian Government and the ESCV.80

This section specifically looks at the further reforms that took effect on 1 July 2019 that are aimed at addressing some of the additional pricing and advertising concerns identified during the REPI. For SA, NSW and SEQ, the Australian Government has implemented price caps for standing offers to automatically reduce excessive prices for customers who do not shop around, while the Victorian Government has implemented a regulated price for standing offers. Both the Australian Government and Victorian Government have introduced changes to the way in which retailers in these regions are allowed to advertise market offers with a view to making it easier for customers who do shop around to compare offers and identify a better deal for their circumstances.

Section 3.1 provides an overview of the reforms in SA, NSW and SEQ and section 3.2 provides an overview of the reforms in Victoria. Section 3.3 presents observations of the effect of changes in the way offers must be presented from 1 July 2019. These observations

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79 National Energy Retail Amendment (Preventing discounts on inflated energy rates) Rule 2018 No. 2.
include changes in the level and spread of standing and market offers and the use of conditional discounting.

It is noted that, given the limited time that has passed since the reforms came into effect, initial analysis presented in this report focuses on changes for residential customers. In future reports, we intend to monitor the effects of these and other reforms on the broader retail market and customer outcomes, including for business customers.

3.1. DMO and the Electricity Retail Code in SA, NSW and SEQ

Prior to 1 July 2019, retailers in SA, NSW and SEQ were free to set their own prices for electricity plans. As highlighted in the REPI, retailers had increased their prices for standing offers, which are the default electricity plans for customers who do not otherwise choose a market offer, to the point where they had become some of the most expensive electricity plans in the market.

In addition, it had become common practice for retailers to advertise their prices for market offers with reference to these inflated standing offer rates, which had the effect of making these offers appear more attractive to customers who did shop around. However, because the discounts were calculated from inconsistent base rates, an offer with a high discount did not necessarily mean that it was cheaper than an offer with a low discount or even no discount at all.

The advertisements below are generic examples of the typical advertisements displayed by retailers before the reforms were implemented on 1 July 2019.

![Advert Example 1](image1)
![Advert Example 2](image2)


Figure 3.1 below shows the annual price amount for a range of different offers that were available in the SA Power Networks distribution zone in July 2018, with the amount shown assuming that all available discounts were realised. As demonstrated, a higher discount did not necessarily result in a lower annual price amount. Notably, one offer with an advertised conditional discount of 9 per cent ($2344) was $560 more expensive than the cheapest offer with no advertised discount ($1784). Further, the cheapest offer overall was an offer with an 18 per cent conditional pay-on-time discount ($1775). This shows how difficult it was for customers to compare offers across retailers, and the inability to rely on the presumption that a higher percentage discount would necessarily mean a lower price.

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81 The deregulation of retail electricity markets began in the 2000s in Victoria followed by NSW, SEQ and SA. Prior to this, electricity prices in those regions were set by state governments. State governments continue to have a role in setting prices in other regions.


83 ibid., pp. 253, 260-261.
Further, percentage discounts were often conditional on, for example, a customer paying their bill on time.\textsuperscript{84} While these conditional market offers provided customers with opportunities for additional savings, a major concern was that customers who could least afford it (those who did not pay-on-time because they did not have the funds) unknowingly ended up paying some of the highest prices.\textsuperscript{85} For example, the annual price amount for the cheapest offer with an advertised conditional discount of 18 per cent shown in figure 3.1 above was in fact $2092 if every bill was not paid on time, $317 more than if the conditional conditions were met and $308 more than the cheapest offer with no advertised discounts. Of particular note, even if only one bill was not paid on time, the annual price increased by an amount such that the offer was no longer the cheapest.

The effect was twofold—customers who were on standing offers were in many cases paying excessive prices, and customers who did shop around for a better deal were confused about which market offer was cheaper and did not necessarily end up paying less (or worse, ended up paying more). Based on the types of advertisements replicated above, it was difficult for customers to compare retailers and offers across retailers to determine if they were getting the best deal for their circumstances. In response to recommendations made by the ACCC in the REPI to address the above concerns, the Australian Government introduced the Electricity Retail Code, which came into effect in SA, NSW and SEQ on 1 July 2019. The Electricity Retail Code caps standing offer prices in those regions at prices determined by the AER, commonly referred to as the DMO prices.\textsuperscript{86} The Electricity Retail Code also requires retailers to compare their prices to consistent base rates, or reference prices, which

\begin{figure}[h]
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\includegraphics[width=\textwidth]{figure3.png}
\caption{Annual price amount ($) for an offer with a given advertised discount in the SA Power Networks distribution zone in July 2018}
\end{figure}

Source: ACCC analysis based on St Vincent de Paul Society Electricity Market offer data, July 2018. Note that annual price amount is calculated using the AER model usage determination of 4000 kWh p.a.

\textsuperscript{84} ACCC, \textit{Restoring electricity affordability and Australia’s competitive advantage}, Retail electricity pricing inquiry—final report, June 2018, p. xi.

\textsuperscript{85} ibid., p. 253.

\textsuperscript{86} Electricity Retail Code, sections 10 and 16.
are the same as the DMO prices. In addition, retailers are prohibited from presenting conditional discounts as their ‘headline’ or most prominent discount so as to enable customers to better identify and understand the price they could be liable to pay if they do not meet the conditions.

The AER is responsible for determining the DMO prices and, because the Electricity Retail Code is implemented under Part IVB of the CCA, the ACCC is responsible for enforcement. The ACCC has therefore recently released a guide to help retailers understand their obligations under the Electricity Retail Code. These are discussed below.

AER’s determination of the DMO prices

In April 2019, the AER released its final determination on the DMO prices that apply from 1 July 2019 to 30 June 2020. Consistent with the objective previously stated, the AER noted that a key reason for the introduction of the DMO prices is to reduce the unjustifiably high level of standing offer prices. The AER further noted that:

....we have sought to set DMO prices at a level that provides consumers and retailers with incentives to participate in the market, while allowing retailers to recover their efficient costs in servicing customers. The ACCC stated the default offer should not be the lowest price, or close to the lowest price in the market. Its purpose is to act as a fall-back position for those not engaged in the market or for those that require its additional protections. We consider that these factors are important in facilitating competition, efficient investment, and innovation in retail markets. In a period where energy markets are undergoing significant technology and service transformation, we have been mindful of setting DMO prices in a manner that does not constrain innovation and the potential benefits of this to customers.

The AER used a price-based top-down approach whereby the DMO price for each distribution zone in SA, NSW and SEQ was set at the mid-point (50th percentile) of the range between the median market offer and median standing offer, based on generally available offers in October 2018. Assumed consumption rates and resulting annual price amounts are provided below.

It is important to understand that the DMO prices are indicative prices based on the AER’s assumed annual usage, and so are not representative of a ‘maximum bill’. A customer’s actual bill will vary depending on their electricity consumption, their distribution zone, and how their retailer has set the fixed and variable charges on their standing offer.

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87 Electricity Retail Code, section 12.
88 ibid., section 14.
89 ibid., section 16.
92 ibid.
93 ibid., pp. 7-8.
94 ibid., p. 25.
In contrast to the VDO, which is discussed in greater detail below, the DMO prices are specified as annual prices with retailers free to determine usage and supply charges. That is, retailers must structure their tariffs to not exceed the DMO price based on the AER’s assumed annual usage. The AER provides the following explanation for presenting the DMO as an annual price:

We consider that presenting the DMO price as an annual price is more accessible for customers, and facilitates easier comparison between offers than individual tariff components. It also provides retailers with some flexibility to translate the annual amount into different tariff structures. Different retailers will have different tariff components of supply charges and usage charges.

However, our expectation is that retailers will take reasonable steps to ensure that standing offer customers are not worse off under a DMO price, compared to what they are currently paying.\textsuperscript{95}

The AER estimated that the DMO prices would save a residential standing offer customer that uses an average amount of electricity between $118 and $236 in 2019-20. Small business standing offer customers using an average amount of electricity were estimated to save between $457 and $896 in 2019–20.\textsuperscript{96}


\textsuperscript{96} ibid., p. 9.
ACCC’s Guide to the Electricity Retail Code

In June 2019, the ACCC released the Guide to help retailers understand their obligations under the Electricity Retail Code. The Guide specifically deals with:

- which retail electricity offers are covered
- how the cap on standing offer prices works
- how offers must be compared to the reference price
- how conditional discounts can be presented
- the consequences of non-compliance.

The Guide provides some examples of how retailers are to calculate and compare their offers to the DMO reference price determined by the AER. Two of these examples for residential and small business flat rate offers are presented below. More simplified examples for controlled load, and time of use offers are contained in the Guide.97

The AER sets separate price caps for small business customers and residential customers with a flat rate tariff for the distribution regions. Examples 1 and 2 show that the same method is used to check whether the standing offer price exceeds the price cap for both customer types. If the annual price calculated using the AER model usage amount is equal to or less than the relevant price cap, the standing offer is compliant with the Electricity Retail Code. In example 1, the annual price of $1223 is less than the reference price of $1467, so it is compliant with the Electricity Retail Code. In example 2, the annual price of $5730 is less than the reference price of $7371, so it is also compliant with the Electricity Retail Code.98

<table>
<thead>
<tr>
<th>Example 1</th>
<th>Residential flat rate</th>
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<tbody>
<tr>
<td></td>
<td>Ausgrid distribution region</td>
</tr>
<tr>
<td>Supply charge</td>
<td>365 days</td>
</tr>
<tr>
<td>General usage (AER model annual usage)</td>
<td>3900 kWh</td>
</tr>
<tr>
<td>Annual price</td>
<td></td>
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<tr>
<td>AER reference price</td>
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<tr>
<th>Example 2</th>
<th>Small business flat rate</th>
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<tr>
<td></td>
<td>Ausgrid distribution region</td>
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<tr>
<td>Supply charge</td>
<td>365 days</td>
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<td>General usage (AER model annual usage)</td>
<td>20000 kWh</td>
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<td>Annual price</td>
<td></td>
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<tr>
<td>AER reference price</td>
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</tbody>
</table>

The Guide also provides some examples of advertising under the Electricity Retail Code to which the ACCC is unlikely to object. These are presented below.

98 ibid.
The ACCC will be monitoring and enforcing retailers’ compliance with the Electricity Retail Code. As discussed in section 1, we will also continue to enforce the ACL against any retailer making false or misleading representations or engaging in misleading or deceptive conduct. Consumer and competition issues arising from opaque and complex pricing of essential services in energy are a current enforcement priority for the ACCC.\(^9\)

### 3.2. VDO and other reforms in VIC

Similarly to retailers in SA, NSW and SEQ, retailers in Victoria were free to set their own prices for electricity plans prior to 1 July 2019. In the REPI, the ACCC highlighted that the concerns that had arisen in respect of retailer pricing and advertising in SA, NSW and SEQ (see section 3.1) were also present in Victoria.\(^10\) These issues had also been highlighted in an independent review of electricity and gas retail markets in Victoria that was undertaken by John Thwaites, Terry Mulder, and Patricia Faulkner (the Thwaites Review).\(^11\)

The Thwaites Review handed down its final report in August 2017, providing 11 recommendations designed to make Victoria’s retail energy markets fair.\(^12\) Recommendations 1A and 2A proposed the introduction of a Basic Service Offer, described as a basic, ‘no frills’ unconditional offer, available if requested by a customer. The Victorian Government’s response to these recommendations was to require electricity retailers to offer a fair price for electricity, to be called the VDO to replace costly standing offers.

The ESCV was issued a terms of reference in December 2018 to provide advice on a methodology and price for the VDO. The ESCV published its draft advice on 8 March 2019\(^13\) and provided its final advice to the Victorian Government on 3 May 2019.\(^14\) The ESCV’s approach to determining the VDO is outlined in greater detail below.

From 1 July 2019, all Victorian licensed electricity retailers are required to offer the VDO to households and small businesses. Customers on standing offers should have been automatically transferred to the VDO, while other customers can ask their retailers to be switched onto the VDO.

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\(^10\) ACCC, Restoring electricity affordability and Australia’s competitive advantage, Retail electricity pricing inquiry—final report, June 2018, p. 261.


\(^12\) ibid., pp. xi–xiii.

\(^13\) ESCV, Victorian default offer to apply from 1 July 2019—Draft advice, 8 March 2019.

\(^14\) ESCV, Victorian default offer to apply from 1 July 2019—Advice to Victorian Government, 3 May 2019.
While the Electricity Retail Code requires retailers to advertise all offers as a percentage difference from the DMO reference price\(^{105}\), the reforms in Victoria require retailers to use the VDO as the reference price for any discounted market offers.\(^{106}\) Retailers need to state (in dollar or percentage terms) how the discounted market offer compares to the estimated annual cost of the VDO.\(^{107}\)

As further discussed in section 3.4, the Victorian Government’s intention is that retailers use the VDO as a reference price for advertised discounts to make it easier for customers to compare discounts.\(^{108}\) Retailers operating in Victoria are not subject to the Electricity Retail Code requirements, including the prohibition on retailers using conditional discounts as their headline price.

A number of other reforms recommended in the Thwaites Review also came into effect in Victoria on 1 July 2019, including:

- Retailers must tell customers whether they are on the best energy plan available by that retailer, and how much the customer could save by switching to the better plan.\(^{109}\)
- Retailers have to provide customers with a fact sheet showing key information about available energy offers, for both electricity and gas. The form and content of the fact sheet is based on the requirements of the AER’s Basic Plan Information Document (BPID). The Victorian energy fact sheet is to include a comparison table that uses typical customer usage profiles to estimate annual costs under the plan to help consumers compare alternatives.\(^{110}\)

**ESCV’s determination of the VDO**

The ESCV has taken a bottom-up, cost-based approach to determining the VDO tariffs. The elements that make up the ESCV’s cost-based methodology include:

- wholesale costs—including hedging costs and network losses for electricity
- network costs—which are directly taken from revenue determinations by the AER
- environmental policy costs—including national renewable energy schemes and the Victorian Energy Upgrades program
- other costs—such as retail licence fees and AEMO fees
- retail costs—this includes both the retail operating costs and customer acquisition and retention costs
- retail margin—which is applied to all underlying costs.\(^{111}\)

These cost stack elements are then converted into supply and usage tariffs. These tariffs (as outlined below) include a flat tariff for each distribution zone in Victoria, comprising a daily supply charge and a per KWh usage charge. For domestic customers, the tariffs also include a controlled load tariff available to customers with a controlled load.

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\(^{105}\) Electricity Retail Code, section 12.

\(^{106}\) Order S 208 under Section 13 of the Electricity Industry Act 2000, 30 May 2019, clause 15.

\(^{107}\) ibid.

\(^{108}\) ESCV, Ensuring energy contracts are clear and fair—Issues paper, 5 June 2019, p. 22.

\(^{109}\) ESCV, Consequential amendments related to the Victorian Default Offer—Final decision, 13 June 2019.


\(^{111}\) ESCV, Victorian Default Offer to apply from 1 July 2019—Advice to Victorian Government, 3 May 2019, p. 20.
The ESCV estimated the following savings for customers following the implementation of the VDO:

A typical household on a standing offer and using 4,000 kWh of electricity per year would see a reduction in their electricity bill of between $310 and $450 per year, compared to the median standing offer in their distribution zone.

A typical small business on a standing offer and using 20,000 kWh of electricity per year would see a reduction in their annual electricity bills of between $1,380 and $2,050, when compared with the median standing offer in their distribution zone.112

The VDO, when converted into an annual price amount, is set at a level that is relatively lower than DMO prices determined by the AER. This is consistent with the different policy objectives of the VDO and DMO. The stated purpose of the VDO is to provide customers with universal access to a ‘fair’ price.113 In comparison, the DMO is described as a ‘fall-back position’ and is intended to act as a cap for the price of default offers to limit the ‘loyalty tax’ that is levied on disengaged consumers.114 The key policy objective of the DMO price is to mitigate the impact of unjustifiably high prices for standing offer customers while allowing scope for continued competition in market offers.115

3.3. Retail offer pricing

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112 ESCV, Victorian default offer to apply from 1 July 2019, Advice to Victorian Government, 3 May 2019, p. 3.
114 ACCC, Submission to ESCV, Victorian default offer to apply from 1 July 2019—draft advice, 4 April 2019, p. 2.
115 AER, Draft Determination—default market offer price, February 2019, p. 17.
There has been considerable commentary by a range of interested parties concerning the potential effect of the reforms to retailer pricing and advertising that took effect on 1 July 2019. In December 2018 the AEMC made the following observations on how retailers may respond in the short term to the introduction of a default offer:

1. Retailers may vary the base rate for their existing market contracts to ensure no loss of revenue. The AEMC notes that this may lead to market offer customers paying a higher price depending on their usage patterns and the conditions of the discount.

2. Retailers may vary the discount rate to ensure no loss of revenue from the default offer (if lower). While this may not increase the final bill of a consumer, the AEMC considers it is likely to lead to confusion and mistrust.

3. Retailers may maintain the existing discount to the default offer and lose revenue. The AEMC notes that some retailers may have no option but to lose revenue, and for smaller retailers, this margin squeeze may lead to them exiting the market.\(^\text{116}\)

On the spread of market offers, the AEMC observed that the ‘degree of compression in offers depends upon the proportion of customers on standing offers in each jurisdiction and the proportion of market offer customers with only small discounts. Jurisdictions with a larger proportion of customers on standing offers will see a greater compression of offers under a default offer as a larger revenue shortfall is spread across fewer customers on discounted offers’.\(^\text{117}\) We note that, in a vigorously competitive market, retailers who increase their market offer prices in an attempt to increase their revenue would be likely to lose customers to competing retailers with cheaper offers.

In the lead up to 1 July 2019, some retailers made announcements about their intended changes to retail electricity prices. For example:

- On 7 June 2019 Origin stated that it was going beyond what is required with the implementation of the DMO, announcing a reduction in prices for residential and small business customers on standing offers as well as customers on time-of-use tariffs and non-discounted plans from 1 July 2019. Origin promised that residential and small business standing offer and non-discounted plan customers in SA would continue to pay less than the DMO. It also announced that lower priced discounted market offers would not be increased as part of the annual 1 July tariff review.\(^\text{118}\)

- On 13 June 2019 AGL announced that, in addition to reducing prices for standing offer customers with the implementation of the DMO, it would reduce prices on its non-flat rate standing offer tariffs. AGL also noted that its new market offers would feature a guaranteed (unconditional) discount option.\(^\text{119}\) On 17 June 2019 AGL also announced that its electricity prices for Victorian standing offer customers would fall by an average of 21 per cent with the implementation of the VDO. It also noted that it would reduce prices for its non-flat rate standing offer customers in Victoria. AGL stated that electricity prices will not change on 1 July 2019 for customers on market offers across Victoria, and in the areas of SA, NSW and Queensland covered by the DMO.\(^\text{120}\)

- On 1 July 2019 EnergyAustralia stated that it intends to reduce the number of electricity plans it offers, move to fixed prices for the term of contracts, remove conditional discounts such as pay-on-time discounts, and apply non-conditional discounts to the entire bill, rather than just the usage component.\(^\text{121}\)

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\(^\text{117}\) ibid., p. 35.

\(^\text{118}\) Origin, *Origin cuts electricity prices for more than half a million customers*, media release, 7 June 2019.

\(^\text{119}\) AGL, *AGL cuts prices for electricity standing offer customers with implementation of DMO*, media release, 13 June 2019.

\(^\text{120}\) AGL, *AGL cuts electricity prices for Victorian families and businesses on standing offers*, media release, 17 June 2019.

\(^\text{121}\) EnergyAustralia, *Simpler, fairer energy deals on the way*, media release, 1 July 2019.
We note that, at the time of writing this report, less than a month has passed since the DMO, VDO and new requirements for advertising came into effect. We are also conscious that other factors will have influenced changes made by retailers to their electricity plans. For example, network cost determinations from 1 July will also have an impact on retail prices. More time and information is needed to draw conclusions about the effect of the reforms. Nevertheless, we consider it important to present what we have observed to date in this report, with the intention to undertake more detailed analysis of the factors influencing retailer pricing and advertising in future reports.

Data and methodology

We have used Energy Made Easy data provided by the AER for our analysis of offers made by retailers in SA, NSW and SEQ. Under the AER’s Retail Pricing Information Guidelines, retailers must keep the Energy Made Easy database updated with all of their generally available offers. Given the limited time available, we have focused on changes to residential flat rate standing and market offers, and limited our analysis to offers covered by the DMO. We have applied the same annual usage amounts that were used by the AER in its final determination of the DMO prices for each distribution region and type of offer in order to calculate the annual price of offers. The annual price includes any charges, unconditional discounts (to the extent they are present), annual recurring fees such as membership, and contribution fees and recurring metering charges (if the metering charge is a range, the upper end charge is used).

Because Energy Made Easy does not include offers made available by retailers to consumers in Victoria, we have instead used data from Victorian Energy Compare, which has been provided by the DELWP. For all Victorian distribution zones we adopted an annual usage of 4000 kWh, the same example amount used by the ESCV in its advice to the Victorian Government in relation the VDO.

The analysis in this report focuses on four measures: the minimum, maximum, median and the spread in annual price by distribution zone, where the spread is defined as the difference between the maximum and minimum price. For market offers, the annual price is calculated based on an assumption that all available discounts (including conditional discounts) are achieved. Section 3.4 discusses the use of conditional discounts in more detail, observing that retailers have moved away from offering conditional discounts after 1 July 2019.

Standing offers

One of the requirements of the Electricity Retail Code is that retailers in SA, NSW and SEQ must not price their standing offers above the DMO prices determined by the AER. In Victoria, retailers must replace their standing offers with the VDO determined by the ESCV.

Recent figures, presented in Table 3.1 below, show that that there were around 680 000 (12 per cent) residential and 114 000 (22 per cent) small business customers on standing

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122 Energy Made Easy data was sourced from the website https://www.energymadeeasy.gov.au.
123 AER, Default market offer price 2019-2020, Final determination, April 2019, pp. 89-90.
124 Victorian Energy Compare data was sourced from the website https://compare.energy.vic.gov.au/.
125 ESCV, Victorian Default Offer to apply from 1 July 2019, Advice to Victorian government, 3 May 2019.
126 Figure F in the final REPI report shows that in 2016-17, residential customers achieved conditional discounts 74 per cent of the time (See: ACCC, Restoring electricity affordability and Australia’s competitive advantage, Retail electricity pricing inquiry—final report, June 2018, p. xii).
127 Electricity Retail Code, sections 10 and 16.
128 Order S 208 under Section 13 of the Electricity Industry Act 2000, 30 May 2019, clauses 6 and 10.
offers in SA, NSW and SEQ. In Victoria, there were around 126 031 (5 per cent) residential and 43 279 (16 per cent) small business customers on standing offers.

Table 3.1: Number of customers on standing and market offers

<table>
<thead>
<tr>
<th>Number of customers</th>
<th>NSW</th>
<th>SEQ</th>
<th>SA</th>
<th>Victoria*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Residential standing offers</td>
<td>421 773</td>
<td>192 311</td>
<td>67 125</td>
<td>126 031</td>
</tr>
<tr>
<td>Residential market offers</td>
<td>2 760 818</td>
<td>1 197 484</td>
<td>709 259</td>
<td>2 394 589</td>
</tr>
<tr>
<td>Total residential</td>
<td>3 182 591</td>
<td>1 389 795</td>
<td>776 384</td>
<td>2 520 620</td>
</tr>
<tr>
<td>Residential per cent standing</td>
<td>13%</td>
<td>14%</td>
<td>9%</td>
<td>5%</td>
</tr>
<tr>
<td>SME standing offers</td>
<td>74 202</td>
<td>26 703</td>
<td>13 657</td>
<td>43 279</td>
</tr>
<tr>
<td>SME market offers</td>
<td>250 966</td>
<td>79 518</td>
<td>74 576</td>
<td>227 212</td>
</tr>
<tr>
<td>Total SME</td>
<td>325 168</td>
<td>106 221</td>
<td>88 233</td>
<td>270 491</td>
</tr>
<tr>
<td>SME per cent standing</td>
<td>23%</td>
<td>25%</td>
<td>15%</td>
<td>16%</td>
</tr>
</tbody>
</table>


As shown further below, the majority of standing offers were generally above the DMO and VDO prior to 1 July 2019. We observe that the majority of these standing offers have reduced after 1 July 2019, meaning that many standing offer customers will have had a price reduction.

**DMO distribution zones**

Figure 3.2 below shows the annual price for residential flat rate standing offers in DMO distribution zones as at 1 June 2018, 1 June 2019 and 12 July 2019. Prior to July 2019, the median standing offer was above the DMO price (shown by a red dashed line) in every distribution zone, and most standing offers were substantially above the DMO price. As at 12 July 2019, most standing offers are shown to be at or below the DMO price, and the median price has dropped in every distribution zone.
The reduction in the price of residential flat rate standing offers represents a substantial saving to many of these customers. Based on movements in the median from 1 June 2018 to 12 July 2019, annual savings are estimated to be between $130 (NSW Ausgrid distribution zone) and more than $190 (SA Power Networks distribution zone). This report does not include analysis of small business standing offers, but as noted previously, the AER estimated annual savings for those customers to be between $457 and $896 with the introduction of the DMO.\(^{131}\)

We note that there are a small number of retailers that appear to have standing offers above the DMO as at 12 July 2019. The ACCC has contacted retailers in question and requested them to address the potential breach immediately. We will continue to monitor this closely, and if further non-compliance occurs, we will consider our enforcement options. A civil penalty of 300 penalty units may be applied for each day and occurrence of non-compliance with the Electricity Retail Code, with the value of a penalty unit currently set at $210, equating to $63,000 for every day and occurrence of breaches.\(^{132}\)

Figure 3.3 below shows the annual price for residential flat rate standing offers in a similar way to figure 3.2, but only those available from the ‘tier 1’ retailers AGL, EnergyAustralia and Origin. As at 12 July 2019, all of the standing offers available from these three retailers are

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\(^{132}\) Electricity Retail Code, section 10(2).
at or below the DMO price. The DMO price is substantially below the median price of standing offers before 1 July 2019, and so represents a significant saving to many residential standing offer customers of the three retailers. Annual savings to a customer paying the median standing offer for AGL, EnergyAustralia and Origin at 12 July 2019 compared to 1 June 2018 range from just over $60 (SA Power Networks distribution zone) to more than $180 (NSW Endeavour distribution zone).

**Figure 3.3:** AGL, EnergyAustralia and Origin residential flat rate standing offers available in DMO distribution zones as at 1 June 2018, 1 June 2019 and 12 July 2019

Source: ACCC and AER analysis of Energy Made Easy data.

**VDO distribution zones**

Figure 3.4 shows annual prices for residential flat rate standing offers in Victoria. We observe similar trends to the DMO distribution zones, although there is a greater reduction in prices in Victoria after 1 July 2019, which is consistent with the VDO being set at a relatively lower level than the DMO due to the different policy objectives previously discussed.
The reduction in the prices of residential flat rate standing offers represents a significant saving to many of these customers. Based on movements in the median from 1 June 2018 to 15 July 2019, annual savings are estimated to be between just over $310 (Citipower distribution zone) to more than $430 (AusNet distribution zone). This report does not include analysis of small business standing offers, but the ESCV had estimated annual savings of between $1380 and $2050 for small business standing offer customers.\(^{133}\)

We note that there are a small number of retailers that appear to have standing offers above the VDO as at 15 July 2019. The ESCV has recently stated that it has contacted the retailers in question and requested them to address the potential breach immediately.\(^{134}\)

Figure 3.5 shows the annual prices for residential flat rate standing offers available from AGL, EnergyAustralia and Origin in Victoria. As at 15 July 2019, all of the standing offers available from these three retailers are at or below the VDO price. Again this represents a significant saving to many residential standing offer customers of the three retailers. Annual savings to a customer paying the median standing offer of AGL, EnergyAustralia and Origin at 15 July 2019 compared to 1 June 2018 range from just over $324 (Citipower distribution zone) to almost $480 (Powercor).

\(^{133}\) ESCV, Government accepts regulator’s advice on fair electricity price, media release, 30 May 2019.

\(^{134}\) ESCV, Our energy priorities for the 2019-20 financial year, media release, 23 July 2019.
Figure 3.5: AGL, EnergyAustralia and Origin residential flat rate standing offers in Victoria as at 1 June 2018, 1 June 2019 and 15 July 2019

Market offers

Overall, the spread of residential flat rate market offers has either remained relatively unchanged or reduced in the DMO distribution zones as at 12 July 2019 compared to 1 June 2019. In some instances, the cheapest market offers have increased as at 12 July 2019 compared to 1 June 2019, but remain lower than levels seen at 1 June 2018.

In VDO distribution zones, the spread has increased substantially as at 15 July 2019 compared to 1 June 2019. The cheapest market offers have either decreased or remained steady. In Victoria the most expensive market offers have increased, but this increase is driven by a large number of higher priced offers from a single retailer, 1st Energy.

DMO distribution zones

Figure 3.6 below shows the residential flat rate market offers available by all retailers in each of the DMO distribution zones. Across most distribution zones, the spread of market offers has either remained relatively steady or slightly reduced as at 12 July 2019 compared to 1 June 2018 and 1 June 2019. Where there has been a reduction in the spread, it is generally driven by an increase in the cheapest market offers available as at 12 July 2019 compared to the previous periods. In SA, the most expensive market offer also decreased substantially.
Figure 3.6: All retailers’ flat rate market offers available in DMO distribution zones as at 1 June 2018, 1 June 2019 and 12 July 2019

Source: ACCC and AER analysis of Energy Made Easy data.

Looking at the results on a state-by-state basis:

- In NSW, the overall spread of market offer prices had remained relatively stable or decreased as at 12 July 2019 compared to 1 June 2019. From 1 June 2019 to 12 July 2019, the spread in prices changed by less than 5 per cent in the Ausgrid and Endeavour distribution zones, but decreased by 12 per cent in the Essential distribution zone. The cheapest offer remained relatively unchanged in the Ausgrid and Endeavour distribution zones, but increased by $71 in the Essential distribution zone.

- In SA, the spread of market offer prices had decreased as at 12 July 2019 compared to 1 June 2018 and 1 June 2019. From 1 June 2019 to 12 July 2019, the spread decreased by 36 per cent. This was due to the combined effect of a $136 decrease in the most expensive market offer and an $87 increase in the cheapest market offer.

- In SEQ, the spread of market offer prices had decreased slightly (by 5 per cent) as at 12 July 2019 compared to 1 June 2019. The cheapest market offer has increased by around $26 as at 12 July 2019 compared to 1 June 2019, although it remained lower than the cheapest offer available as at 1 June 2018.

While there remain residential flat rate market offers above the DMO price in all distribution zones, the number of offers above the DMO price has decreased. This outcome is not unexpected given the new advertising requirements introduced by the Electricity Retail Code. In particular, retailers are required to advertise market offers with reference to the
DMO price\textsuperscript{135}, which may discourage retailers from making higher priced market offers available.

Importantly, there remains a significant number of market offers below the DMO and this means that customers who do shop around can potentially make significant savings on their electricity costs. With that said, there has been a more notable reduction in the spread of residential flat rate market offers available from the tier 1 retailers AGL, EnergyAustralia and Origin in most distribution zones, due in part to an increase in their cheapest offers as discussed below. It follows that customers who do shop around should consider looking at other retailers to see if they have the best deals for their circumstances.

\textit{VDO distribution zones}

Figure 3.7 below shows the spread of residential flat rate market offers available from all retailers in Victoria, where the VDO applies. In contrast to the DMO distribution zones, both the spread in market offers and the highest priced market offer have increased in all distribution zones.

Increases in the spread between 1 June 2019 and 15 July 2019 range from 11 per cent (United distribution zone) to more than 40 per cent (Jemena distribution zone). However, this increase is driven by a single retailer (1st Energy), which has introduced a significant number of higher priced market offers in every Victorian distribution zone. If 1st Energy offers are excluded, then the spread is lower as at 15 July 2019 compared to 1 June 2019.

Trends in the cheapest market offers are more mixed. The cheapest offer has decreased by $21, $41 and $19 in the Citipower, Jemena and Powercor distribution zones respectively as at 15 July 2019 compared to 1 June 2019, but remained unchanged in the AusNet and United distribution zones.

\textsuperscript{135} Electricity Retail Code, section 12.
We note that a number of residential flat rate market offers remain available above the VDO as at 15 July 2019. While retailers in the DMO distribution zone are required to compare all offers to the DMO prices, retailers in Victoria are expected to compare discounted market offers to the VDO. It is unclear at this stage what the impact of this difference is. However, the interpretation of the requirements as well as the level at which each of the DMO and VDO is set will undoubtedly have an impact on the incentives of retailers to have market offers priced above the DMO and VDO. We will be monitoring and reporting on the impact of these and other differences in requirements in future reports.

A look at the change in market offers available from AGL, EnergyAustralia and Origin compared to the overall market

The AEMC recently observed that the number of retailers had increased across the NEM and smaller retailers were starting to increase their market share with the greatest increase in switching rates being from the tier 1 retailers AGL, EnergyAustralia and Origin to tier 2 retailers. As noted by the AEMC, this provides an insight into how effectively the incumbent retailers are competing for customers.

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136 Electricity Retail Code, section 12.
137 Order S 208 under Section 13 of the Electricity Industry Act 2000, 30 May 2019, clause 15.
139 ibid., p. 37.
**DMO distribution zones**

Figure 3.8 below shows only the residential flat rate market offers available from tier 1 retailers AGL, EnergyAustralia and Origin in the DMO distribution zones. In comparison to the results for the overall market shown in figure 3.5, these three retailers have seen a much larger decrease in the spread of market offers. From 1 June 2019 to 12 July 2019, the spread fell by around 40 to 60 per cent in NSW, by over 50 per cent in SEQ and by 28 per cent in SA. This was due to a combination of the removal of market offers that were above the DMO and an increase in the price of the cheapest market offers available. For example, the most expensive market offer available fell in price by $55 in SA, $75–$175 in NSW and by over $110 in SEQ. The cheapest market offer available increased by $55 in SA, $70–$130 in NSW and by $70 in SEQ.

**Figure 3.8:** AGL, EnergyAustralia and Origin residential flat rate market offers available in DMO distribution zones as at 1 June 2018, 1 June 2019 and 12 July 2019

Based on these results, the cheapest residential flat rate market offers available in SA, NSW and SEQ are those offered by some of the smaller retailers. This is further illustrated by figure 3.9 below, which compares the median and spread of residential flat rate market offers for all retailers to those of the three tier 1 retailers. We encourage customers who shop around for a new electricity plan to check the offers of smaller retailers, which may provide a better deal for their circumstances compared to the three tier 1 retailers.
In NSW and SEQ, AGL, EnergyAustralia and Origin have increased the price of their cheapest market offers between 1 June and 12 July 2019 to a noticeably larger extent compared to the rest of the market. Other retailers’ cheapest offers have not displayed the same shift, such that the cheapest market offers in these states are now more likely to be offered by smaller retailers. The ACCC is investigating the pricing strategies of the tier 1 retailers.

**Figure 3.9:** AGL, EnergyAustralia and Origin flat rate market offers compared to all retailers as at 1 June 2018, 1 June 2019 and 12 July 2019

Source: ACCC and AER analysis of Energy Made Easy data.

**VDO distribution zones**

Figure 3.10 shows the residential flat rate market offers available from tier 1 retailers AGL, EnergyAustralia and Origin in Victoria. Similar to the DMO results shown in figure 3.8, these three retailers have seen a large decrease in the spread of market offers. From 1 June 2019 to 15 July 2019, the spread in prices fell by around 70 to 80 per cent across the distribution zones. This was due to a large fall in the highest priced market offers. The price decrease of the most expensive offer of the three tier 1 retailers from 1 June 2019 and 15 July 2019 ranges from about $320 (Citipower) to almost $480 (Powercor). As at 15 July 2019, none of the market offers for tier 1 retailers was above the VDO level.
Unlike the DMO areas, where tier 1 retailers increased the price of their cheapest offer, in Victorian zones results are more varied. EnergyAustralia has reduced the price of its cheapest offer at 15 July 2019 compared to 1 June 2019 in all distribution zones. AGL and Origin Energy have reduced their cheapest offers in some zones, but increased them in others.

Figure 3.11 below compares the median and spread of residential flat rate market offer prices for all retailers to those of the three tier 1 retailers. This figure shows that there are substantially more affordable offers available with smaller retailers compared to tier 1 retailers. In Victoria, similar to the DMO regions, customers who shop around for a new electricity plan may benefit from checking the offers of smaller retailers, which may provide a better deal for their circumstances compared to the three tier 1 retailers.
3.4. Use of conditional discounting for market offers

One of the most common forms of competition between electricity retailers has been through the use of headline percentage-based discounts.\textsuperscript{140} In the REPI, the ACCC found that the practice had increased in recent years, to the point where advertised discounts were as high as 40 per cent, and were advertised across most sales channels.\textsuperscript{141} We also observed that many of these offers were conditional on, for example, a customer paying their bill on time or by direct debit. In the past we have raised concerns with the impact of conditional discounts, particularly on those consumers that can least afford the penalty of not achieving a discount.\textsuperscript{142}

We have observed a significant shift away from the use of conditional discounts by retailers after 1 July 2019. We have also noticed that, where headline discounts are presented, they are lower than before. This is not unexpected given the new advertising requirements implemented by the Australian Government and Victorian Government, as already

\textsuperscript{140} Of the 5940 gas and electricity retail market offers available across the NEM in March 2018, only 20 per cent had no price discounts. Over half of those market offers had at least one conditional discount (AEMC, 2018 Retail Energy Competition Review, 15 June 2018, p. 54).

\textsuperscript{141} ACCC, Restoring electricity affordability and Australia’s competitive advantage, Retail electricity pricing inquiry—final report, June 2018, p. 257.

\textsuperscript{142} ibid., p. 253.
discussed. As mentioned above, EnergyAustralia has already indicated that it will no longer use conditional discounts at all.

**DMO distribution zones**

Figure 3.12 below shows the distribution of flat rate market offers for residential customers in SA, NSW and SEQ before and after the introduction of the Electricity Retail Code on 1 July 2019. In each region, around 80 per cent of the market offers now have no conditional discounts. In NSW, about 75 per cent of market offers have no conditional discount after 1 July 2019, with the figure being around 80 per cent in SEQ and 85 per cent in SA. In contrast, as at 1 June 2019 in NSW (for example), only 46 per cent of market offers had no conditional discount. The percentage of market offers with no conditional discount in NSW was even lower in June 2018, at around 39 per cent.

**Figure 3.12: Conditional ‘headline’ discounts for residential market offers (NSW, Queensland and SA) from 1 June 2018 to 12 July 2019**

Source: ACCC and AER analysis of Energy Made Easy data.

As noted above, among market offers which still have advertised conditional discounts, the level of the percentage discount has also decreased. In NSW, for example, the average discount level for market offers with a conditional discount was 22 per cent at 1 June 2019, compared to 16 per cent at 12 July 2019. Therefore, not only are retailers making less use of conditional discounts, but when they are used, discounts tend to be lower than the levels present before 1 July 2019.

This is not unexpected given that retailers are now required to compare their prices to the DMO, which acts as a consistent benchmark or reference price, rather than being able to inflate their base rates in order to advertise a high discount and so give the illusion of a cheaper offer. For example, figure 3.13 below shows the price of market offers on 1 June 2019 in the Ausgrid (NSW), Energex (SEQ) and SA Power Networks distribution zones that have a conditional discount. The prices displayed are before the conditional discount is applied. Most of these market offers are above the DMO price, shown by the horizontal dashed line.
Figure 3.13: Market offers with conditional discount (before discount is applied) as at 1 June 2019

Source: ACCC and AER analysis of Energy Made Easy data.

It is a positive development that customers who do shop around can now have greater confidence that discounts advertised on retailers’ websites are a fairer reflection of how the prices compare to other deals. There has been a significant shift away from the use of conditional discounts and of high advertised discounts. However, this has generally not resulted in retailers substantially increasing the price of their offers to the levels of non-discounted offers before 1 July 2019. While some retailers have increased the price of their cheapest market offers, overall there continue to be many lower priced market offers available, often with smaller retailers.

Interestingly, while there appears to have been a shift away from the use of conditional discounts, some retailers seem to instead advertise offers with eligibility criteria. For example, as highlighted later in this section, Origin has advertised certain offers that are available only to customers who sign up online. The ACCC considers that changes by retailers that increase the transparency and certainty of prices that customers are likely to face when signing up to an electricity plan are a positive step. However, the ACCC also notes that retailers should be careful to ensure that ‘eligibility criteria’ are not used in such a way that they breach requirements of the Electricity Retail Code concerning conditional discount advertising. The ACCC intends to monitor these practices to ensure that they are in compliance with the requirements and are in the best interests of consumers.

VDO distribution zones

Similar trends can be seen in relation to the use of conditional discounting by retailers in Victoria. Figure 3.14 below shows that the proportion of market offers with no conditional discount has increased considerably. As at 1 July 2019, more than 60 per cent of residential flat rate market offers in Victoria had no conditional discount. In comparison, the proportion of market offers with no conditional discount was around 40 per cent at 1 June 2019 and 20 per cent as at 1 June 2018.

143 Electricity Retail Code, section 14.
Between June 2018 and July 2019, there was also a significant fall in the share of market offers in Victoria with conditional discounts in excess of 40 per cent. In June 2018, over 10 per cent of the residential flat rate market offers had a conditional discount of 40 per cent or more. This decreased to around 1 per cent of market offers in July 2019.

In contrast to the DMO jurisdictions, Victorian retailers are not prohibited from using conditional discounts as their headline price. However, the Victorian Government’s intention is that retailers use the VDO as a reference price for advertised discounts to make it easier for customers to compare discounts.\(^{144}\)

### 3.5. Changes in the presentation of offers by retailers

Since the introduction of the Electricity Retail Code and other reforms on 1 July 2019, retailers have changed the way they advertise offers to customers. Some examples are provided below of how the presentation of offers by retailers have changed from before 1 July 2019 to shortly thereafter.

**Advertising for NSW, SA, and SEQ customers**

Under the Electricity Retail Code, retailers must present their offers in comparison to the DMO reference price determined by the AER.\(^ {145}\) Retailers must display the difference between the unconditional price of the offer and the reference price, expressed as a percentage of the reference price.\(^ {146}\) Retailers must also state the ‘lowest possible price’ for the offer, which includes conditional discounts.\(^ {147}\) In addition, when advertising a conditional discount, retailers must not display the conditional discount as the most prominent price

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144 ESCV, *Ensuring energy contracts are clear and fair*, Issues paper, 5 June 2019, p. 22.
145 Electricity Retail Code, sections 12 and 16.
146 ibid., section 12(3).
147 This lowest possible price can be customised to a customer’s estimated usage if the retailer is making a tailored offer.
related element of the advertisement and must clearly and conspicuously state the conditions of the conditional discount.\textsuperscript{148}

Below are some examples of advertisements on AGL, EnergyAustralia and Origin’s websites before and after the Electricity Retail Code came into effect on 1 July 2019. These advertisements are included as examples of how retailers are changing their advertising practices and are not intended to be provided as ‘model’ advertisements of how we expect retailers to comply with the Electricity Retail Code.

There are several points to note about the pre 1 July 2019 example advertisements:

- where there are discounts, these are only off usage rates
- discounts are conditional on the customer paying on time
- comparing offers is difficult as advertised discounts are calculated from inconsistent base rates. In the case of Origin, the offer with no discount appears to be the cheapest
- monthly price estimates are based off different usage levels.

\textit{Pre 1 July}

![Advertisements example](https://www.originenergy.com.au)


\textsuperscript{148} Electricity Retail Code, section 14.
The main changes that are apparent in the advertisements post 1 July 2019 are that offers are advertised with reference to common base rates and contain fewer, if any, conditional discounts. Other points of note regarding the post 1 July advertisements are:

- the headline offer is shown as the difference from the reference price and so can be compared across offers and across retailers
- the most prominent discount is unconditional
- the annual price is based on the AER model annual usage amount and is therefore consistent across offers and retailers
- offers which are equal to the reference price are the most expensive.

The examples from after 1 July 2019 also show that retailers are still advertising offers in different ways, but the reforms ensure that the same basic information is provided to customers (a comparison to the reference price, the lowest possible price, and clear conditions of any conditional discounts).
Post 1 July


We are monitoring the advertising and communication of electricity plan information in SA, NSW and SEQ to ensure compliance with the Electricity Retail Code and to identify any practices that may not be in the best interests of customers. This will inform whether any changes are needed to improve its effectiveness.

**Advertising for Victorian customers**

While retailers in the DMO distribution zones are required to compare all offers to the DMO prices, retailers in Victoria are expected to compare discounted market offers to the VDO. It is unclear at this stage what the impact of this difference is, but the interpretation of the requirements as well as the level at which the DMO and VDO are set will likely have an impact on how retailers advertise their offers.

Examples of advertisements from Origin and EnergyAustralia of offers post 1 July and in reference to the VDO are included below. We note that, as at the time of drafting, AGL was not including comparisons to the VDO on its website. These advertisements show the price of offers represented as a percentage amount of the VDO price.

Other points of note regarding these post 1 July advertisements are:

- the annual price is based on a typical residential annual consumption of 4000 kWh per year and is therefore consistent across offers and retailers
- offers which are equal to the reference price are the most expensive.

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149 Electricity Retail Code, section 12.
150 Order S 208 under Section 13 of the Electricity Industry Act 2000, 30 May 2019, clause 15.
Advertising of offers by retailers’ agents and retail comparator sites

The overarching objective of the new advertising requirements is to make it easier for customers to engage in the market, compare prices across offers and retailers and find the best deal for their circumstances. Importantly, making it easier for customers to engage in the market enhances competition, which is the best driver to lower prices.

According to research undertaken for the AEMC, price comparator websites are the second most common information source for consumers looking to switch energy plans, after internet searching. There are at least 19 commercial comparator sites offering energy

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Newgate Research, Consumer research for the AEMC’s 2017 Retail Energy Competition Review, April 2017, p. 27.
comparison services. Comparator sites therefore represent an important tool to help consumers navigate the market and electricity plans available.

Below are some examples of the approach taken by the commercial comparator website Canstar Blue from before and after 1 July 2019. Canstar Blue appears to be one of a few comparator websites displaying the Electricity Retail Code requirements post 1 July 2019. The ACCC considers that the approach taken by Canstar Blue is helpful for consumers by providing comparable information in line with the Electricity Retail Code requirements. The price estimate displayed for NSW, where the DMO and Electricity Retail Code applies, is the lowest possible price including conditional discounts, and conditions are noted. The price estimate displayed for Victoria shows both the comparison with the VDO amounts in percentage terms and the lowest price amount, in a similar manner to the regions where the DMO and Electricity Retail Code applies.

Display of offers in NSW on comparator site before 1 July 2019

<table>
<thead>
<tr>
<th>Electricity Provider</th>
<th>Electricity Plan</th>
<th>Discount</th>
<th>Annual Cost*</th>
<th>Important</th>
</tr>
</thead>
<tbody>
<tr>
<td>ReAmped Energy</td>
<td>ReAmped Handshake</td>
<td>0%</td>
<td>$1,412.41</td>
<td>Basic Plan Information</td>
</tr>
<tr>
<td>Energy Locals</td>
<td>Super Saver</td>
<td>0%</td>
<td>$1,427.99</td>
<td>Basic Plan Information</td>
</tr>
<tr>
<td>Origin Energy</td>
<td>Low Rate Plan</td>
<td>0%</td>
<td>$1,448.35</td>
<td>Basic Plan Information</td>
</tr>
<tr>
<td>EnergyAustralia</td>
<td>No Frills</td>
<td>0%</td>
<td>$1,452.20</td>
<td>Basic Plan Information</td>
</tr>
<tr>
<td>Simply Energy</td>
<td>Simply NRMA Plus</td>
<td>26%</td>
<td>$1,452.33</td>
<td>Basic Plan Information</td>
</tr>
<tr>
<td>Alinta Energy</td>
<td>Fair Deal 30</td>
<td>30%</td>
<td>$1,466.23</td>
<td>Basic Plan Information</td>
</tr>
</tbody>
</table>


Note: Price assumes general energy usage of 3900 kWh/year. Estimated price includes any conditional discounts that may be available. Pricing based on Ausgrid network in Sydney, but prices differ between distribution areas (July 2019).

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Display of offers in NSW on comparator site post 1 July 2019

<table>
<thead>
<tr>
<th>Electricity Provider</th>
<th>Electricity Plan</th>
<th>Difference from Reference Price^</th>
<th>Conditional Discounts</th>
<th>Price Estimate*</th>
</tr>
</thead>
<tbody>
<tr>
<td>ReAmped Energy</td>
<td>ReAmped Handshake</td>
<td>19% Less Than Reference Price</td>
<td>No conditional discounts</td>
<td>$1,192</td>
</tr>
<tr>
<td>Powershop</td>
<td>Shopper Market Offer</td>
<td>Equal To Reference Price</td>
<td>15% Less Than Reference Price for Pre-Payment</td>
<td>$1,250 incl. conditional discount</td>
</tr>
<tr>
<td>Origin Energy</td>
<td>Max Saver - Online Special</td>
<td>13% Less Than Reference Price</td>
<td>No conditional discounts</td>
<td>$1,279</td>
</tr>
<tr>
<td>EnergyAustralia</td>
<td>No Frills</td>
<td>12% Less Than Reference Price</td>
<td>No conditional discounts</td>
<td>$1,287</td>
</tr>
</tbody>
</table>


Display of offers in Victoria on comparator site before 1 July 2019

<table>
<thead>
<tr>
<th>Electricity Provider</th>
<th>Electricity Plan</th>
<th>Discount</th>
<th>Annual Cost*</th>
<th>Benefit Period</th>
</tr>
</thead>
<tbody>
<tr>
<td>Simply Energy</td>
<td>Simply RAV Plus</td>
<td>45%</td>
<td>$1,039.44</td>
<td>2 years</td>
</tr>
<tr>
<td>Allinta Energy</td>
<td>Fair Deal 43</td>
<td>43%</td>
<td>$1,093.89</td>
<td>1 year</td>
</tr>
<tr>
<td>GloBird Energy</td>
<td>EasySave</td>
<td>0%</td>
<td>$1,124.54</td>
<td>Ongoing</td>
</tr>
<tr>
<td>Powerdirect</td>
<td>Residential 41</td>
<td>41%</td>
<td>$1,128.69</td>
<td>2 years</td>
</tr>
<tr>
<td>Tango Energy</td>
<td>Home Select</td>
<td>0%</td>
<td>$1,130.45</td>
<td>1 year</td>
</tr>
<tr>
<td>Sumo Power</td>
<td>Residential 43</td>
<td>43%</td>
<td>$1,137.68</td>
<td>1 year</td>
</tr>
</tbody>
</table>

### Display of offers in Victoria on comparator site post 1 July 2019

<table>
<thead>
<tr>
<th>Electricity Provider</th>
<th>Electricity Plan</th>
<th>Difference from VDO</th>
<th>Conditional Discounts</th>
<th>Price Estimate&lt;sup&gt;™&lt;/sup&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tango Energy</td>
<td>Home Select</td>
<td>14% Less Than VDO</td>
<td>No conditional discounts</td>
<td>$1,149</td>
</tr>
<tr>
<td>GloBird Energy</td>
<td>EasySave</td>
<td>13% Less Than VDO</td>
<td>No conditional discounts</td>
<td>$1,157</td>
</tr>
<tr>
<td>Lumo Energy</td>
<td>Lumo Value 5</td>
<td>7% Less Than VDO</td>
<td>Further 5% Less Than VDO for Paying on Time and by Direct Debit</td>
<td>$1,174 incl. conditional discount</td>
</tr>
<tr>
<td>Elysian Energy</td>
<td>The Good Life</td>
<td>12% Less Than VDO</td>
<td>No conditional discounts</td>
<td>$1,178</td>
</tr>
</tbody>
</table>


The Electricity Retail Code requirements relating to advertising do not currently extend to the conduct of third party intermediaries except in circumstances where they are acting as agents for retailers. Nevertheless, as discussed in section 2 of this report, third party intermediaries, including commercial comparator sites, should present offers in a way that is easy for consumers to compare prices and make an informed decision about the best deal for their circumstances. We have called on the Australian Government to progress a mandatory code of conduct for energy comparator websites to address concerns that these services do not always present information that delivers the best outcomes for consumers.
4. Updated cost stack analysis for 2017–18

In the REPI, the ACCC collected information from retailers on costs from 2007-08 to 2016-17 and some forecast data for 2017-18. This section presents cost stacks (a breakdown of a retailer’s costs by category) for 2017-18 using finalised data collected from retailers, which will provide a benchmark for our future assessments.

The average electricity bill for a residential customer in the NEM in 2017-18 was $1549.
- Network and wholesale costs make up 42 per cent and 33 per cent of the cost stack respectively. This is followed by retail costs (11 per cent), environmental green schemes (8 per cent) and retail margin (6 per cent).

Network costs decreased in all regions from 2016-17 to 2017-18, by around $55 per customer or 7.8 per cent. However, these costs are still significant in SEQ (45 per cent), NSW (44 per cent) and Tasmania (42 per cent), and marginally lower in SA (37 per cent) and Victoria (39 per cent).

Wholesale costs significantly increased in every region from 2016-17 to 2017-18, by around $113 per customer or 28 per cent. Wholesale costs are most significant in Tasmania (41 per cent) and SA (39 per cent), with SA being the only region in 2017-18 where wholesale costs were a greater contributor than network costs. In other regions they were between 31 per cent (Victoria) and 36 per cent (SEQ).

Combined retail costs and margins are higher in Victoria and NSW, contributing 21 per cent and 18 per cent respectively to the average bill in those regions. They are relatively lower at between 8 per cent in Tasmania and 13 per cent in SEQ. These combined costs remained relatively steady or reduced slightly from 2016-17 to 2017-18.

Costs of environmental green schemes increased in every region except SEQ from 2016-17 to 2017-18, with these costs being highest in SA at 13 per cent and between 6 and 8 per cent in the other regions.

All cost components increased over the period between 2007-08 and 2017-18.
- Environmental costs were the largest cost increase driver over this period, accounting for 32 per cent of the overall cost increase.
- Network and retail component costs also increased significantly, accounting for 29 and 26 per cent of the total cost increase respectively.
- Wholesale costs accounted for 14 per cent of the total cost increase.

In our first report of the Inquiry, published in March 2019, we noted our intention to continue the cost stack analysis that was featured in the final REPI Report as this was identified by stakeholders as one of the most valuable insights provided.\textsuperscript{153} In particular, the cost stack analysis uses data obtained directly from retailers using our information gathering powers and is therefore not otherwise publicly available.

\textsuperscript{153} ACCC, Monitoring of supply in the National Electricity Market, March 2019 report, 15 March 2019, p. 42.
This section reproduces the cost stack analysis that was originally included in the final REPI report\textsuperscript{154}, but with finalised 2017–18 data obtained from retailers rather than forecast data that was available at the time. The purpose of this is to ensure that the starting point for our future ‘cost stack’ analysis is complete and accurate.

Because long-term trends were analysed in the REPI, this section focuses on the changes in cost stack data from 2016–17 to 2017–18 for residential and business customers, both on a NEM-wide basis and for each NEM-region. In addition, we have provided some additional detail on the retail costs component of the cost stack.

For completeness, this section also compares finalised 2017–18 cost stack data to the forecast data discussed in the final REPI report. In some instances, the finalised 2017–18 data differs from the forecast data.

All cost stack charts presented in this section can be found in Appendix C.

We expect to finalise our third report for the Inquiry before the end of 2019, which will present cost stack data for the 2018–19 financial year. Due to timing constraints, this data could not be collected and analysed in time for this report.

The remainder of this section is structured as follows:

- Section 4.1: Explanation of what a cost stack is and the ACCC’s methodology.
- Section 4.2: Residential customers
- Section 4.3: Business customers
- Section 4.4: Cost stack components.

4.1. Cost stacks: what are the components of retailers’ costs?

A cost stack represents the different cost and margin components that make up the amounts retailers charge their customers. It shows the contribution that each of the following components make to the overall customer bills:

- wholesale costs of purchasing electricity from the NEM (or of generation as relevant in the case of vertically integrated ‘gentailers’ or retailers owning generation assets), and of managing hedging and price exposure (rather than simply the cost of electricity on the spot market)
- costs charged by transmission and distribution network operators for the transmission and distribution of electricity
- costs of complying with environmental (green) schemes
- the costs of running a retail business
- a measure of profitability. We have again used earnings before interest, tax, depreciation and amortisation (EBITDA) in the analysis in this report.\textsuperscript{155}

We divide our analysis into a discussion of results for residential and business customers. However, retailers will not always make a clear distinction between customer types for all categories of costs—for example, a retailer may buy all of its wholesale energy on a combined basis, irrespective of whether the customer is residential or business. As noted in box 1.1 and section 4.3 below, this has necessitated applying allocation methodologies to the data.

\textsuperscript{154} ACCC, \textit{Restoring electricity affordability and Australia’s competitive advantage}, Retail electricity pricing inquiry—final report, June 2018, Chapters 1, 6, 10 and 18.

\textsuperscript{155} ibid., p. 4.
**Box 1.1: The ACCC’s cost stack data collection and analysis methodology**

**Data collection**

The ACCC used its compulsory information gathering powers to obtain actual cost stack data relating to the 2017–18 financial year from 18 current NEM electricity retailers. These retailers provided electricity to about 97 per cent of residential customers across the NEM in 2017–18.\(^{156}\)

Broadly, retailers were required to provide information on their revenue and usage, wholesale costs, network costs (transmission and distribution), environmental (green) scheme costs, and retail costs and margins. Various break-downs of these categories were provided although not all retailers were able to provide the exact same sub-categories.

Specifically, in relation to retail costs, namely costs to serve (CTS) and costs to acquire and retain (CARC), we modified our approach to data collection from that used in the REPI. We required retailers to state their costs attributable to a number of pre-defined categories (as identified in section 4.4 below). These categories constitute the largest common costs categories, based on our analysis of the 2016–17 retail operating costs data collected in the REPI. In the REPI, CTS and CARC costs were collected according to each retailer’s unique largest cost categories. As noted in the final REPI report, this resulted in some 95 and 50 unique CTS and CARC costs categories respectively.\(^{157}\) By applying our modified approach, there are now 15 categories across both CTS and CARC.

The ACCC sought information for three different customer types—residential, small to medium enterprise (SME) and commercial and industrial (C&I). Generally speaking, the ACCC found that data in relation to residential customers was more complete, but it has been able to draw some findings in relation to business customers.

Some retailers did not record certain categories of costs on a state-by-state basis or by customer type, and therefore applied allocation methodologies to estimate costs for the categories.

A number of retailers with generation assets provided information on their wholesale costs using a ‘transfer price’ methodology that reflected market prices for wholesale energy, rather than their actual generation costs. The ACCC has used these provided costs.

Due to data quality issues, the results presented in charts in this chapter exclude information about the ACT, and Queensland data only covers SEQ.

**Analysis methodology**

The ACCC examined the returned data for inconsistencies or potential errors, and checked it against other data sources such as public data from the AER. The ACCC engaged with retailers to clarify identified inconsistencies and errors. For this report, the ACCC also re-examined its methodology used for the final REPI report and made some minor changes regarding allocation of costs based on additional information that has since become available.

For its cost stack analysis, the ACCC used retailer revenue, cost and usage data to obtain measures of the total cost stacks for retailers.


A ‘dollar per customer’ measure was derived by dividing revenue and costs by numbers of customers. This can be considered a proxy for the annual amount that an average customer would pay for electricity. However, it is only a general representation due to significant usage differences between geographic regions, time periods and customer types.

A ‘cents per kWh’ measure was derived by dividing revenue and costs by usage. This can be considered a proxy for the effective price faced by an electricity user for a unit of electricity. It does not take into account usage differences between customers which can vary dramatically. Retail tariffs are often structured with a fixed fee component, which in this case is averaged over the usage.

We note that our measure of the average customer refers to the mean rather than the median or ‘typical’ customer used in some other studies. The distribution of residential electricity usage is positively skewed—that is, the average customer uses more than the ‘typical customer’. This is a result of a small number of customers with much higher than average electricity usage. Accordingly, some of the bills presented in the ACCC’s analysis may be higher than some bills in other studies.

Unless otherwise stated, the ACCC has presented real (inflation adjusted) numbers in this report, in 2017–18 dollars. NEM-wide graphs are volume-weighted by usage or customer numbers as relevant. GST is not included in the graphs presented.

The 2016–17 cost stack data used in this report was derived from data collected as part of the REPI.

While the costs of premium feed-in tariffs are typically recovered through network charges, the ACCC has adjusted the data to attribute these costs to the ‘environmental’ cost category, rather than network costs.

Percentage values in graphs may not sum to 100 due to rounding. Other values may similarly not sum due to rounding.

4.2. Residential customers

This section examines the cost stack components, and changes in those components from 2016–17 to 2017–18, for residential customers on a NEM-wide basis and then on a region-by-region basis. The impact of each cost stack component on the overall average customer bill is discussed in section 4.4.

NEM-wide cost stack

Figure 4.1 below presents the average relative contributions of each cost component that made up a residential customer bill in 2017–18.¹⁵⁸

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¹⁵⁸ The ACCC has based its calculations on the mean revenue figures provided by retailers for each year of data that was requested. The average revenue figures are somewhat different to estimates based on constructing a ‘representative customer bill’ based on median electricity usage.
Figure 4.1: Components of a residential customer bill across the NEM, 2017–18, $ per customer, real $2017–18, excluding GST

Figure 4.1 shows that, in 2017–18, the largest component of the residential customer bill was the cost incurred for transmitting electricity over transmission and distribution networks. This made up around 42 per cent of the overall bill. Wholesale energy costs made up 33 per cent. Retailers’ costs of operations made up 11 per cent, green scheme costs made up 8 per cent and the remaining 6 per cent is attributed to retailer EBITDA margin. This EBITDA margin reflects a level of return on the retailers’ operations and should in theory reflect the risks faced by retailers due to their operating and regulatory environment. The retailer EBITDA does not include margins for other parts of the supply chain such as wholesale generation.

The proportion that each cost component contributes to the overall cost stack presented here aligns with the forecast 2017–18 cost stack presented in the REPI.

The proportions of overall costs that can be attributed to particular cost components have changed from 2016–17 to 2017–18. Figure 4.2 below shows the changes in the average revenue per customer achieved by retailers that can be attributed to particular components over the period from 2016–17 to 2017–18. Figure 4.3 below shows the equivalent information on a cent per kWh basis. As noted in box 1.1, figure 4.2 incorporates the effect of changes in usage over time (where decreases in usage may offset some of the increases in bills) while figure 4.3 represents a proxy for the effective price changes for a unit of energy over the period.

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EBITDA may overstate the ‘true’ margin that a retailer obtains as it looks at returns before depreciation, amortisation, interest and tax are accounted for. To the extent that these are significant costs, their return will be lower than 8 per cent. Ideally, an assessment of return on capital should also be made, but the ACCC did not have information on capital employed for this report.

Figure 4.2: Change in average residential customer bill from 2016–17 to 2017–18, NEM-wide, real $2017–18, excluding GST

Source: ACCC analysis based on retailers’ data.

Figure 4.3: Change in average residential customer effective prices (c/kWh) from 2016–17 to 2017–18, NEM-wide, real $2017–18, excluding GST

Source: ACCC analysis based on retailers’ data.

Figure 4.2 shows that, on an annual dollar per customer basis, retailers’ data indicates that the amounts charged by retailers over the period from 2016–17 to 2017–18 have increased
in real terms by $17 or 1 per cent. Figure 4.3 similarly shows that, on a cent per kWh basis, there was a price increase of approximately 4 per cent in real terms.

The difference in magnitude between these two figures is due to a decrease in average electricity usage from 2016–17 to 2017–18 of approximately 3 per cent. The decline in average usage is driven by various factors. The primary factor is the increase in the number of consumers with solar PV from 13 per cent in 2016–17 to 14 per cent in 2017–18. Households with solar panels installed will likely have lower grid-based usage than other households. In regions where solar panel installation is more widespread, the impact of this lower grid demand from solar households is reflected in a less dramatic rise in average annual bills compared to the large increase in the price of electricity. Other factors may include greater use of more energy efficient appliances and customers responding to higher prices by reducing electricity usage.

Figures 4.2 and 4.3 also show that network costs remain the main driver of residential customer bills in 2017–18. However, network costs have decreased between 2016–17 and 2017–18, by around 8 per cent on an annual dollar per customer basis and 5 per cent on a cent per kWh basis. The ACCC noted in the final REPI report that network costs were anticipated to stay relatively flat or decrease over the next five years due to a number of factors, including the historically low cost of capital and the relaxing of network reliability standards. This is also driven by improvements in assessment tools and techniques, such as benchmarking, implemented by the AER. However, while the flattening or decline in network costs is welcome, it remains a significant part of the bill. As discussed in section 2 of this report, there remains an opportunity for state governments to write down state-owned network assets or provide rebates on network charges for privatised assets where assets have been over invested in to reduce overall network costs and thus result in savings for all consumers.

In contrast to network costs, figures 4.2 and 4.3 show that wholesale costs significantly increased between 2016–17 and 2017–18. On an annual dollar per customer basis the increase was around 28 per cent, and on a cent per kWh basis the increase was around 31 per cent. Wholesale costs now account for around 33 per cent of an average customer’s bill, compared to 26 per cent in 2016–17. In the REPI, the ACCC noted a shift in the mix of generators supplying electricity and setting wholesale prices, changes in the costs of generation and the current market structure are all contributing to increased wholesale prices. As discussed in section 2 of this report, more competition in wholesale markets is needed. Ensuring that supporting new investment in generation occurs in a way that enhances competition to place downward pressure on wholesale prices would have a tangible impact on reducing customer bills.

Over the same period, the components of electricity bills attributable to retail margins decreased, while environmental and retail and other costs remained relatively flat. As noted in our March 2019 Report, some retailers stated in their recent financial statements that competition in the retail market was placing pressure on margins.

Figure 4.4 below shows the longer-term change in the average residential bill from 2007–08 to 2017–18. It shows that average bills have increased in real terms by $314 or approximately 25 per cent over that period.

Network and environmental costs were the biggest driving factors behind the increase in the overall cost stack, together accounting for approximately 60 per cent of the increase in the average bill over the ten years. Indeed, network costs were the main historic driver of price

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162 ACCC, Restoring electricity affordability and Australia’s competitive advantage, Retail electricity pricing inquiry—final report, June 2018, p. 160.
163 ibid., p. 54.
increases over the last 10 years, and were at their highest levels in 2015.\textsuperscript{165} In the final REPI report, the ACCC noted that environmental schemes, while a small component of the overall cost stack, have driven cost increases over the longer term due to both federal and state environmental requirements.\textsuperscript{166} As discussed in section 2 of this report, there are opportunities for all state governments to provide additional savings to customers by abolishing environmental green schemes where they are no longer needed.

Figure 4.5 below shows the increase in the average effective price in c/kWh for a residential customer in the NEM between 2007–08 and 2017–18. Overall the effective price increased by 49 per cent in real terms, compared to an increase of 25 per cent in the average bill shown in figure 4.4. The difference between these two is due to a 16 per cent decrease in electricity usage across the same period. We found in the REPI that this decrease was primarily due to a more widespread usage of solar PV systems in 2017–18 compared to 2007–08.\textsuperscript{167} The proportion of solar customers in the NEM was less than 0.2 per cent in 2007–08, compared to more than 12 per cent in 2017–18.\textsuperscript{168} These consumers use less grid-sourced electricity than they otherwise would have.

In the REPI Preliminary Report, the ACCC noted that overall wholesale costs actually decreased in real terms between 2007–08 and 2015–16, before increasing substantially since 2015–16.\textsuperscript{169} The increase in wholesale costs in figure 4.4 can therefore be attributed to the significant price increases between 2015–16 and 2017–18.

\textbf{Figure 4.4: Change in average residential customer bill from 2007–08 to 2017–18, NEM-wide, real $2017–18, excluding GST}

\begin{figure}
\centering
\includegraphics[width=\textwidth]{figure4.4.png}
\caption{Change in average residential customer bill from 2007–08 to 2017–18, NEM-wide, real $2017–18, excluding GST}
\end{figure}

Source: ACCC analysis based on retailers’ data.

\textsuperscript{165} ACCC, \textit{Restoring electricity affordability and Australia’s competitive advantage}, Retail electricity pricing inquiry—final report, June 2018, p. 159.
\textsuperscript{166} ibid., p. 7.
\textsuperscript{167} ibid., p. vi.
\textsuperscript{168} ibid.
These movements are relatively in line with year on year trends identified in figure 4.2, with the exception of network costs, which decreased between 2016–17 and 2017–18, and retail and other costs, which increased by 53 per cent over the ten-year period but remained relatively stable in the most recent period.

Figures 4.6 and 4.7 below compare the forecast 2017–18 cost stack in the REPI (adjusted to 2017–18 dollars) to the finalised data obtained by retailers. It shows that the actual cost stack for 2017–18 was around 4 per cent lower than forecast at an effective price level and 7 per cent lower at an average customer bill level. However, the proportion that each component contributed to the overall cost stack was roughly aligned.

The REPI forecast cost stack had overestimated the effective costs for networks, wholesale and retail margins. Actual network and wholesale costs were 6 and 7 per cent lower than estimated, while actual retail margins were 31 per cent lower than estimated. In contrast, environmental and retail and other costs were underestimated when compared to actual data. In both cost stacks, network costs remained the largest contributor to total costs, followed by wholesale costs.

We note that, while there are some differences between the forecast and actual cost stacks for 2017–18, both showed an increase in effective price compared to 2016–17, driven largely by an increase in wholesale costs.
**Figure 4.6**: Change in average residential customer effective prices (c/kWh) from 2017–18 forecasts, NEM-wide, real $2017–18, excluding GST

Source: ACCC analysis based on retailers’ data.

**Figure 4.7**: Change in average residential customer bill from 2017–18 forecasts, NEM-wide, real $2017–18, excluding GST

Source: ACCC analysis based on retailers’ data.
Regional cost stacks

Figures 4.8 and 4.9 below present the average relative contributions of each cost component that made up a residential customer bill in each NEM-region in 2017–18. Average residential bills can vary significantly from region to region within the NEM due to different market conditions, such as differences in the amount of electricity usage, even if costs have not changed significantly. Accordingly, the ACCC has also examined changes in components on a regional basis.

**Figure 4.8:** Average residential bills by state, 2017–18, $ per customer, real $2017–18, excluding GST

Source: ACCC analysis based on retailers’ data.

Notes: Average electricity usage drawn from the electricity grid differs from state to state. Usage is highest in Tasmania as it is almost entirely reliant on electricity. Victoria and SA have the lowest usage. In Victoria, this is due to a high reliance on gas. In SA, it is due to high solar penetration. ACT is not included due to data issues.
As noted above, changes in the amount of electricity usage in each NEM-region can lead to different outcomes for customers, and this is reflected in figures 4.8 and 4.9. Of particular note, Tasmania has a high usage of electricity with negligible usage of gas, and therefore it has the highest average customer bill despite having the lowest effective c/kWh electricity price.

On a percentage basis, the relativities between the five different cost stack components remain similar across regions. That is, network costs and wholesale charges combined account for 70 to 83 per cent of the cost stack. These are then followed by retail costs, retail margin and environmental costs which together contribute 17 to 29 per cent. While the relativities are generally similar, there are some differences between regions, including:

- Network costs are more significant in SEQ and NSW, and are less significant in SA and Victoria. In the REPI, the ACCC noted that the Regulated Asset Bases (RAB) in Queensland and NSW grew at a much greater rate than in SA and Victoria up until 2015, causing greater increases in network prices for those regions.\(^\text{170}\)

- Wholesale costs are more significant in Tasmania and SA.

- Retail margins are higher in NSW and Victoria.

- Retail costs are lowest in SA, and higher in Victoria.

- Environmental costs are higher in SA and lower in SEQ.

We explore the differences in the cost stack components in the following sections. The overall levels of these components need to be distinguished from the changes over time. For

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each NEM region, there are charts showing the change in each region’s cost stack from 2016–17 to 2017–18 on both a dollars per customer basis and c/kWh basis.

Consistent with the findings in the REPI based on the forecast data, the finalised 2017–18 data provided by retailers indicates that, while there is an overall increase in the cost stacks in most states on a c/kWh basis, the drivers of price changes vary between states.\(^\text{171}\) We examine each state in the sections below.

**Victoria**

Figures 4.10 and 4.11 below show that, from 2016–17 to 2017–18, Victoria had a 3 per cent or $33 increase in the average customer bill, and a percentage increase in effective price of 5 per cent. The main driver of these increases was wholesale costs, which offset decreases in network costs and retail margins. To a lesser extent, there were also increases in the costs of environmental schemes.

**Figure 4.10**: Change in average Victorian residential customer bill from 2016–17 to 2017–18, $ per customer, real $2017–18, excluding GST

![Figure 4.10](image)

Source: ACCC analysis based on retailers’ data.

In the REPI, the ACCC noted that costs of state mandated distributor-lead roll out of smart meters had been a significant driver in increased network costs since 2007–08.172 Putting the effect of the smart meters aside, we found that the largest cause of increases over the longer term had been a combined increase in retail costs and retail margins. Figures 4.10 and 4.11 show that this trend had not continued between 2016–17 and 2017–18, although they remain among the highest in the NEM.

**NSW**

Figures 4.12 and 4.13 below show that NSW had a 4 per cent or $61 increase in the average customer bill from 2016–17 to 2017–18, and a percentage increase in effective price of approximately 7 per cent. Wholesale costs were the primary driver of cost increases, increasing by an average of $127 per customer, or 32 per cent, offset to some extent by reductions in network costs and retail margin. While retail margins decreased, they remain the highest out of the five NEM regions at $131 per customer.

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Figure 4.12: Change in average NSW residential customer bill from 2016–17 to 2017–18, $ per customer, real $2017-18, excluding GST

Source: ACCC analysis based on retailers’ data.

Figure 4.13: Change in average NSW residential effective price (c/kWh) from 2016–17 to 2017–18, real $2017-18, excluding GST

Source: ACCC analysis based on retailers’ data.
In the REPI, the ACCC noted that NSW also had the highest environmental costs per customer in 2007–08.\textsuperscript{173} This meant that significant increases in this component in other jurisdictions over the longer term were not reflected in NSW, even though the environmental component remained significant overall. Figures 4.12 and 4.13 show some small increases in the environmental component between 2016–17 and 2017–18; however, SA now has the highest environmental costs per customer.

**SA**

Figures 4.14 and 4.15 below show that the primary drivers of increases in SA have been wholesale costs and environmental costs, offset to a large extent by reductions in network costs and retail margin. Wholesale and environmental cost components increased average bills by $126 and $39 respectively from 2016–17 to 2017–18. There was also a decrease in retail margin to $26 per customer, the lowest retail margin of the five NEM regions. SA overall had the highest effective prices in 2017–18 of 35.6 c/kWh.

**Figure 4.14: Change in average SA residential bill per customer from 2016–17 to 2017–18, $ per customer, real $2017–18, excluding GST**

![Figure 4.14](image)

Source: ACCC analysis based on retailers’ data.

In the REPI, the ACCC noted that the primary drivers of cost increases over the longer-term from 2007–08 were wholesale and environmental costs. The changes identified in figures 4.14 and 4.15 were therefore a continuation of this longer-term trend.

**SEQ**

Figures 4.16 and 4.17 below show that SEQ experienced a reduction in its average customer bill and its effective price between 2016–17 and 2017–18 of approximately 8 per cent and 6 per cent respectively. This was largely due to a reduction in network and environmental costs, which SEQ decreased by approximately 17 per cent and 41 per cent per customer respectively. However, wholesale costs increased by approximately 15 per cent on a per customer basis and 17 per cent in effective price. Retail and other costs increased marginally by $11 per customer over the same period.

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Figure 4.16: Change in average SEQ residential bill per customer from 2016–17 to 2017–18, $ per customer, real $2017–18, excluding GST

Source: ACCC analysis based on retailers’ data.

Figure 4.17: Change in average SEQ residential effective price (c/kWh) from 2016–17 to 2017–18, real $2017–18, excluding GST

Source: ACCC analysis based on retailers’ data.

In the REPI, the ACCC found that SEQ had the lowest environmental costs and that this was largely driven by the removal of premium feed in tariff charges from recovery through
network charges.\textsuperscript{175} We note that the Queensland Government’s decision to do so was one of the key contributors to the decrease in the average bill in 2017–18. The ACCC also noted that SEQ had the lowest retail margin.\textsuperscript{176} These trends continued between 2016–17 and 2017–18 as shown in figures 4.16 and 4.17.

Tasmania

Tasmanian data largely reflects Aurora Energy’s financial data. For confidentiality reasons, we have combined retail costs and retail margin for Tasmania. We note the Office of the Tasmanian Economic Regulator (OTTER) regulates Aurora Energy’s standing offer and sets the retail cost and retail margin. For 2016–17, OTTER set the retail margin for residential customers at 5.7 per cent.\textsuperscript{177}

Figures 4.18 and 4.19 below show that the average customer bill in Tasmania decreased by $80 or 4 per cent between 2016–17 and 2017–18. The effective price also decreased by approximately 6 per cent over the same period. The primary drivers of these cost decreases were network costs and the combined retail costs and margin component. These components decreased average bills by $207 and $61 respectively from 2016–17 to 2017–18. However, wholesale costs increased by $170 and 2 c/kWh respectively.

Figure 4.18: Change in average Tasmanian residential bill per customer from 2016–17 to 2017–18, $ per customer, real $2017–18, excluding GST

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{figure4.18}
\caption{Change in average Tasmanian residential bill per customer from 2016–17 to 2017–18, $ per customer, real $2017–18, excluding GST}
\end{figure}

Source: ACCC analysis based on retailers’ data.

\textsuperscript{175} ACCC, \textit{Restoring electricity affordability and Australia’s competitive advantage}, Retail electricity pricing inquiry—final report, June 2018, p. 18.

\textsuperscript{176} ibid.

\textsuperscript{177} OTTER, \textit{Investigation to determine maximum standing offer prices for small customers on mainland Tasmania}, Final report, May 2016, p. 48.
In the REPI, the ACCC found that the primary drivers of cost increases in Tasmania over the longer term from 2007–08 were network costs and environmental costs.\textsuperscript{178} As identified above, whilst environmental costs continued to increase between 2016–17 and 2017–18, the longer-term trend in network costs was reversed.

### 4.3. Business customers

The ACCC also collected data from retailers about the revenues, cost and profits related to servicing SME customers, and C&I customers.

The ACCC notes that the overall data set for these customers is less complete than that for residential customers. Furthermore, the cost stack charts included in this section represent the average business customer. However, these customers are significantly more varied in size and usage than residential customers, and face a much wider range of charging structures.

Figure 4.20 below compares the cost stacks for residential, SME and C&I customers on a c/kWh basis and then figure 4.21 also presents the percentage values for the relative contributions of each costs component. Notably, the network and wholesale costs components together make up the largest proportion of the cost stack for all customer types, totalling between 75 and 84 per cent.

\textsuperscript{178} ACCC, \textit{Restoring electricity affordability and Australia’s competitive advantage}, Retail electricity pricing inquiry—final report, June 2018, p. 21.
Figure 4.20: Comparison of residential, SME and C&I cost stacks, NEM wide, 2017–18, c/kWh, real $2017–18 values

Source: ACCC analysis based on retailers’ data.

Figure 4.21: Comparison of residential, SME and C&I cost stacks, NEM wide, 2017–18, percentage of c/kWh cost stacks

Source: ACCC analysis based on retailers’ data.
Small and medium enterprise customers

Retailers typically identified SME customers as those with electricity usage of less than 100 megawatt hours (MWh) per year and who are classified as a SME or commence a small business type plan, although this varies between retailers.

Some of the difficulty in compiling a SME dataset using retailers’ own information stems from some retailers not recording costs separately for residential and SME customers. Instead these retailers record information for a combined group, commonly referred to as ‘mass market’. In such cases retailers were asked to apply an allocation methodology between residential and SME customers in reporting data to the ACCC and, where this was not done by the retailer, the ACCC has applied an allocation methodology.

As can be seen in figure 4.20 above, the NEM-wide average cost stack for SME customers and residential customers are relatively comparable on an overall c/kWh basis, at 27.2 c/kWh and 29.0 c/kWh respectively. However, wholesale costs contribute a higher proportion of the SME cost stacks. In the REPI, the ACCC anticipated that these costs would contribute a higher proportion than for residential customers because the costs are dependent on electricity usage and business users typically have higher usage than residential customers. As noted in the REPI, retail costs, which are typically less variable based on a customer’s usage, are proportionally lower for SME customers relatively to residential customers as the costs are spread over a larger amount of usage.

Given the larger usage of SME customers compared to residential, average SME bills are roughly 2.9 times that of the average residential customer.

Figure 4.22 below shows that the effective price of electricity for SME customers increased by approximately 7 per cent between 2016–17 and 2017–18. Like residential customers, wholesale costs were the main driver of the price increase, increasing by 27 per cent year on year. Environmental costs decreased by approximately 11 per cent to 2.5 c/kWh, but only had a marginal impact on overall SME costs, while the other cost components stayed relatively stable.

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180 ibid.

181 ibid.
Figure 4.22: Change in average SME customer effective prices (c/kWh) from 2016–17 to 2017–18, NEM-wide, real $2017–18, excluding GST

Source: ACCC analysis based on retailers' data.

### Commercial and industrial customers

C&I customers, such as manufacturers, universities or governments, are characterised by larger electricity usage, generally more than 100 MWh per year, although this varies between retailers.

The contracts for such customers are typically very different to those for residential or SME customers. The data provided to the ACCC indicates that there is a large amount of variability across C&I customers in their usage, meaning that there is no 'typical' C&I customer. For example, one C&I customer may consume over 1000 MWh per year while another may consume less than 300 MWh per year. C&I customers in the NEM pay around half the price for electricity that residential customers pay. This reflects economies of scale in supply as well as much lower retail costs and margins. As shown in figure 4.20 above, retail costs and margins for C&I customers are the smallest of all customer types.

Figure 4.23 below presents the change in the cost stack for C&I customers on a c/kWh basis in real terms. A c/kWh measure gives a more meaningful comparison for C&I customers given large variances in usage. Given that a retailers’ revenues and costs related to C&I customers can change dramatically as it acquires and loses large C&I customers, basing the cost stack on a usage measure also presents a more consistent comparison over time than a per customer measure.

Figure 4.23 shows that, over the period from 2016–17 to 2017–18, the average cost of electricity for C&I customers increased by approximately 14 per cent across the NEM, which is consistent with the longer-term trend that the ACCC noted in the REPI.\(^{182}\) Wholesale cost was the primary driver of cost increases for the C&I customer group over the relevant period.

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\(^{182}\) ACCC, *Restoring electricity affordability and Australia’s competitive advantage*, Retail electricity pricing inquiry—final report, June 2018, p. 32.
increasing by approximately 30 per cent in real terms, while the other cost stack components remained comparatively stable.

**Figure 4.23: Change in average C&I customer effective prices (c/kWh) from 2016–17 to 2017–18, NEM-wide, real $2017–18, excluding GST**

Source: ACCC analysis based on retailers’ data.

### 4.4. Cost stack components

In this section, we examine the impact of each cost stack component on the overall residential bill from 2007–08 to 2017–18, using data provided by retailers. In the REPI, the ACCC provided an in depth examination of each cost stack component, which should be read in conjunction with the cost stacks presented here.\(^ {183} \)

**Wholesale costs**

Retailer cost information provided to the ACCC shows that on a NEM-wide basis, for the average residential bill, wholesale costs accounted for 33 per cent of the retailer cost stack in 2017–18.

Figure 4.24 below presents the average wholesale costs per customer from 2007–08 to 2017–18, while figure 4.25 shows the average wholesale costs on a c/kWh basis. The latter is highly correlated to the wholesale spot price in each jurisdiction over time, which is presented in figure 4.26, although there is some delay between changes in the spot price and wholesale costs in retailers’ cost stacks. This is because many retailers will hedge their wholesale costs to reduce volatility. In the REPI, the ACCC observed that increases in wholesale costs appear to occur about one to two years after increases in the wholesale spot prices.\(^ {184} \)


\(^{184}\) ibid., p. 33.
Figure 4.24 shows that the average wholesale costs per customer were at their highest levels in 2017–18 in all jurisdictions except Victoria and NSW. Figure 4.25, which controls for variations in average electricity usage, also shows that the effective price of wholesale electricity has increased over time with the highest average on a c/kWh basis being recorded in 2017–18 in all jurisdictions except Victoria.

The trends seen in figures 4.24 and 4.25 can be attributed, at least partly, to a decline in grid-based usage due to the increased uptake of solar, which at 2017–18 was at 14 per cent, and the greater use of more energy efficient appliances.

Figure 4.24: Average wholesale cost of electricity by region for residential customers ($ per customer) by state 2007–08 to 2017–18, real $2017–18

Source: ACCC analysis based on retailers’ data.
Figure 4.25: Average wholesale cost of electricity for residential customers (c/kWh) by state 2007–08 to 2017–18, real $2017–18

Source: ACCC analysis based on retailers’ data.

Figure 4.26: Annual electricity spot prices by NEM region 2006–07 to 2017–18, $/MWh, $nominal

Source: ACCC analysis of AEMO data.

Note: Volume-weighted average prices.
Network costs

Retailers’ cost information provided to the ACCC shows that on a NEM-wide basis, for the average residential bill, network costs accounted for 42 per cent of the retailer cost stack in 2017–18.

Figure 4.27 below presents average network costs per customer from 2007–08 to 2017–18. The ACCC has separated network costs into distribution, transmission and metering for 2016–17 and 2017–18. Distribution costs make up a majority of network costs followed by transmission and then metering. 185 As noted previously, metering in particular is a significant cost component in Victoria, where a mandatory distributor-led rollout occurred. As noted in the REPI, these metering costs are not comparable to metering costs in other states because it includes the total cost of the smart meter program but does not include the associated reduction in network costs as a result of avoided costs, such as manual meter reads, and efficiency benefits to network operators. 186

Figure 4.27 shows that increases in the network cost components of residential electricity bills seen over 2007–08 to 2014–15 have been followed by declines in more recent years, including in 2017–18. The main driver of this recent trend appears to be decreases in distribution costs, with decreases in transmission costs also contributing to bill reductions in SEQ.

Figure 4.27  Average network costs per residential customer ($ per customer) by state 2007–08 to 2017–18, real $2017–18

Source: ACCC analysis based on retailers’ data.

Note: Network proportions for distribution, transmission and metering were provided by distribution operators. We note metering costs, with the exception of Victoria, reflect 2016–17.

Environmental costs

185 We have not included the cost of premium FiT schemes recovered through network charges. Since these costs are related to jurisdictional environmental policy, we have included them in environmental costs.

186 ACCC, *Restoring electricity affordability and Australia’s competitive advantage*, Retail electricity pricing inquiry—final report, June 2018, p. 34.
Retailers’ cost information provided to the ACCC shows that on a NEM-wide basis, for the average residential bill, environmental costs accounted for 8 per cent of the retailer cost stack in 2017–18.

Federal and state government environmental policies to encourage greater uptake of renewable generation, promote energy efficiency and reduce carbon emissions impose costs on retailers that flow through to a consumer’s electricity bill, unless funded from the tax base.

Figure 4.28 presents the average environmental costs for residential customers on a c/kWh basis from 2007–08 to 2017–18, and figure 4.29 presents the average on a per customer basis. Differences between each state reflect jurisdictional specific schemes and differences in take up of solar PV usage. For 2016–17 and 2017–18, we have separated environmental costs into the two national schemes, the large-scale renewable energy target (LRET) and the small-scale renewable energy scheme (SRES), jurisdictional schemes and premium FiT schemes.

Both figure 4.28 and 4.29 show that SA has the highest environmental costs, which are driven by higher jurisdictional specific costs borne by electricity retailers (such as the Retailer Energy Efficiency Scheme) and high costs of premium FiT schemes recovered through network costs paid to solar PV households.

For 2017–18, SEQ had the lowest environmental costs of all the states. In fact, its environmental costs for 2017–18 were around 35 per cent lower than the NEM average. Notably, the Queensland Government stopped recovering costs related to premium FiT schemes from network charges for a period of three years and funded the scheme through the tax base instead.

**Figure 4.28: Average environmental costs for residential customers (c/kWh) by state 2007–08 to 2017–18, real $2017–18**

Source: ACCC analysis based on retailers’ data.
Figure 4.29: Average environmental costs for residential customers ($ per customer) by state 2007–08 to 2017–18, real $2017–18

Source: ACCC analysis based on retailers’ data.

Retail costs and margins

At the retail level, a retailer will attempt to recover its cost of operation, and obtain a level of profit margin. The costs of operation and the profit margin together are referred to as the ‘gross margin’, while the profit margin alone is sometimes referred to as the ‘net margin’. Increases in gross margin could potentially be due to increases in costs or profits, or both.

Retailers’ cost information provided to the ACCC indicates that on a NEM-wide basis, for the average residential bill, the retailer gross margin was approximately 17 per cent of the total cost stack in 2017–18, with this being made up of an 11 per cent retail cost component and a 6 per cent EBITDA net margin component.

Figure 4.30 presents the retail gross margin in dollar terms, as reported by retailers, broken up between the costs component and the EBITDA component for all regions except Tasmania. It shows that retail costs on a per customer basis do not vary significantly from state to state. As observed in the REPI, this is because, for retailers operating across multiple states, costs related to servicing customers are not state specific, but rather spread over the whole customer base.\(^{187}\)

In contrast, figure 4.31 shows that retail margin varies significantly by state. In 2017–18, Victoria and NSW continued to have the highest retail margin, while SA has the lowest retail margin.

As previously noted, we have combined retail cost and retail margin components for Tasmania for confidentiality reasons.

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Figure 4.30: Comparison of retail costs and retail EBITDA margins for residential customers ($ per customer) by state 2007–08 to 2017–18, real $2017–18

Source: ACCC analysis based on retailers’ data.

Note: Retailers reported negative margin for NSW in 2007–08. The ACCC considers that this reflects a new entrant retail margin and is unlikely to be reflective of the overall cost stack during this period.

Figure 4.31 presents EBITDA as a percentage of revenue. It shows that, for residential customers, all regions experienced decreases in EBITDA as a percentage of revenue in 2017–18, with Victoria and SA experiencing the largest decreases, closely followed by NSW.

Figure 4.31  EBITDA as a percentage of revenue over time for residential customers by state 2007–08 to 2017–18

Source: ACCC analysis based on retailers’ data.
There are some limitations to an examination of the EBITDA trends of retail businesses given that EnergyAustralia, AGL and Origin (tier 1 retailers) and a number of the other retailers are vertically integrated. The EBITDA for a vertically integrated retailer is likely to be largely dependent on the price at which it buys wholesale electricity from its wholesale division. As set out in chapter 5 of the final REPI report, the ACCC found that the majority of vertically integrated players set a transfer price well above the market expectation of average NEM prices.\textsuperscript{188}

**Retail costs—a closer look at the trend over time**

The data we collected on average total retail costs per residential customer is presented below.

Figure 4.32 shows NEM-wide retail costs per residential customer. Consistent with what was forecast in the REPI, retail costs were relatively stable between 2016–17 and 2017–18, after peaking in 2013–14.\textsuperscript{189} Assuming an average total bill of $1549, retail costs per residential customer made up approximately 9 per cent of an average residential bill in 2017–18.

**Figure 4.32: NEM-wide retail costs\textsuperscript{190} over time, $ per residential customer, real values in 2017–18 dollars, excluding GST**

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{figure4.32.png}
\caption{NEM-wide retail costs over time, $ per residential customer, real values in 2017–18 dollars, excluding GST}
\end{figure}

In the REPI, the ACCC found that retail costs are made up of two broad categories:

- **CTS**—which are the operating costs retailers face in servicing their customers, including billing systems and processes, customer enquiries, management of debt and compliance with regulatory obligations.

\textsuperscript{188} ACCC, *Restoring electricity affordability and Australia’s competitive advantage*, Retail electricity pricing inquiry—final report, June 2018, p. 126.

\textsuperscript{189} ibid., p. 221.

\textsuperscript{190} Retail costs presented in figure 4.31 (Figure 10.1 in the final REPI report) do not include ‘other costs’ that some retailers reported in 2013–14, 2014–15 and 2015–16, which are included in figure 1.37 in chapter 1 of the final REPI report.
CARC—sometimes referred to as the ‘costs of competition’, include the costs of acquisition channels (for example, third-party comparison websites, door-to-door sales, telemarketing), other marketing spend, retention teams and related costs.\(^{191}\)

By analysing these two components separately, we can gain a better understanding of what is driving increases in retail costs over time. Of note, for the REPI, the ACCC asked retailers to provide a more detailed breakdown of their CTS and CARC.\(^{192}\) However, the categories varied from retailer to retailer and were therefore difficult to analyse. Therefore, in seeking to finalise the 2017–18 data for this report, the ACCC required retailers to provide CTS and CARC costs broken down according to a number of pre-defined categories. Our findings are included below. The ACCC intends for this data to form a baseline for future analysis of the drivers of CTS and CARC.

**Cost to Serve (CTS)**

Figures 4.33 and 4.34 below present CTS per residential customer on a NEM-wide basis and state-by-state basis respectively.

**Figure 4.33: NEM-wide CTS, $ per residential customer, real values in 2017–18 dollars, excluding GST**

Figure 4.33 shows that CTS per customer decreased by approximately 15 per cent from 2016–17 to 2017–18. This is in contrast to the stabilisation in retail costs per customer on a NEM-wide basis shown in figure 4.32. CTS made up approximately 5 per cent of an average residential bill in 2017–18.

The following looks at:

- the differences in CTS between states
- the differences in CTS between different types of retailers

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\(^{192}\) ibid., pp. 225, 231.
• a break-down of our categories of CTS for 2017–18 for further insights.

Figure 4.34 below presents the variation in CTS by state for 2017–18, with SA ($68 per customer) having the lowest CTS per customer. Victoria had the highest CTS per customer ($83 per customer) in 2017–18. The finding in the final REPI report, which presented figures for 2016–17, was that CTS per customer was lowest in SA ($81 per customer), highest in SEQ ($100 per customer) and second highest in Victoria ($92 per customer).193

Figure 4.34: CTS by state, 2017–18, $ per residential customer, excluding GST

Source: ACCC analysis based on retailers’ data.

In the REPI, the ACCC noted that it is somewhat surprising that CTS per customer in SA are the lowest in the NEM.194 Retail competition in SA is more muted due to difficulties in accessing hedging products to manage wholesale price risk and the small size of the market. Accordingly, rather than being driven by competitive pressure, the lower CTS in SA is likely to be driven by the lower number of smaller retailers in the market and the scale efficiencies of the larger retailers (who operate in SA).

Figure 4.35 below presents the variation in CTS by tier of retailer for 2017–18. It shows that the tier 1 retailers had significantly lower CTS per customer ($65 per customer) compared to other retailers ($115 per customer). This is not necessarily a surprising result given that these three retailers generally have a larger NEM-wide customer base and so costs are spread such that the CTS (for example, billing system and IT costs) per customer will be lower.

194 ibid., p. 224.
That said, retailer-by-retailer data does not tell a consistent story.\textsuperscript{195} There is significant variation within the costs of the three tier 1 retailers and within the ‘other retailers’ category. For example, some smaller retailers have much lower CTS per customer than some tier 1 retailers. Accordingly, in determining what measures would be effective to reduce CTS, it is important to consider the drivers of CTS.

To further investigate the drivers of CTS, we required retailers to break down their CTS for 2017–18 into the following predefined categories:

- billing
- customer service and IT
- debt collection
- CTS Labour
- hardship
- any other Cost(s) to Serve.

Figure 4.36 below shows the variation in CTS categories by retailer tier for 2017–18. It shows that customer service and IT, debt collection and hardship costs were a larger component of CTS for tier 1 retailers than for the other retailers, together accounting for 41 per cent of tier 1 CTS. Conversely, billing and labour comprised a larger proportion of other retailers’ costs, at 16 per cent and 44 per cent respectively.

As noted in the final REPI report, one of the most repeated concerns the ACCC hears from retailers is the extent of costs associated with regulatory compliance, which is a key...
contributor to labour costs for retailers. As seen below in figure 4.36, labour costs are the largest CTS category for both tier 1 and other retailers.

**Figure 4.36: NEM-wide CTS categories by retailer tier, 2017–18, $ per residential customer**

![Diagram showing CTS categories by retailer tier](image)

Source: ACCC analysis based on retailers’ data.

**Cost to Acquire and Retain (CARC)**

Figures 4.37 and 4.38 below present CARC per residential customer on a NEM-wide basis and state-by-state basis respectively.

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Figure 4.37: NEM-wide CARC, $ per residential customer, real values in 2017–18 dollars, excluding GST

Figure 4.37 shows that there was an increase in CARC from $49 per customer in 2016–17 to $63 per customer in 2017–18, which is an increase of around 29 per cent in real terms. Noting that CTS decreased in the period, this shows that the stabilisation in retail costs per customer on a NEM-wide basis shown in figure 4.32 was due to an offsetting increase in CARC. CARC made up approximately 4 per cent of an average residential bill in 2017–18. While only a small percentage of an average residential bill, it is still significant that on average each customer in the NEM paid $63 to cover retailers’ acquisition and retention costs.

Figure 4.38 presents the variation in CARC by state for 2017–18, with SEQ ($80 per customer) having the highest CARC per customer compared to NSW with the lowest ($56 per customer). The REPI, in contrast, found Victoria to have the highest cost per customer while SA had the lowest cost.\(^{197}\) While switching rates were not collected for this report, the ACCC noted in the final REPI report that there was a positive correlation between switching rates and CARC, suggesting that high levels of switching result in an overall increase in CARC in a region.\(^{198}\) The direction of causation here is likely to be two-directional: more CARC activity may promote more switching, but more switching may also promote efforts by retailers to retain existing customers.\(^{199}\)


\(^{198}\) ibid.

\(^{199}\) ibid.
Figure 4.38: CARC by state, 2017–18, $ per residential customer, excluding GST

Source: ACCC analysis based on retailers’ data.

Figure 4.39 below compares the CARC per customer and CARC per acquired customer for tier 1 and for other retailers. The significant difference in CARC per customer between tier 1 and other retailers is expected given the three tier 1 retailers have larger customer bases across which those costs are spread. The results are, however, reversed when costs are considered on the basis of each acquired customer, with tier 1 retailers having significantly higher costs than the other retailers.

As shown in figure 4.39 below, tier 1 CARC per acquired customer is approximately 39 per cent higher than other retailers. A key driver of this difference is likely to be the very significant investment of tier 1 retailers in retention activities which are not captured (the data available only considers customer acquisitions, not retentions). We would expect that if retention numbers are included, the tier 1 costs per residential customer would reduce significantly and may in fact be significantly below the costs of the other retailers.

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201 ibid.
To further investigate the drivers of CARC, the ACCC required retailers to break down their CARC for 2017–18 into the following predefined categories:

- advertising and marketing
- customer loyalty programs
- CARC Labour
- onboarding
- customer research
- churn prevention
- third party sales
- any other Cost(s) to Acquire and Retain.

Figure 4.40 below shows the variation in CARC categories by retailer tier for 2017–18. It shows that advertising and marketing and labour were larger CARC components for tier 1 compared to other retailers, together accounting for 58 per cent of the tier 1 retailers’ CARC. The costs of onboarding were significantly higher for other retailers than for tier 1, at 8 per cent to 2 per cent respectively. Third party channels or aggregators were the single largest contributor to other retailers’ total CARC at 39 per cent. Based on the available data, some retailers were much more heavily reliant on third party acquisition channels than others. It is clear from the data that retailers’ acquisition strategies vary quite significantly.
Figure 4.40: NEM-wide CARC categories by retailer tier, 2017–18, $ per residential customer

Source: ACCC analysis based on retailers’ data.

In the final REPI report, the ACCC noted that there is an obvious tension when considering ways to reduce CARC while promoting vigorous competition between retailers. The measures to make switching easier are welcome developments to address this issue.

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Appendix A: Terms of Reference

COMPETITION AND CONSUMER ACT 2010

INQUIRY INTO ELECTRICITY SUPPLY IN AUSTRALIA

I, Scott Morrison, Treasurer, pursuant to subsection 95H(1) of the Competition and Consumer Act 2010, hereby require the Australian Competition and Consumer Commission (ACCC) to hold an inquiry into prices, profits and margins in relation to the supply of electricity in the National Electricity Market.

Matters to be monitored and taken into consideration in the inquiry include but are not limited to:

i. electricity prices faced by customers in the National Energy Market including both the level and the spread of price offers, analysing how wholesale prices are influencing retail prices and whether any wholesale cost savings are being passed through to retail customers;

ii. wholesale market prices including the contributing factors to these such as input costs, bidding behaviour and any other relevant factors;

iii. the profits being made by electricity generators and retailers and the factors that have contributed to these;

iv. contract market liquidity, including assessing whether vertically integrated electricity suppliers are restricting competition and new entry; and

v. the effects of policy changes in the National Electricity Market, including those resulting from recommendations made by the ACCC in its Retail Electricity Pricing Inquiry report of July 2018.

Where appropriate, the inquiry will make recommendations to government(s) to take any proportional and targeted action considered necessary to remedy any failure by market participant(s) (or the market as a whole) to deliver competitive and efficient electricity prices for customers.

The ACCC should make use of publicly available information, including that published by the Australian Energy Regulator, the Australian Energy Market Commission or the Australian Energy Market Operator, where appropriate.

This is not to be an inquiry into supply by any particular person or persons, or by a State or Territory Authority.

The inquiry is to commence today. The inquiry is to provide its first report to me by 31 March 2019 and no less frequently than every six months thereafter. The first report should focus on setting out the analytical framework for monitoring and provide information about expectations of market outcomes and market participant behaviour. The inquiry should also provide information to the market as appropriate. The inquiry is to conclude and provide its final report by 31 August 2025.

DATED THIS 20th DAY OF August 2018

SCOTT MORRISON
Treasurer
### Appendix B: REPI recommendation progress

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<tr>
<th>No.</th>
<th>Short-form recommendation</th>
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<tbody>
<tr>
<td>1</td>
<td>Prevent acquisitions that would result in greater than 20 per cent generation ownership</td>
<td>The National Electricity Law (NEL) should be amended to prevent any acquisition or other arrangement (other than investment in new capacity) that would result in a market participant owning, or controlling dispatch of, more than 20 per cent of generation capacity in any NEM region or across the NEM as a whole. The provision should be designed to prevent market participants circumventing the 20 per cent cap, including by way of ownership structure or contractual arrangements.</td>
<td>Progressing</td>
<td>In February 2019 the ESB consulted with stakeholders to inform its advice to the COAG Energy Council.</td>
<td>COAG Energy Council to consider advice from the ESB.</td>
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<td>2</td>
<td>Divide Queensland generators into three similar portfolios and ensure they are separately owned</td>
<td>The Queensland Government should divide its generation assets into three generation portfolios to reduce market concentration in Queensland. The three portfolios should be of a similar size with a mix of generation assets to maximise competition in the wholesale market. Once created, the Queensland Government should ensure that the three portfolios are separately owned and operated to maximise competition in the wholesale electricity market. The sale of any portfolios should be in line with recommendation 1.</td>
<td>Progressing but different to the REPI recommendation</td>
<td>In December 2018 the Queensland Government announced CleanCo, a third state-owned generator with a primarily renewable asset base. The Queensland Government has said it has no intention to sell any state-owned assets or structurally separate its generation assets.</td>
<td>CleanCo is expected to commence trading in the NEM by 31 October 2019.</td>
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<td>3</td>
<td>Give the AER powers to address market manipulation</td>
<td>The NEL should be amended to provide the AER with powers to address behaviour which has the effect of manipulating the proper functioning of the wholesale market, together with the necessary investigation powers and appropriate remedies. The current market manipulation powers in respect of gas market supply hubs represent a good framework for equivalent powers in respect of the electricity market.</td>
<td>Progressing but different to the REPI recommendation</td>
<td>The Australian Government has signalled its intention to reintroduce the Treasury Laws Amendment (Prohibiting Energy Market Misconduct) Bill 2018 (Cth) (the Bill) in 2019. The Bill introduces a new prohibition in relation to distorting or manipulating prices in the electricity spot market.</td>
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<td>4</td>
<td>Underwrite investment in new generation capacity</td>
<td>The Australian Government should operate a program under which it will enter into low fixed-price (for example, $45–50/MWh) energy offtake agreements for the later years (say 6–15) of appropriate new generation projects which meet certain criteria. In doing so, project developers will be able to secure debt finance for projects where they do not have sufficient offtake commitments from C&amp;I customers for later years of projects. This will encourage new entry, promote competition and enable C&amp;I customers to access low-cost new generation. The program should operate for at least a four-year period, with support provided for qualifying projects. To qualify, a project proposal must: - have at least three customers who have committed to acquire energy from the project for at least the first five years of operation - not involve any existing retail or wholesale market participant with a significant market share (say a share of 10 per cent or more in any NEM region) - be of sufficient capacity to serve the needs of a number of large customers - be capable of providing a firm product so that it can meet the needs of C&amp;I customers.</td>
<td>Progressing but different to the REPI recommendation</td>
<td>The Australian Government is establishing the Underwriting New Generation Investments program. The multi-phased program will be open over four years to June 2023. The Government received 66 submissions in response to registrations of interest for projects under the program. In March 2019 the Government shortlisted 12 projects including six renewable pumped hydro projects, five gas projects and one coal upgrade project. The shortlisted projects include every NEM region and represent a combined capacity of 3818 MW of new generation. The Government also announced that it will continue to engage with proponents of projects that have not made the shortlist but may meet the program’s objectives and eligibility criteria. The Government says this will support the development of a pipeline of mature projects that the Government can work with over the four year program.</td>
<td>Program guidelines and delivery model to be developed by the Government.</td>
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<td>5</td>
<td>Commit to the National Energy Guarantee (NEG)</td>
<td>The NEG seeks to provide a settled policy framework under which new investment is incentivised in a way that enables achievement of the objective of reducing carbon emissions at low-cost while promoting investment in a manner that ensures demand for energy is met. The ACCC agrees that this is an important policy objective and, with the policy incorporating appropriate safeguards for competition in the contract market, recommends that governments commit to develop and implement the NEG.</td>
<td>Progressing</td>
<td>The Australian Government has implemented the reliability component of the NEG. The Retailer Reliability Obligation (RRO) came into effect on 1 July 2019. If the RRO is triggered, it will require retailers to demonstrate they are sufficiently contracted to meet their share of expected system peak demand.</td>
<td>AEMO to publish 2019 Electricity Statement of Opportunities, including a five-year Reliability Forecast by 15 August 2019. The AER is developing guidelines to support operation of the RRO over 2019-20.</td>
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<td>6</td>
<td>Amend the NEL to require reporting of over-the-counter (OTC) trades</td>
<td>The NEL should be amended so as to require the reporting of all OTC trades to a repository administered by the AER. Reported OTC trades should then be disclosed publicly in a de-identified format that facilitates the dissemination of important market information without unintentionally revealing the parties involved. The requirement should be implemented to align with (or be eligible for) any OTC reporting requirements under the NEG. The AER, AEMC and AEMO should have access to the underlying contract information, including the identity of trading partners.</td>
<td>Progressing but different to the REPI recommendation</td>
<td>This recommendation is related to recommendation 41 which recommended the AER’s wholesale market monitoring should be expanded to include the contract market, including the OTC repository. The ESB is considering recommendation 6 together with recommendation 41. A consultation paper on Recommendation 41 was released in February 2019 to inform its advice to the COAG Energy Council. The AEMC indicated in the market making draft rule determination that it will work with market bodies and participants to address information gaps, including:  • to improve the transparency of the OTC market  • to enhance the AER’s powers to monitor market liquidity, including the compliance of participants in the Australian Stock Exchange (ASX) market making scheme, and with reference to the structural characteristics of each jurisdiction.</td>
<td>Marking making rule change expected completion 16 September 2019. ESB to reconsider following completion of the market making rule change request (recommendation 7). COAG Energy Council to consider advice from the ESB.</td>
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<td>7</td>
<td>The AEMC should introduce market-making obligations in SA for vertically integrated retailers</td>
<td>The AEMC should introduce market-making obligations in SA, which require large, vertically integrated retailers to make offers to buy and sell specified hedge contracts each day, in order to boost hedge market activity. The parameters of a market-making obligation should have regard to: - the size of the SA market - the distribution of generation ownership in the region - the benefits to market liquidity and efficiency of regular trading activity - the burden of the requirements on obligated entities - any impact on the incentives of intermittent generators to invest in firming technology. After an appropriate period of time (for example, after two years) the mechanism should be assessed for its effect on market activity, liquidity and risk to determine if it should be continued, amended or removed in SA and, potentially, extended to other NEM regions.</td>
<td>Progressing but different to the REPI recommendation</td>
<td>The AEMC is considering a rule change request for voluntary market making obligations across the NEM. The AEMC has proposed in its draft determination not to make a rule to introduce additional market making schemes in the NEM because a number of initiatives are already underway that should increase contract market liquidity. On 1 July 2019 the ASX commenced a voluntary market making scheme to the Electricity Futures market with at least two obligated parties agreeing to market making contracts in each region across the NEM. The RRO commenced from July 1 and includes a Market Liquidity Obligation (MLO) to enhance market liquidity and pricing transparency in retail and wholesale electricity markets. For example, if the RRO is triggered by AEMO, a MLO will require the largest participants to offer to buy and sell contracts with all participants in the region. The AER will have powers to monitor compliance with the MLO. In SA, the minister also has the ability to trigger the RRO and thus the MLO process within SA. The Treasury Laws Amendment (Prohibiting Energy Market Misconduct) Bill 2018 proposes a new prohibition on generators witholding or limiting their offers for electricity contracts with the purpose of substantially lessening competition in the market; and a power for the Treasurer to direct participants to provide market making services.</td>
<td>AEMC rule change process expected completion 16 September 2019. The Government has indicated it intends to re-introduce the Bill in 2019.</td>
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<td>8</td>
<td>Shorten timeframes for retailer notification of customer transfers</td>
<td>AEMO amend its rules and procedures so that losing retailers are only given a loss notification on the actual date of transfer of financial responsibility for the customer to the new retailer. This will limit the opportunity of 'losing' retailers to conduct 'save' activity before a customer transfer has taken place.</td>
<td>Progressing</td>
<td>Recommendations 8 and 9 are being considered together in a rule change request to reduce customers’ switching times. The COAG Energy Council jointly tasked AEMO and the AEMC with improving processes surrounding customer transfers. On 24 May 2019 AEMO submitted a rule change to the AEMC proposing a high level model and associated rule changes to enable customer transfers to be completed within two days of the cooling-off period expiring. The requirement in the current transfer process for the losing retailer to be given advanced notice would also likely be removed.</td>
<td>AEMC draft determination – September 2019.</td>
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<td>9</td>
<td>Speed up customer transfers between retailers</td>
<td>The AEMC should make changes to speed up the customer transfer process, for example by enabling customers to use self-reads of their electricity meters. This will ensure that customers move to new offers quickly and will limit the time available for ‘losing’ retailers to conduct ‘save’ activity.</td>
<td>Progressing</td>
<td>See recommendation 8.</td>
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<td>10</td>
<td>Do not reintroduce limited merits reviews</td>
<td>The ACCC supports the removal by the Australian Government of limited merits review of AER revenue decisions. Limited merits review of AER decisions should not be reinstated in the future.</td>
<td>Implemented</td>
<td>In August 2018 the COAG Energy Council affirmed that the Limited Merits Review Scheme, which has been repealed, should not be reinstated.</td>
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| 11  | State governments should write down network assets | The governments of Queensland, NSW and Tasmania should take immediate steps to remedy the past over-investment of their network businesses in order to improve affordability of the network. With appropriate assistance from the Australian Government, this can be done:  
- in Queensland, Tasmania and for Essential Energy in NSW, through a voluntary government write-down of the regulatory asset base  
- in NSW, where the assets have since been fully or partially privatised, through the use of rebates on network charges (paid to the distribution company to be passed on to consumers) that offset the impact of over-investment in those states.  

Such write-downs would enhance economic efficiency by reducing current distorting price signals. The amount of the write-downs and rebates should be made by reference to the estimates of overinvestment by the Grattan Institute, and should result in at least $100 a year in savings for average residential customers in those states. | No progress | |
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<td>12</td>
<td>The AER should be given the power to monitor the effect of write-downs on retail prices</td>
<td>The AER should be given the power to monitor the effect of the write-downs and rebates on network charges effectively faced by retail customers.</td>
<td>No progress</td>
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<td>13</td>
<td>Amend the National Electricity Rules (NER) to allow stranded asset costs to be shared</td>
<td>The NER should explicitly allow for a process whereby network assets may be stranded and the costs of that stranding is shared between users and networks. The AEMC should determine the definition of ‘stranding’ and how the costs of ‘stranding’ can be shared.</td>
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<td>14</td>
<td>Accelerate the take up of cost-reflective network pricing</td>
<td>The ACCC considers that steps should be taken to accelerate the take up of cost-reflective network pricing. Governments should agree to mandatory assignment of cost-reflective network pricing on retailers, ending existing opt-in and opt-out arrangements. Mandatory assignment of the network tariff should apply for all customers of a retailer that have metering capable of supporting cost-reflective tariffs (that is, a smart or interval meter). Retailers should not be obligated to reflect the cost-reflective network tariff structure in their customers’ retail tariffs, but should be free to innovate in the packaging of the network tariff as part of their retail offer. Given the potential for negative bill shock outcomes from any transition to cost-reflective network tariffs should retailers pass these network tariffs through to customers, governments should legislate to ensure transitional assistance is provided for residential and small business customers. This assistance should focus on maximising the benefits, and reducing the transitional risks, of the move to cost-reflective pricing structures. This includes: – a compulsory ‘data sampling period’ for consumers following installation of a smart meter – a requirement for retailers to provide a retail offer using a flat rate structure – additional targeted assistance for vulnerable consumers. Demand tariffs, which charge retailers based on their customers’ maximum demand during pre-determined typical system peak times, represent an appropriate structure for the initial mandatorily assigned network tariffs. This tariff structure provides a balance of the objectives of cost reflectivity, simplicity and price certainty. We note that the extent to which cost-reflective tariffs can be introduced is limited to the extent that a retailer’s customers have smart (or interval) meters. We therefore note the importance of recommendation 15 in achieving outcomes in this area. Governments should appropriately fund communication campaigns around the benefits of cost-reflective pricing and smart meters to build community acceptance and awareness of individual and community wide benefits, as well as customer awareness of their rights.</td>
<td>Progressing</td>
<td>In December 2018 the COAG Energy Council noted the AER’s approach in regulatory determinations to increase the uptake of cost reflective pricing. There are initiatives underway to promote network tariff reform. This includes the progressive introduction of more flexible network pricing which is broadly aligned with the deployment of smart metering infrastructure and distributed energy resources under the AER’s tariff structure statement process at each network reset. The AER is also facilitating discussions between networks, retailers and consumer groups (and market bodies) to get broader agreement on the need and urgency for tariff reform, including promoting tariff trials between networks and retailers. This recommendation is related to recommendation 56 which acknowledges that targeted assistance programs may be needed to assist businesses adversely impacted by the transition to more cost-reflective network tariffs.</td>
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| 15  | Support the take up of smart meters | The ACCC considers that steps should be taken to support the take up of smart meters, and ensure customers receive the benefits of this technology. In particular:  
– governments should regularly audit the rollout of smart meters to ensure:  
- the rollout continues at an acceptable pace  
- that no gaps emerge in respect of customers’ ability to access meters  
- that consumers do not experience problems with the smart meters that are installed.  
– the AER should require retailers, as a part of their market performance reporting, to report on their smart meter community and customer engagement strategy to ensure retailers are delivering the expected customer benefits associated with smart meters, and meeting community expectations in how the rollout is undertaken  
– the AER should require retailers, as a part of their hardship program, to include policies on how they will support customers with smart meters in payment difficulty through targeted advice or services  
– jurisdictions should remove regulatory requirements that limit the benefits and full functionality of smart meters. | Progressing | The AEMC introduced a maximum timeframe for meter installations through a rule change which commenced in February 2019.  
The AEMC has plans to extend its smart meter monitoring program to include the general rollout of smart meters across the national grid. The AEMC is developing an approach to understand challenges and opportunities linked to the spread of smart meters.  
One of the AER’s compliance and enforcement priorities for 2019-20 is supporting the transition to metering contestability to ensure consumer and market benefits are delivered. The AER has also started reporting on smart meter installations and complaints through its quarterly and annual retail market performance reporting. |  |
| 16  | Transfer responsibility for setting network reliability requirements to the AER | Responsibility for setting network reliability requirements should be placed on the AER or other NEM market body, based on a value of customer reliability (VCR) methodology. The responsible market body must ensure changes to requirements are in line with customer preferences on affordability.  
The AEMC finalised a rule change to make the AER responsible for calculating VCR estimates. This rule requires the AER to develop a VCR methodology and calculate the first VCR estimates under that methodology by 31 December 2019.  
The AER is undertaking a review of value of VCR methodology.  
IPART has been directed by the Premier of NSW to review electricity distribution reliability standards, taking into account the VCR values to be published by the AER as a result of this VCR review. | Implemented | The AER’s VCR decision will be published in December 2019. |  |
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<td>17</td>
<td>Simplify regulatory framework and continue to minimise framework complexity when amending rules</td>
<td>The AEMC should: - as part of its annual network regulatory framework review, examine areas which can reduce the complexity of the existing framework and the time needed to implement changes - in amending any rules, be required to minimise additional complexity in the overall rules framework.</td>
<td>Progressing</td>
<td>In August 2018 the COAG Energy Council agreed to act quickly to progress this recommendation. The annual Electricity Network Economic Regulatory Framework Review examines whether the economic regulatory framework is robust, flexible and continues to support the efficient operation of the energy market in the long term interest of consumers. For the 2019 review the AEMC has two work streams. (1) continuing to implement the Finkel recommendation on network incentives. (2) regulatory sandboxes. The AEMC’s draft report released on 11 July recommends that a regulatory sandbox be introduced. A regulatory sandbox is a simplified regulatory framework within which innovative technologies and business models can be trialled. The AEMC has proposed three new tools to facilitate proof-of-concept trials: • an innovation inquiry service, to provide guidance and feedback and help businesses get trials up and running quickly where they are feasible under current laws and regulation • a new regulatory waiver power for the AER so they can temporarily exempt trials from existing rules where this is creating a barrier • a new AEMC trial rule change process that can quickly and temporarily change existing rules or temporarily introduce a new rule of limited application to allow a trial to go ahead.</td>
<td>The Final Report on the AEMC review is expected in September 2019.</td>
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<td>18</td>
<td>AEMC consider moving more of the framework out of regulations and into AER guidelines</td>
<td>To further assist with reducing the complexity of the rules and improving the timely adaptability of the framework, consideration should be given by the AEMC as part of its ongoing reviews of the NER to areas where the NER can be amended to make greater use of AER guidelines, rather than the codification of detailed regulatory assessment methodologies and processes within the NER. The AER should be able to initiate reviews of its guidelines to ensure they evolve with market developments and best regulatory practice. This additional flexibility will mean that regulatory proposal assessment methodologies are able to be kept up to date without always needing a rule change process. Guidelines could only be developed within the scope of the rules and in accordance with the processes set out in the rules. The AEMC could consider the impact on the overall framework of any changed or new guidelines as part of its annual network regulatory framework review.</td>
<td>No progress</td>
<td>In August 2018 the COAG Energy Council agreed to act quickly to progress this recommendation.</td>
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<td>19</td>
<td>Remove government specific charges that do not relate to the provision of network services</td>
<td>Governments should remove jurisdictional specific costs (taxes) that do not relate to the provision of network services. For example, Victoria should remove the easement land tax included in AusNet Services’ transmission network costs.</td>
<td>No progress</td>
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<td>20</td>
<td>The AER should have more flexibility in making regulatory determinations</td>
<td>The NER should be amended to allow the AER more flexibility in undertaking the process of making regulatory determinations. This should allow for streamlined and more efficient assessment of network costs and allow the framework to adapt to the changing role of networks in providing electricity to consumers. Greater flexibility would allow the AER to better take into account any agreements between customers and networks, and use processes that are better aligned with the quality of the proposal, reducing regulatory burden on businesses and consumers. This in turn will incentivise networks to better engage with their consumers, improving engagement and consumer outcomes.</td>
<td>Progressing</td>
<td>The AEMC considers these issues through its annual Electricity Network Economic Regulatory Framework Reviews. In its 2019 review approach paper, the AEMC advised that it will continue to monitor and liaise with the COAG Energy Council on potential responses to this recommendation, so that it can respond appropriately to any COAG decisions and referrals. In June 2017 the AER, Energy Networks Australia (ENA) and Energy Consumers Australia (ECA) launched a joint initiative called ‘New Reg’ to explore ways to improve sector engagement and identify opportunities for regulatory innovation. The goal of this initiative is to ensure that customers’ preferences drive energy network businesses’ proposals and regulatory outcomes. AusNet Services is conducting the trial of the New Reg process in the development of its regulatory proposal for the 2021-25 period.</td>
<td>The Final Report on the AEMC review is expected in September 2019.</td>
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<td>21</td>
<td>Third parties should be able to offer demand response directly into the wholesale market</td>
<td>In relation to wholesale demand response, a mechanism should be developed for third parties to offer demand response directly into the wholesale market. Design of the mechanism should commence immediately, building on work undertaken in the AEMC's Reliability Frameworks Review. The mechanism should: - promote competition through allowing the widest range of businesses to directly offer demand response services - not allow retailers to limit the ability of their customers to engage a third-party demand response provider (to the extent it is not inconsistent with the retail contract) - ensure load and generation response are valued appropriately based on the benefit they provide to the wholesale market - limit technical requirements placed on the customer that may inhibit take up or scope of these services (for example, requirements for multiple meters at the customer site).</td>
<td>Progressing</td>
<td>The AEMC has commenced consultation on three rule change proposals from the SA Government, Public Interest Advocacy Centre (PIAC) and the Australian Energy Council (AEC) seeking to implement a wholesale demand response mechanism. The AEMC's draft determination proposes to allow third parties other than retailers to offer demand response directly into the wholesale market.</td>
<td>The AEMC’s final determination is expected in November 2019.</td>
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<td>22</td>
<td>Promote greater network utilisation of demand response</td>
<td>In relation to network demand response: The AER, in undertaking the revenue determination process, should include a more explicit focus on assessing the efficient use of non-network expenditure. This should involve a robust assessment of a network business's actual and proposed non-network expenditure, including a comparison of the overall proportions of non-network expenditures against the network's capital expenditure, and benchmarking across businesses. Further, consultation by the AER and networks through the process should include engagement with third-party demand response providers. – Distribution businesses should apply to the AER for early application of the new Demand Management Incentive Scheme (DMIS) (ahead of their next regulatory determination) to bring forward incentives for greater use of demand response. The DMIS and Demand Management Innovation Allowance (DMIA) should also be extended to transmission businesses. – The AEMC should consider in its annual review of the electricity network economic regulatory framework whether network assets are being used efficiently to provide benefits in addition to distribution services (for example, as a substitute for generation in the wholesale, Reliability and Reserve Trader (RERT) or Frequency Control Ancillary Services (FCAS) markets). This assessment should explore whether: - clarification is needed of what services can be provided directly by network businesses in contestable markets - there are any aspects of the existing framework or technical barriers that prevent network assets being used to provide efficient non-distribution services - the shared asset arrangements provide for a reasonable share of value extracted from the provision of non-distribution services flowing to customers - it is appropriate for some non-distribution services (such as voltage control) to be obtained from network assets under direction from AEMO rather than procured through competitive markets.</td>
<td>Progressing</td>
<td>The AEMC is currently consulting on a rule change request that would require the AER to develop a DMIS and DMIA to apply to transmission networks. With regard to distribution businesses: • The AER has approved applications from AusNet Services, Energy Queensland, Ausgrid and Endeavour for early application of the DMIS. • United Energy also applied for early application of the DMIS in June 2019 for starting the new scheme in November 2019. • All distributors have applied to implement the new DMIS and DMIA in the next regulatory period.</td>
<td>AEMC’s draft report on DMIS and DMIA for transmission network service providers (TNSPs) – 26 September 2019.</td>
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<td>23</td>
<td>Improving regulatory certainty around stand-alone power systems</td>
<td>In relation to stand-alone systems, immediate work should be undertaken to identify and implement changes to the NEL and NER, and the National Energy Retail Law (NERL) and National Energy Retail Rules (NERR), to allow distributors to develop off-grid supply arrangements for existing customers or new connections where efficient. These arrangements should: - subject customers under these arrangements to equivalent costs and protections as if they were connected to the grid, including in respect of the obligation to supply, reliability and security of supply - be adopted on a consistent basis across the NEM, replacing current state-based regulation of off-grid systems - be operated under a contestable framework, with distribution businesses restricted to operating them through ring-fenced entities.</td>
<td>Progressing</td>
<td>The AEMC is undertaking a review of the regulatory frameworks for stand-alone power systems (SAPS). There are two priorities – Priority 1 and Priority 2. Priority 1 is to develop a national framework to facilitate the transition of grid-connected customers to SAPS supply provided by the current Distribution Network Service Provider, as well as a mechanism for the transition of grid-connected customers to third party SAPS supply. Priority 2 is to develop a national framework for the ongoing regulation of third party led SAPS.</td>
<td>Final report for priority 2 – 31 October 2019.</td>
</tr>
<tr>
<td>24</td>
<td>Abolish the SRES by 2021</td>
<td>The SRES should be wound down and abolished by 2021.</td>
<td>No progress</td>
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<td>25</td>
<td>States should absorb costs from premium solar feed-in tariff schemes</td>
<td>To reduce the costs associated with premium solar FiT schemes: – any costs remaining from such schemes should be borne by state governments through their budgets, as Queensland has done for the next three years, rather than being recovered through charges to electricity users, and this should be done on a permanent basis where: – a premium solar FiT scheme has finished, as is the case in NSW, the collection of charges previously used to pay FiTs through network premiums should also end – ongoing scheme eligibility rules should be reviewed and tightened to ensure that costs of these schemes are minimised.</td>
<td>Progressing</td>
<td>The Queensland Government agreed to pay for the costs of its premium FiT scheme (Solar Bonus Scheme) for three years from 2017-18 to 2019-20.</td>
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<td>26</td>
<td>Victoria should join the National Energy Customer Framework (NECF)</td>
<td>Victoria should join the NECF to streamline regulatory obligations on retailers in the NEM and reduce retailers’ costs to serve. In any interim period before joining the NECF, Victoria should take steps to harmonise its regulatory approach with the NECF.</td>
<td>No progress</td>
<td></td>
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<td>27</td>
<td>States should review NECF derogations to apply consistent framework</td>
<td>Each NECF jurisdiction should review its derogations from the NECF and unwind any derogations that are not based on jurisdiction-specific characteristics or needs that cannot be met by NECF-wide rules.</td>
<td>No progress</td>
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<td>28</td>
<td>Future derogations from the NECF should be limited</td>
<td>Future derogations from the NECF should be limited to situations where there are jurisdiction-specific needs that cannot be addressed by a NECF-wide rule change.</td>
<td>No progress</td>
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<td>29</td>
<td>Make end of contract notices consistent with end of benefit notices</td>
<td>The requirements for notices sent by retailers to customers prior to the end of a contract should be consistent with the new requirements for expired benefit notices.</td>
<td>No progress</td>
<td>In August 2018 the COAG Energy Council agreed to act quickly to progress this recommendation.</td>
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| 30  | Introduce the default market offer | In non-price regulated jurisdictions, the standing offer and standard retail contract should be abolished and replaced with a default market offer at or below the price set by the AER.  
– Designated retailers, as defined in the NERL, should be required to supply electricity to consumers under a default offer on request, or in circumstances where the consumer otherwise does not take up a market offer.  
– The default offer should contain simple pricing, minimum payment periods, and access to bill smoothing and paper bills.  
– The AER should be given the power to set the maximum price for the default offer in each jurisdiction. This price should be the efficient cost of operating in the region, including a reasonable margin as well as customer acquisition and retention costs.  
– The default offer should be used by retailers in all circumstances where a standing offer is currently used. This includes circumstances where a consumer has moved into a premises but has not contacted the retailer, where a consumer has not selected a market offer before the expiry of a market contract, and where a consumer is switched through a retailer of last resort event. | Implemented       | The Australian Government implemented recommendations 30, 32, 49 and 50 through a mandatory code under the *Competition and Consumer Act 2010*.  
*The Competition and Consumer (Industry Code—Electricity Retail) Regulations 2019* (the Electricity Retail Code) came into force on 1 July 2019.  
The Electricity Retail Code applies to all retailers that supply electricity to small customers in the distribution regions of NSW, SA and SEQ. Under the Electricity Retail Code, standing offer prices must not exceed a reference price set out in the AER’s DMO determination.  
On 30 April 2019 the AER published its Final Determination on DMO prices for 2019-20. It has commenced work on the 2020-21 DMO. As outlined in the Electricity Retail Code, the AER will make their next Determination by 1 May 2020.  
The Victorian Government also introduced the VDO (which came into force on 1 July 2019) in the Victorian retail market. | AER to make a DMO determination for 2020-21 by 1 May 2020.  
ESCV to publish a draft decision in September 2019 for the VDO tariffs to apply from 1 January 2020. |
| 31  | Apply the CDR to the electricity sector | The application of the CDR to the electricity sector should be pursued as a priority under the CDR framework regulated by the ACCC. Consumers and their authorised representatives should have access to at least historical consumption data, product data, meter data and customer data. | Progressing        | In February 2019 the ACCC consulted on three data access models for the CDR to apply in the energy sector.  
*The Treasury Laws Amendment (Consumer Data Right) Bill 2019*, the legislation that will underpin the CDR, was passed by both houses of Parliament on 1 August 2019. | The ACCC will publish its position paper on its preferred data access model for the energy sector. |
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| 32  | Discounts should be advertised against an AER reference bill                                 | If a retailer chooses to advertise using a headline discount claim it must calculate the discount from the reference bill amount published by the AER.  
– The AER should publish a reference bill amount for each distribution zone using AER bill benchmarks for medium (2–3 person) households and the price set by the AER for default offers (recommendation 30).  
– Retailers must calculate all discounts off the reference bill, including win-back and retention offers that have discounts attached to them.  
– Headline discounts in advertising must only include guaranteed (unconditional) discounts.  

The Australian Government implemented recommendations 30, 32, 49 and 50 through a mandatory code under the *Competition and Consumer Act 2010*.  
The Electricity Retail Code came into force on 1 July 2019.  
The Electricity Retail Code sets out how prices and discounts must be advertised, published or offered. The Electricity Retail Code requires retailers to compare their prices to the reference price, expressing the difference as a percentage of the reference price.  
In addition, the Electricity Retail Code prohibits retailers from presenting conditional discounts as the ‘headline’ or most prominent discount. | Implemented       |                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | Draft determination - September 2019. |
| 33  | Limit conditional discounts to reasonable expected savings                                    | Conditional discounts should be no higher than the reasonable savings that a retailer expects that it will make if a consumer satisfies the conditions attached to the discount. Retailers should bear the onus of substantiating that the conditional discount is reasonable.                                                                                                                                                                                                                                                                                                                                                                         | Progressing      | In February 2019 the federal Minister for Energy submitted a rule change proposal to the AEMC.  
The proposed rule change will limit conditional discounts for both gas and electricity retail offers to reasonable costs. Under the proposed rule change, retailers will be required to substantiate to the AER that the costs are reasonable.  
The AEMC published a consultation paper on 1 August 2019 seeking submissions in relation to the rule change request on conditional discounting. Submissions close 19 September 2019. |                      |
| 34  | Introduce a mandatory code of conduct for comparator sites                                   | The Australian Government should prescribe a mandatory code of conduct for third-party intermediaries, which addresses the issues discussed in chapter 14 of the REPI final report. For example, offers should be recommended based on price benefit to the consumer rather than the size of the commission received by the third-party. The code should contain civil penalty provisions for any breaches.                                                                                                                                                                                                                                                                                                      | Progressing      | In August 2018 the then Treasurer announced that the Australian Government will accept the ACCC recommendation to establish a mandatory code of conduct for energy comparator websites.  
In April 2019 the NSW Parliament passed the *Fair Trading Legislation Amendment (Reform) Act 2018 No 65*. The new law requires that commissions and referral fees will need to be disclosed when providing advice to consumers. This will help ensure that all consumers are made aware of conflicts of interest arising from commissions and referral fees paid to third parties. |                      |
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<td>35</td>
<td>Allow consumers to provide consent for third parties to access their data</td>
<td>Consumers should be able to provide their consent to third-party intermediaries to give Explicit Informed Consent (EIC) on their behalf. The mandatory code (recommendation 34) should outline the process that third-party intermediaries must undertake to ensure that they give EIC in a way that satisfies retailers’ obligations under the NERL.</td>
<td>No progress</td>
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<td>36</td>
<td>Provide funding to promote Energy Made Easy and the Victorian Energy Compare sites</td>
<td>The Australian Government and Victorian Government should commit to ongoing funding to raise awareness of the government-run comparator websites similar to the approach taken in New Zealand with the ’What’s My Number’ campaign.</td>
<td>Progressing</td>
<td>The Victorian Government Power Saving Bonus program offers $50 for households that use the Victoria Energy Compare website from 2018-19 to 2019-20.</td>
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<td>37</td>
<td>Improve concession schemes</td>
<td>COAG should improve concession schemes across the NEM to ensure that, to the extent possible, there is a uniform, national approach to electricity concessions. Concession schemes should:  - be means tested to ensure that they are targeted at those most in need  - include a fixed dollar amount to offset daily supply charges and a percentage discount to offset variable usage charges  - only require consumers to reapply for concessions where this is necessary for the administration of the concession scheme.</td>
<td>No progress</td>
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<td>38</td>
<td>Provide funding for energy literacy</td>
<td>In addition to existing funding, the Australian Government and the relevant state or territory government should fund (to a value of $5 per household in each NEM region, or $43 million NEM-wide, per annum) a grant scheme for consumer and community organisations to provide targeted support to assist vulnerable consumers to improve energy literacy. This grant scheme should be modelled on the approach taken by the Queensland Council of Social Services in administering the Switched on Communities program. This targeted support will assist vulnerable consumers to participate in the retail electricity market and choose an offer that suits their circumstances.</td>
<td>Progressing</td>
<td>There has been some progress in Victoria. Victoria’s Home Energy Assist program helps households reduce their energy consumption and determine whether they are receiving the best deal on energy bills. The Energy Brokerage Pilot (funded by Victorian Government and run by Brotherhood of St Lawrence) offers assistance to find and switch to a better energy offer.</td>
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<td>39</td>
<td>The AEMC makes the hardship rule change</td>
<td>The hardship rule change, proposed by the AER, should be made. This would allow the AER to issue an enforceable hardship guideline that stipulates what retailers must include in hardship policies, and require retailers to amend their hardship policies to meet the guideline. This new rule should be a civil penalty provision.</td>
<td>Implemented</td>
<td>In November 2018 the AEMC made a rule to help customers who are having trouble paying their bills due to hardship. On 29 March 2019 the AER published its Final Customer Hardship Policy Guideline which came into force on 2 April 2019.</td>
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<td>40</td>
<td>Better price monitoring</td>
<td>Retail price monitoring should be streamlined, strengthened and appropriately funded to ensure greater transparency in the market, reduced costs, and allow governments to more effectively respond to emerging market issues. This should be done by: – COAG Energy Council agreeing to streamline price monitoring and reporting to the AER and the AER receiving all the necessary powers to obtain information from retailers – COAG Energy Council agreeing to extend price reporting for retail electricity services to small to medium business customers state governments agreeing to close their own price reporting and monitoring schemes in favour of an expanded and strengthened NEM-wide regime customers. A NEM-wide price reporting and monitoring framework be implemented which includes a combination of price monitoring with full EBITDA data (including standardised costs to serve, attract and retain consumers, and margins), and consumer expenditure surveys. This reporting should be done on a regular basis and include customer expenditure data, based on representative customer surveys and retailer billing and offer data, and be reflective of demographic information.</td>
<td>Progressing</td>
<td>This recommendation is related to recommendation 54 which recommended improved and streamlined price reporting for SMEs. The Treasurer tasked the ACCC with a NEM price monitoring inquiry from 2018-2025.</td>
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<td>41</td>
<td>Expand AER market monitoring to include the contract market</td>
<td>The AER’s wholesale market monitoring should be expanded and appropriately funded to include monitoring, analysing and reporting on the contract market. This should include analysing the data reported to the OTC repository (recommendation 6), ASX data and data gathered directly from generators and retailers (including through the use of compulsory information gathering powers).</td>
<td>Progressing</td>
<td>This recommendation relates to recommendation 6 which recommends all OTC trades be reported to the AER. The ESB is considering recommendation 6 together with recommendation 41. A consultation paper on recommendation 41 was released in February 2019 to inform its advice to the COAG Energy Council. The ESB has released a consultation paper to inform its advice to the COAG Energy Council and supported the ACCC’s position. It proposed that the AEMC and AER work to draft law changes required to give effect to the AER’s expanded role. The recommended law changes are to be provided to the COAG. The AEMC has considered the AER’s expanded contract market monitoring role as part of the market making rule change request (recommendation 7). The AEMC has identified specific AER monitoring that should be enabled. This includes the ability of the AER to monitor compliance of participants in market making schemes, including the ASX market making scheme. The AEMC also proposes to work with the AER to determine whether large vertically integrated market participants should regularly report specific additional data to the AER.</td>
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| 42  | Boost civil penalties to levels being considered for the ACL | The COAG Energy Council should adopt all the suggested increased penalties to all civil penalty provisions listed in the consultation paper as a matter of priority, but instead of increasing the amount to $1 million as proposed, increases should be to the same levels as parliament is currently considering for the ACL ($10 million, three times the benefit gained or 10 per cent of turnover). The civil penalties suggested for increase to the maximum level across the NEL, NER, NERL and NERR relate to provisions listed in the consultation paper, such as:  
– information required for projected assessment of system adequacy  
– limitations on generators’ technical parameters—requirements only apply in certain circumstances  
– key requirements that generators must meet, regardless of the circumstances of their plant  
– the requirement to advise AEMO if a situation changes, and keep AEMO continuously informed obligations with respect to life support customers  
– wrongful disconnection by a retailer or network service provider requirement to implement hardship policy  
– explicit informed consent requirements for certain transactions. | Progressing | In August 2018 the COAG Energy Council agreed to act quickly to consider recommendations 42-46, relating to strengthening penalties and the AER’s investigative powers.  
In December 2018 the COAG Energy Council agreed to changes to the AER’s information gathering powers and reforms to civil penalty regimes. | Legislation expected to be introduced into the SA Parliament by the end of 2019. |
| 43  | Boost the rebidding penalty to levels being considered by the ACL | The rebidding rules that currently attract civil penalties of $1 million should also be increased to the new higher level penalties. And the wholesale provisions, arising from the ACCC recommendations 1 and 3 associated with the conduct of participants under the NEL, should be increased to the same level as well, and these provisions should be subject to disgorgement (ill-gotten gain) penalties. | Progressing | In August 2018 the COAG Energy Council agreed to act quickly to consider recommendations 42-46, relating to strengthening penalties and the AER’s investigative powers.  
Refer to recommendation 42 for progress on this recommendation. | |
| 44  | Allow the AER to seek community service and other orders | The COAG Energy Council should amend the energy laws in line with the current recommendations before the COAG Energy Council to allow the AER to seek community service orders, probation orders, and adverse publicity orders, as well as enabling the AER to seek that a third-party is required to undertake a community service order. | Progressing | In August 2018 the COAG Energy Council agreed to act quickly to consider recommendations 42-46, relating to strengthening penalties and the AER’s investigative powers.  
Refer to recommendation 42 for progress on this recommendation. | |
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<td>45</td>
<td>Allow the AER to compel oral evidence</td>
<td>The COAG Energy Council should provide the AER with the power to require individuals to give evidence before it.</td>
<td>Progressing</td>
<td>In August 2018 the COAG Energy Council agreed to act quickly to consider recommendations 42-46, relating to strengthening penalties and the AER's investigative powers. Refer to recommendation 42 for progress on this recommendation.</td>
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<td>46</td>
<td>Introduce a lower penalty level for minor breaches of certain provisions</td>
<td>The COAG Energy Council should amend the energy enforcement regime to: - permit the AER to issue a new lower level infringement penalty ($5000) for minor breaches of certain provisions for the NERL and NERR in addition to the current $20 000 infringement penalty for current provisions. The COAG Energy Council should identify provisions most suited to lower levels of penalty or provisions directed at smaller market participants like exempt sellers - increase penalties for destroying evidence or providing false or misleading information to the AER under its information gathering powers to levels equivalent to the ACL.</td>
<td>Progressing</td>
<td>In August 2018 the COAG Energy Council agreed to act quickly to consider recommendations 42-46, relating to strengthening penalties and the AER's investigative powers. Refer to recommendation 42 for progress on this recommendation.</td>
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<td>47</td>
<td>COAG Energy Council to develop ministerial principles to guide consumer protection regulation</td>
<td>The COAG Energy Council should develop a set of ministerial principles that inform rule changes and ministerial decisions relating to consumer protection regulation, including requirements to: - reduce regulatory complexity where appropriate and focus regulation on consumer outcomes - ensure consumers have access to necessary information and resources to make informed decisions - promote fair and reasonable treatment of consumers in day-to-day engagement with market participants - reduce the risk of inequity in outcome between consumers in the retail market - ensure regulatory flexibility to support technological and market innovation - understand the needs of vulnerable consumers and supporting their increased participation in the market.</td>
<td>No progress</td>
<td>In August 2018 the COAG Energy Council agreed to act quickly to progress this recommendation.</td>
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<td>48</td>
<td>Review the NECF by 2022</td>
<td>The COAG Energy Council should undertake a review of the effectiveness of the NECF three years after the implementation of the inquiry recommendations and no later than four years after the release of the REPI final report.</td>
<td>No progress</td>
<td>In August 2018 the COAG Energy Council agreed to act quickly to progress this recommendation.</td>
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<td>49</td>
<td>Extend the default offer to SMEs</td>
<td>The ACCC’s recommendation to abolish the standing offer and replace it with a ‘default offer’ at or below a price set by the AER (recommendation 30) should be extended to all generally available offers including offers for SME customers.</td>
<td>Implemented</td>
<td>The Australian Government implemented recommendations 30, 32, 49 and 50 through a mandatory code under the Competition and Consumer Act 2010. The Electricity Retail Code came into force on 1 July 2019. The Electricity Retail Code applies to all retailers that supply electricity to small customers in the distribution regions of NSW, SA and SEQ. Under the code, standing offer prices must not exceed a price the DMO determined by the AER. As outlined in the Electricity Retail Code, the AER will make their next Determination by 1 May 2020. The Victorian Government also introduced the VDO offer (which came into force on 1 July 2019) in the Victorian retail market.</td>
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<td>50</td>
<td>Discounts should be calculated from a reference bill for SMEs</td>
<td>The ACCC’s recommendation that all discounts must be calculated from a reference bill amount set by the AER (recommendation 32) should be extended to all generally available offers including offers for SME customers. The AER should develop a process for determining a benchmark for representative usage levels for an average SME customer. Similarly, restricting conditional discounts to the reasonable savings that a retailer expects to make if a consumer satisfies the conditions (recommendation 33) should also apply to offers for small business.</td>
<td>Implemented</td>
<td>The Australian Government implemented recommendations 30, 32, 49 and 50 through a mandatory code under the Competition and Consumer Act 2010. The Electricity Retail Code came into force on 1 July 2019. The Electricity Retail Code sets out how prices and discounts must be advertised, published or offered. The Electricity Retail Code requires retailers to compare their prices to the reference price, expressing the difference as a percentage of the reference price. In addition, the Electricity Retail Code prohibits retailers from presenting conditional discounts as the ‘headline’ or most prominent discount.</td>
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<td>51</td>
<td>Governments and market bodies should develop specific electricity market awareness campaigns targeted at small business customers</td>
<td>Governments and market bodies should develop specific electricity market awareness campaigns targeted at small business customers. As part of these communication campaigns governments and market bodies should look at how it can channel marketing material through departments and agencies that service small business (such as small business representative groups) as well as existing channels of communication for energy.</td>
<td>No progress</td>
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<td>52</td>
<td>State and territory funding for SME electricity advice</td>
<td>State and territory governments should fund small business organisations to provide tailored retail electricity market advice. The fund should total $10 million over three years and be awarded on a competitive basis to small business representative organisations providing information, tools and advice to small businesses on retail electricity choices. This program could support individualised bill checking services and development of tools to help small businesses make better energy choices.</td>
<td>Implemented</td>
<td>In March 2019, the Australian Government announced the $11.7 million Business Energy Advice Program. The NSW Business Chamber was selected to run an energy advisory service ($10 million over 3 years). The service began in July 2019 and provides advice to small businesses to help them reduce their power use and better manage their bills. The program will also develop an energy benchmarking tool ($1.6 million) to help small businesses compare their energy use against similar businesses.</td>
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<td>53</td>
<td>Review of SME experiences in two years</td>
<td>After two years, the COAG Energy Council should review industry efforts to assist small businesses experiencing payment difficulties. The review should take into account metrics like customer satisfaction, disconnection levels and average debt levels for small businesses. The review should determine if industry-led improvements are effective or whether changes to the NERL are necessary to require retailers to have a hardship policy for small businesses.</td>
<td>No progress</td>
<td>In August 2018 the COAG Energy Council agreed to act quickly to progress this recommendation.</td>
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<td>54</td>
<td>Streamlined price reporting for SMEs</td>
<td>The ACCC’s recommendation in respect of improved and streamlined price reporting (recommendation 40) should include expanded reporting for small to medium business. Price reporting for businesses should be consistent with residential electricity price reporting and retailer cost reporting. The expanded and streamlined reporting process would also allow for disaggregated data on business customer switching trends, reporting on what SMEs are paying, and reporting on the kinds of offers they are on.</td>
<td>Progressing</td>
<td>This recommendation is related to recommendation 40 which recommended improved and streamlined retail price reporting. The Treasurer tasked the ACCC with a NEM price monitoring inquiry from 2018-2025.</td>
</tr>
<tr>
<td>No.</td>
<td>Short-form recommendation</td>
<td>Full recommendation</td>
<td>Stage of progress</td>
<td>Notes</td>
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<tr>
<td>55</td>
<td>State and territory governments to promote energy ombudsmen schemes for SMEs</td>
<td>State and territory governments should provide resourcing toward promoting energy ombudsmen schemes as a part of a broader marketing campaign to build small business engagement with retail electricity markets.</td>
<td>No progress</td>
<td></td>
</tr>
<tr>
<td>56</td>
<td>Provide government assistance for SMEs transitioning to cost reflective tariffs</td>
<td>Governments should make available well targeted assistance programs including energy efficiency audits to assist the businesses most adversely impacted by the transition to more cost network reflective tariffs.</td>
<td>No progress</td>
<td>This recommendation relates to recommendation 14 which recommends steps to accelerate the take up of cost-reflective network pricing.</td>
</tr>
</tbody>
</table>