

Implementing Retail Competition in the Electricity Sector: The Australian Experience

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Acknowledgement of Country



Barring Djinang artwork by Jade Kennedy. Reproduced with permission.

Agenda

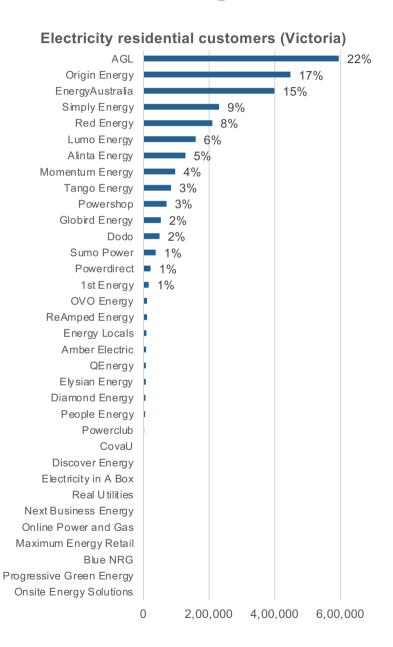
- 1. Context structure of the energy market
- 2. Licensing of retailers
- 3. Consumer protections and supporting consumers experiencing vulnerability
- 4. Effective competition
- 5. Role of the Victorian Default Offer

1. Context – structure of the energy market

Transmission Supply energy and distribution to you businesses Transmission Produce energy businesses Customer for you deliver electricity generated You use the energy from power supplied to you from Generators and stations through three types of energy producers high voltage companies. transmission lines Your energy bill covers: Power stations across the country. the electricity generate electricity. Distribution generated and the Producers extract businesses deliver gas produced gas from gas fields. electricity through the cost of Both sell the poles and wires delivering that and gas through energy they energy to you and produce into the pipes to your wholesale market. neighbourhood. the cost of billing. Arrange the Bill you for your Buy energy on Measure your delivery of your behalf energy use energy usage energy to you Retailers · Co-ordinate your energy supply and energy bill. Manage the risk of price changes when they buy energy from the wholesale market.

- Vertical separation of distribution and retail (and generation)
- Energy retailers own and operate generation assets, or contract with the wholesale market
- Mix of privatized and government-owned energy retailers competing in the market since 2002.

2. Licensing of retailers



- Energy retailers must be licensed by the commission to sell energy to customers
 - application required
 - public consultation
 - commission decision
- 57 electricity retail licenses, 30 gas retail licenses (not all to residential customers)
- Processes for retailer failure –
 Retailer of Last Resort Framework
 - transfer of customers to a local retailer

3. Consumer protections and supporting consumers experiencing vulnerability

Retailers are currently regulated via licence conditions and obligations set out in a mix of instruments:

- Victorian legislation (industry Acts)
- Codes of Practices (subordinate regulations administered by the commission)
- Licence conditions (via commission processes)
- Licence conditions (via Ministerial Orders)

The Essential Services Commission, as the regulator, can use its compliance and enforcement powers on retailers for breaches of many of these obligations.

3. Consumer protections and supporting consumers experiencing vulnerability



Supporting consumers experiencing vulnerability – payment support for customers in energy debt, family violence protections

Consumer confidence and trust



Clear and fair contracts – price increases limited to once a year, discounting practices regulated, a regulated price for electricity



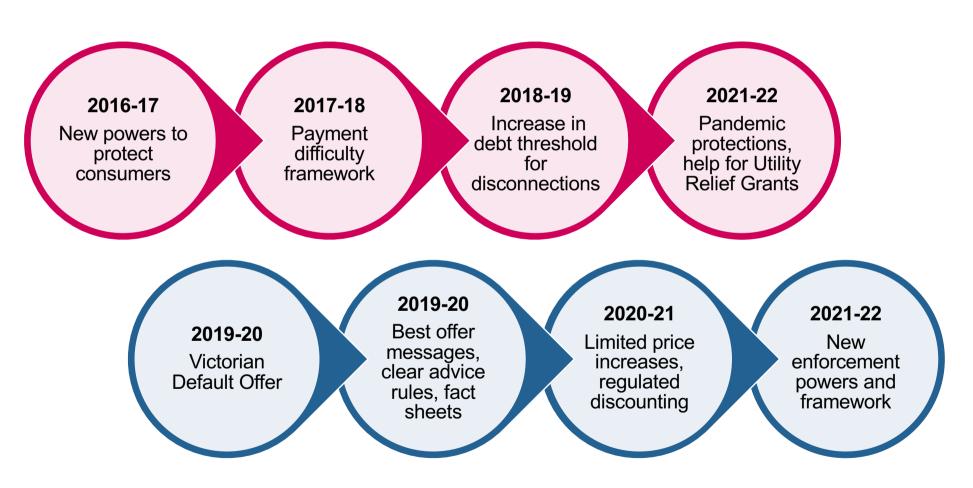
Transparency – 'best offer' messages, government comparison website, rules on advertising practices and providing advice to customers

3. Effective competition in the retail market

- Competition in the market that delivers positive longterm outcomes for Victorian consumers
- Recognises that competition is a means to an end rather than an end in itself.
- Key concerns emerging since 2016-17:
 - Peak disconnection of energy customers by retailers to manage energy debt
 - High standing offer prices set by retailers (varying significantly across the market)
 - Unclear discounting practices, leading to high costs to customers if discount conditions are not met
 - Bait and switch' tactics to attract new customers

3. Effective competition in the retail market

Major market reforms required since 2016-17



5. Role of the Victorian Default Offer

Two types of energy offers available in the market:

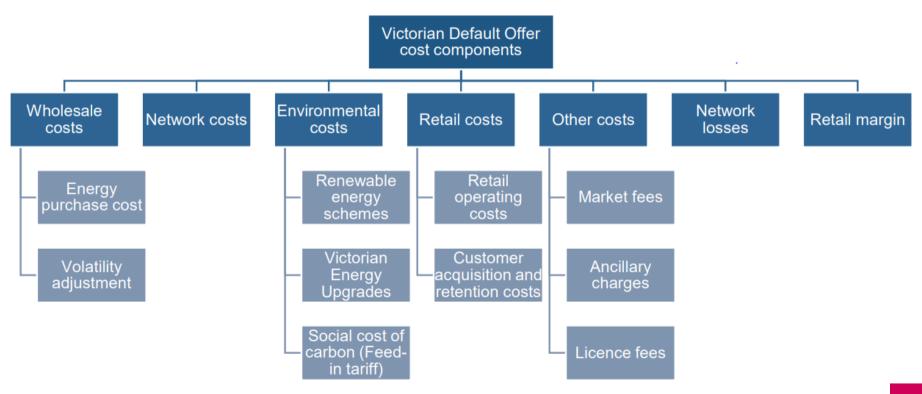
- Market offers:
 - Prices set by retailers
- Standing offers (regulated contract terms and conditions):
 - For gas prices set by retailers, but must be gazetted and limits to price increases
 - For electricity the Victorian Default Offer a regulated price set by the commission

5. Role of the Victorian Default Offer

- A simple and trusted electricity price set by the regulator
- A price protection, particularly given a history of very high standing offer prices previously set by retailers
- Accessible to households and small business customers (<40MWh per year)
- Electricity retailers must make the offer available to customers who request it
- A default offer when moving house (but have not entered into a contract), or when a fixed-term contract ends
- Applicable as a maximum price for customers in embedded networks (such as some apartments)

5. Role of the Victorian Default offer

- Annual consultation process
- Commission applies a 'cost stack' approach:
 - estimates and analysis updated based on most recent information
 - data from retailers using information gathering powers



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Questions and discussion