



Victorian Energy
Market Update
January to March 2018



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Introduction

This is our second update on the Victorian energy market in 2017-18. It provides important information about the market for January to March 2018.

This update provides a summary on:

- an update on energy offers and discounts
- new licences issued to energy businesses
- the latest information on customer disconnections, estimated billing, and customers paying for bills using instalment payment plans
- how energy companies are complying with the energy rules and
- our actions to improve outcomes for Victorian energy consumers.

This update meets our reporting obligations under Sections 54V and 54W of the *Essential Services Commission Act 2001*, Section 39A of the *Electricity Industry Act 2000* and Section 47 of the *Gas Industry Act 2001*.

Our next update on the Victorian energy market will be published in September 2018.

1. Update on energy offers

Latest standard contract prices

Retailers can publish new standard contract (or standing offer) prices twice a year. In 2017-18 this occurred in December and June.

Only one retailer, Alinta Energy, published new prices on electricity and gas standard contracts that will take effect from July 2018.¹ The estimated annual bills from standard contracts of all retailers are shown in figure 1.2 and figure 1.3 on the next page.

While standard contract prices for other energy retailers are unchanged, the number of electricity customers on these contracts is decreasing.

In March 2018, 5.8 per cent of residential electricity customers were on standard contracts with their retailer (compared to 6.6 per cent of customers in July 2017). The number of gas

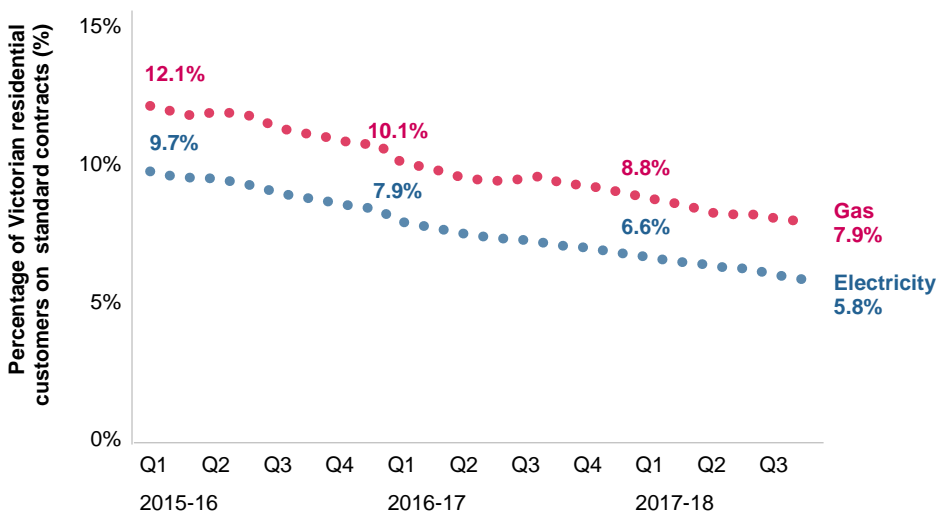
customers on standard contracts also decreased, from 8.8 per cent in July 2017 to 7.9 per cent in March 2018. This is shown in figure 1.1 below.

The retailers with the largest number of electricity and gas customers on standard contracts are EnergyAustralia, AGL and Origin Energy.

If you have not changed your energy contract since 2002, you will be on a standard or 'standing' contract with an energy retailer. If you have changed your energy contract, you are likely to be on a market contract.

Have you moved house and not contacted an energy retailer? If not, you are likely to be on a standard contract with an energy retailer.

Figure 1.1 Percentage of residential customers on standard contracts in Victoria



¹ We have estimated, based on the tariffs published by Alinta Energy in the Victorian Government Gazette, that the price changes will lead to a 2.4 per cent decrease in a typical annual residential electricity bill, and a 1.8 per cent decrease for an annual gas bill for that retailer.

Figure 1.2 Estimated annual bills for residential electricity customers on standard contracts from July 2018

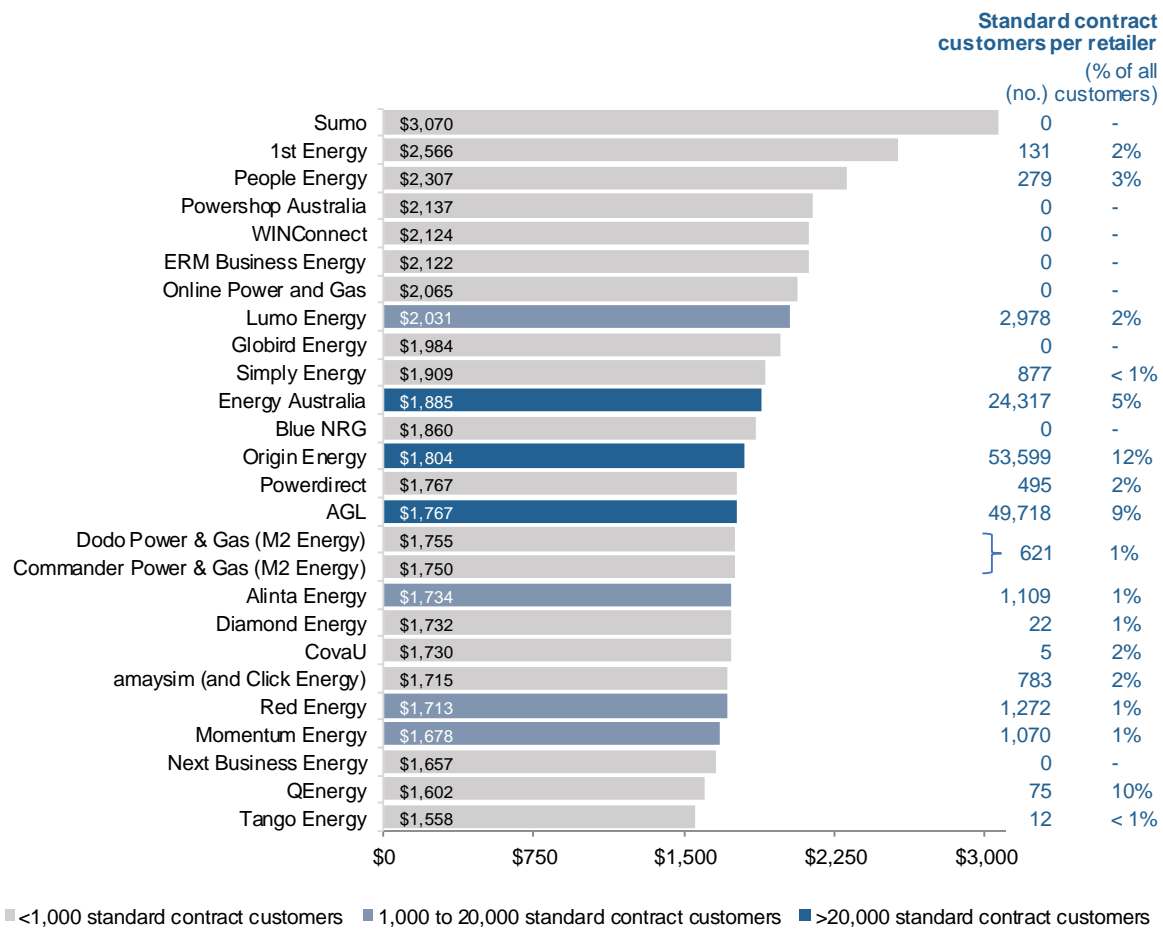
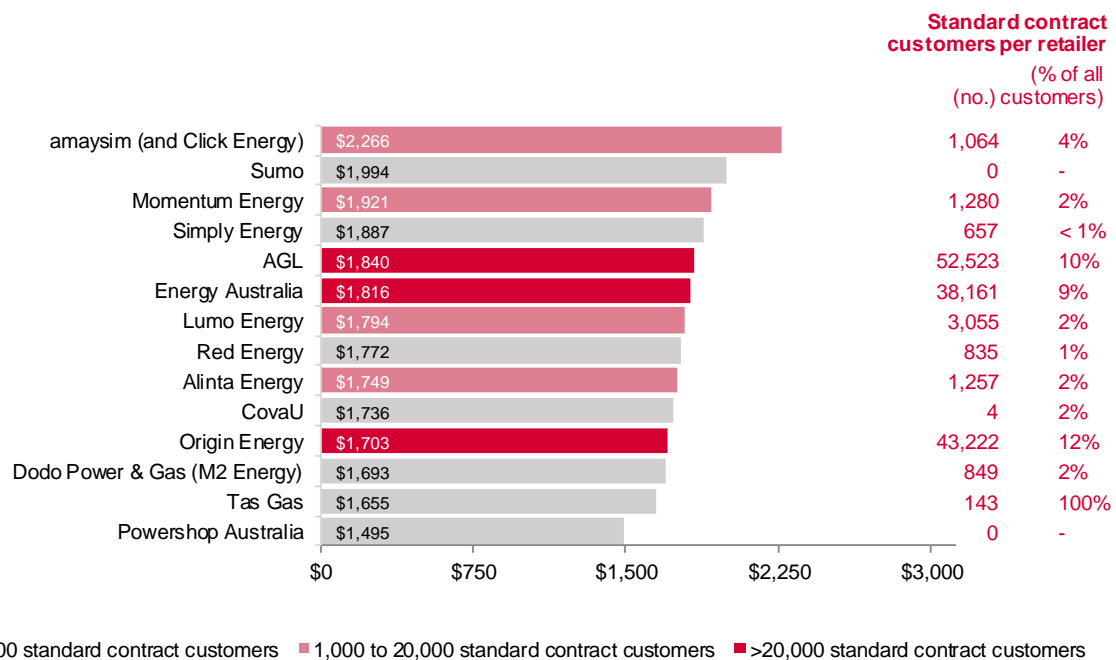


Figure 1.3 Estimated annual bills for residential customers on standard contracts from July 2018



Based on a typical residential customer using 4,000 kWh per year for electricity and 54.4 GJ per year for gas, on all standard contract offers (flat and multi-flat offers), including GST. Calculated as averages across Victoria.

Increasing discounts may not lead to lower energy bills

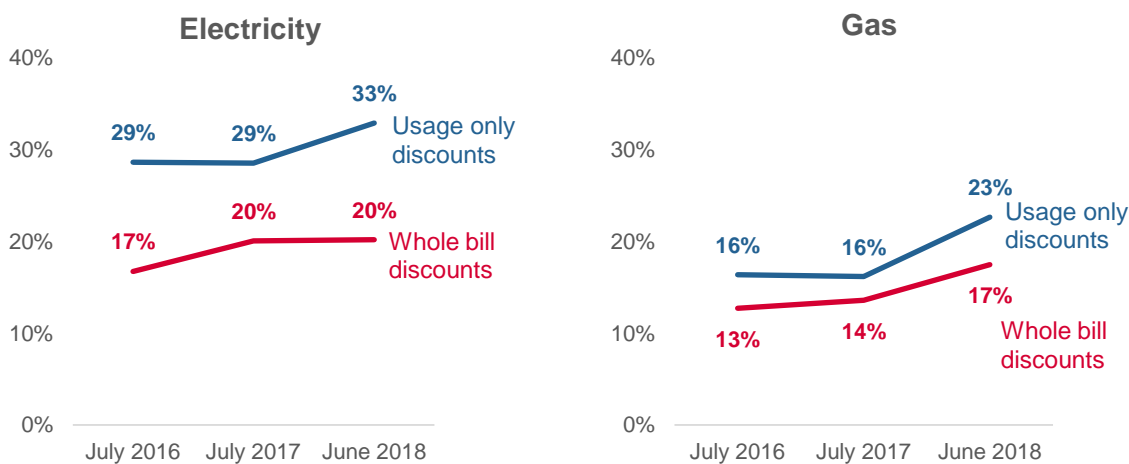
We reviewed the energy offers published by retailers since 2016 and found that retailers are now offering even larger discounts. For example, in July 2016, retailers offered an average discount of 29 per cent off the usage part of an electricity bill. The average discounts on usage offered on new market contracts has now increased to 33 per cent as of 1 June 2018 (as per figure 1.4).

An overall increase in discounts is a welcome development if it leads to falling energy prices. However, the commission, like the Australian Competition and Consumer Commission (ACCC) and the Australian Energy Market Commission (AEMC), remains concerned about the potential for discounting to provide confusing information.

For example, figure 1.5 shows that larger discounts offered by retailers do not directly relate to lowest offers available in the market. We reviewed the lowest offers available from retailers on 1 June 2018 and ranked these by their estimated annual bill amounts (these include retailers' lowest offers with discounts on the usage part of the bill, with discounts on the entire bill, and those without any discounts).

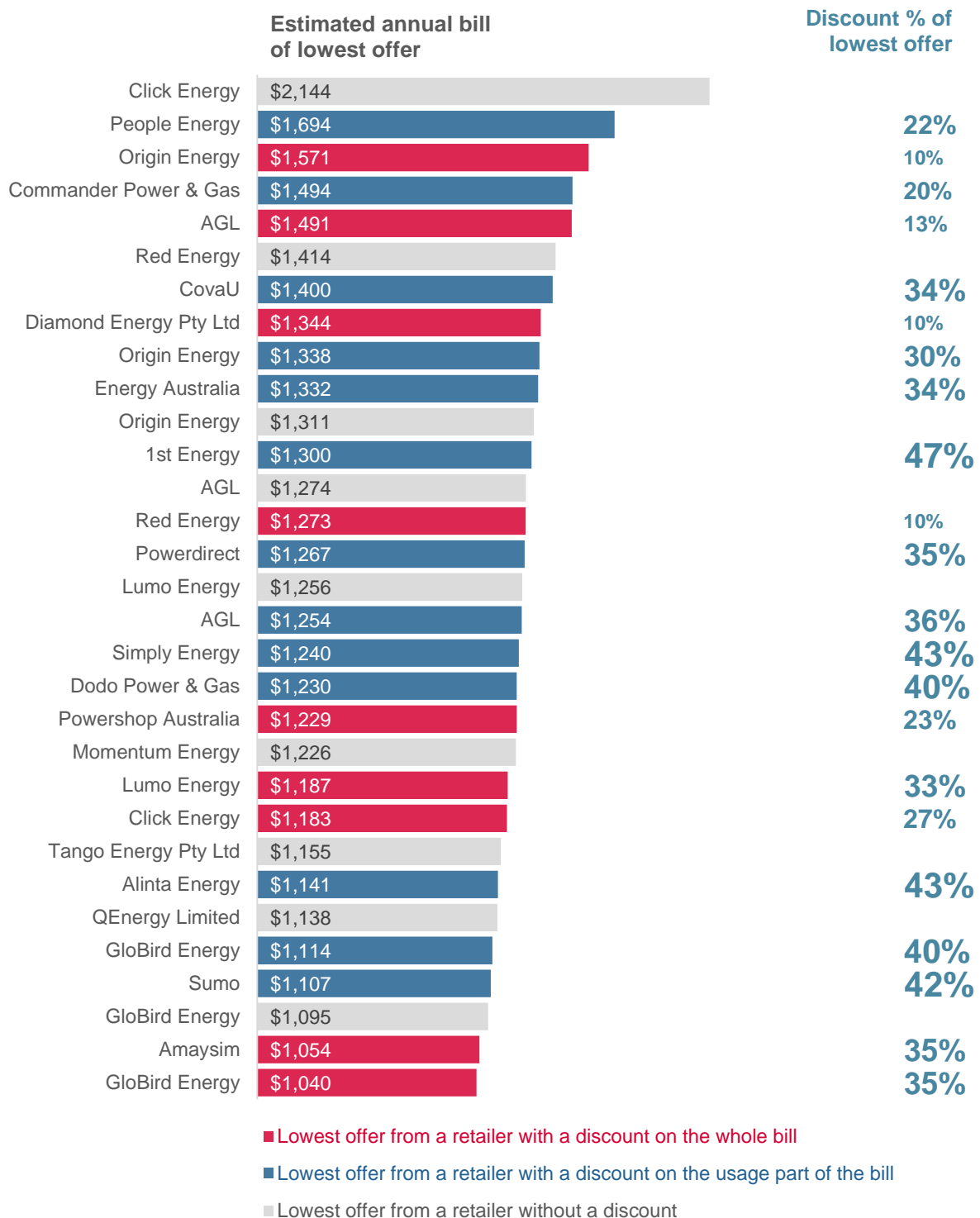
We are also concerned that high discounts that are conditional on the customer paying on time could have a significant financial impact on customers facing payment difficulties. Customers on some of the discounts shown in figure 1.5 could pay \$400 to \$500 more (on an annual basis) if they fail to meet conditions attached to those discounts – for example, if they do not pay their bills on time.

Figure 1.4 Average discount percentages of all Victorian energy offers since July 2016



Average of discount percentages of offers available on 1 June 2018 in Victoria (including offers with controlled loads).

Figure 1.5 Rank of retailers' lowest electricity offers by discount percentage and estimated annual bills when conditions are met (available as at 1 June 2018)



The chart separately shows the lowest offer from a retailer with discounts on the whole bill, with discounts on the usage part of the bill, and offers without a discount. Bill estimates are based on a typical residential customer using 4,000 kWh per year for all generally available electricity offers available on 1 June 2018 in the United Energy area (excluding offers with controlled loads), including GST.

2. Licensing for energy innovation in Victoria

Electricity generators need to apply to us for a licence to operate in Victoria. We have been reviewing and issuing licenses to electricity generators since 1999.

Between January and March 2018, we granted two new licences for businesses to generate electricity at a large-scale.

We granted a licence to the first large-scale solar farm to be developed and operated in Victoria. The solar farm, located in Gannawarra (northern Victoria), is expected to consist of 170,000 solar modules with a total generation capacity of 55MW. We are currently reviewing another licence application from a 100MW solar park to be located in north-west Victoria.

Another licence was also granted to Salt Creek Wind Farm located in Victoria's south west, with a generation capacity of 54MW.

All electricity and gas distributors and retailers operating in Victoria also need to be licensed by the Essential Services Commission.

In March 2018, we granted one retail electricity licence to Delta Electricity, to sell electricity to medium and large business customers.

We are currently processing a number of licence applications. Three have been displayed publicly, as required by legislation. These include applications for: a retail gas licence, a wholesale electricity licence and an electricity generation licence. These three applications can be found at www.esc.vic.gov.au/electricity-licensing-and-exemptions.

Figure 2.1 Location of newly licenced electricity generation sites in Victoria



3. Customers facing payment difficulty

Disconnections have increased

Some customers find it difficult to pay for their energy bills, which could result in debt with their retailer. There are also cases where customers could be disconnected for not paying their bill. However, customers can be disconnected only after their retailer follows strict procedures set out in the energy rules.

Between January and March 2018, customers who have been disconnected for not paying their bill increased by 11 per cent compared to the previous quarter. However, this increase follows a

sharp decrease in disconnections by large retailers in December 2017.

Since July 2017, there were a cumulative total of 39,544 disconnections of customers for not paying their energy bills, which is 22 per cent higher than July 2016 to March 2017.

From 1 July 2018, there will be a higher threshold to disconnect customers. We will continue monitoring the disconnections of customers under these new thresholds.²

Figure 3.1 Residential disconnections for non-payment, cumulative per quarter³

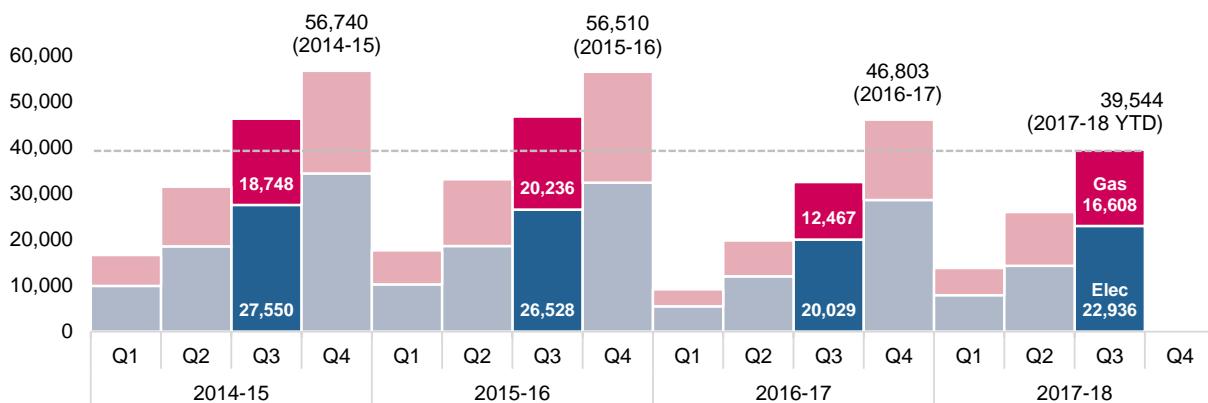


Table 3.1 Residential disconnections for non-payment, per quarter

| Financial year quarter | Electricity | | | | Gas | | | |
|--------------------------------|---------------|---------------|---------------|--|---------------|---------------|---------------|--|
| | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2014-15 | 2015-16 | 2016-17 | 2017-18 |
| Q1: July to September | 9,900 | 10,255 | 5,476 | 7,882 | 6,744 | 7,420 | 3,706 | 5,966 |
| Q2: October to December | 8,618 | 8,345 | 6,543 | 6,402 | 6,221 | 7,113 | 4,092 | 5,754 |
| Q3: January to March | 9,032 | 7,928 | 8,010 | 8,652 | 5,783 | 5,703 | 4,669 | 4,888 |
| Q4: April to June ⁴ | 6,868 | 5,832 | 8,560 | - | 3,574 | 3,914 | 5,027 | - |
| Total | 34,418 | 32,360 | 28,589 | 22,936 <i>(year to date)</i> | 22,322 | 24,150 | 17,494 | 16,608 <i>(year to date)</i> |

² The minimum debt you could owe before being disconnected will increase from \$132 to \$300 including GST.

³ Note that the reported data are for the number of instances a disconnection occurs. If a customer is disconnected twice in a quarter, this is represented as two disconnections in that quarter.

⁴ Q4 data on disconnections will be published in the next Victorian energy market update in September 2018.

More customers in payment difficulty are paying their energy bills using instalment payment plans

Customers in retailers' hardship programs may be able to access payment plans to help them pay off their energy debt or on-going bills in instalments.

Compared to last year, an additional four thousand hardship customers have taken up payment plans with their retailer each month this year (on average).

The number of payment plans with a plan size greater than \$1,000 is also increasing. 50 per cent of hardship customers on payment plans now have more than \$1,000 on their plans – a seven per cent increase compared to 2016-17 (as shown in figure 3.2).

These increases highlight the timeliness of the new entitlements we are introducing for customers facing payment difficulty.

From 1 January 2019, Victorian customers who are struggling to pay their energy bills will be able to access more comprehensive forms of assistance from their energy retailer. This includes different arrangements to pay their energy bills or debt.

The commission welcomes the increase in the number of hardship customers that have a longer time to pay off large sums of money. Hardship customers with plans greater than \$1,000 and more than twelve months to pay has increased from 2016-17 (31 per cent in 2017-18, up from 21 per cent in 2016-17, as shown in table 3.2).

Figure 3.2 Proportion of hardship customers with payment plans of more than \$1,000

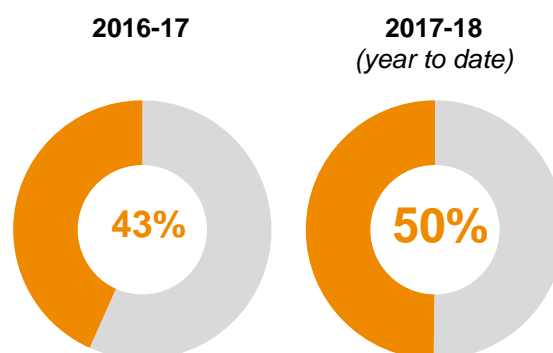


Table 3.2 Proportion of hardship customers with payment plans, by size and length

| | | 2016-17 (July 2016 to June 2017) | | |
|-------------|--------------|--|------------------------------|------------------------|
| | | Plan size < \$300 | Plan size \$300 - \$1,000 | Plan size > \$1,000 |
| Plan length | > 24 months | 0% | 2% | 8% |
| | 12-24 months | 7% | 10% | 13% |
| | 6-12 months | 1% | 6% | 9% |
| | < 6 months | 10% | 20% | 14% |
| | | 2017-18 YTD (July 2017 to March 2018) | | |
| | | Plan size < \$300 | Plan size \$300 - \$1,000 | Plan size > \$1,000 |
| Plan length | > 24 months | 0% | 2% | 13% (↑) |
| | 12-24 months | 9% (↑) | 13% (↑) | 18% (↑) |
| | 6-12 months | 1% | 4% (↓) | 8% (↓) |
| | < 6 months | 6% (↓) | 15% (↓) | 12% (↓) |

Percentages may not add up precisely to one hundred percent due to rounding.

Tracking the industry’s progress implementing our new payment difficulty framework

In late 2017, after working with consumer groups, financial counsellors and the energy industry, we introduced new rules to ensure customers are only disconnected as a last resort. The new rules are designed to ensure customers get equitable and timely assistance from their retailers to help manage their bills.

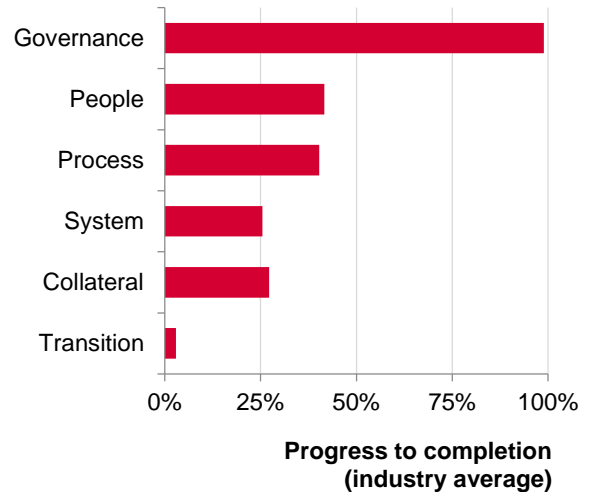
Energy retailers must provide the new entitlements for customers anticipating or facing difficulty in paying their energy bills from 1 January 2019.

Retailers are required to report to us on their progress in developing six different aspects of their business to be ready for implementing the new framework.

The average progress of the energy industry according to these categories is depicted in figure 3.3, as follows:

- **Governance.** Retailers report they are well on track with ensuring that their implementation plans are appropriately resourced and that a monitoring process is in place.
- **People and processes.** The industry is halfway towards developing processes and training staff to be ready for the implementation of the framework.
- **Systems and collateral.** The industry is a quarter of the way through updating their IT systems, and developing the materials such as revised hardship policies to inform customers regarding the new framework. We will focus on tracking retailer progress in developing these systems and reviewing hardship policies over the coming months.
- **Transition.** Nine retailers indicated they will be able to implement the new entitlements to customers earlier than required. The industry has also begun preparing their transition plans.

Figure 3.3 Progress of the energy industry in implementing the new payment difficulty framework by 1 January 2019



Estimated progress is based on the weighted average progress of retailer, by customer numbers

We are also developing new indicators for retailers to report to us on the outcomes of the new framework.

4. Compliance with the energy rules

Auditing energy companies in 2018

In 2018, we will be conducting a range of audits on energy distributors and retailers in Victoria. The audits will involve the following:

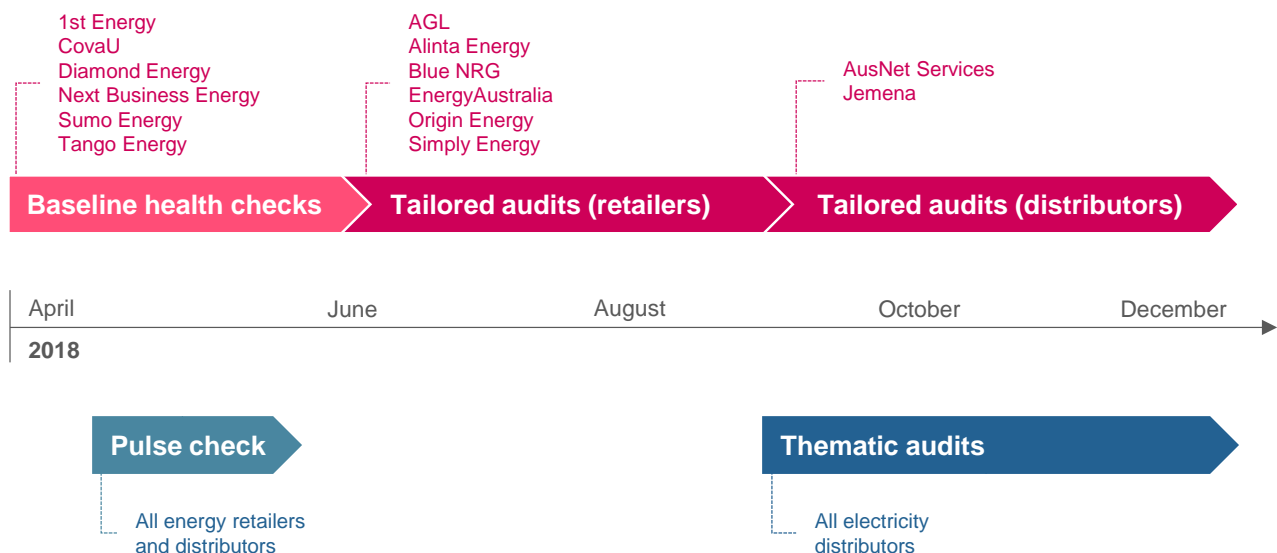
- We are currently reviewing energy companies on the way they estimate energy bills for customers. This type of audit is known as a pulse check.
- We will be auditing newly licenced companies on their obligations related to supporting customers on life support, customers in payment difficulty, and on billing and marketing practices. These audits are referred to as baseline health checks.
- We will be conducting tailored audits on specific energy companies to check how they have resolved specific issues we uncovered in their 2017 audits.

- We will be conducting thematic audits focusing on how energy distributors paid out the heat relief package to eligible customers (due to the power outages in January 2018).

A timeline of the audits we are conducting in 2018 are shown in figure 4.1.

Audits are conducted by independent companies who submit their findings to us for review. We use these findings to promote compliance with the energy rules. As the state energy regulator, we can also investigate issues further and take enforcement action where necessary. This can include issuing penalties to energy companies.

Figure 4.1 Audits to be conducted on energy companies in 2018





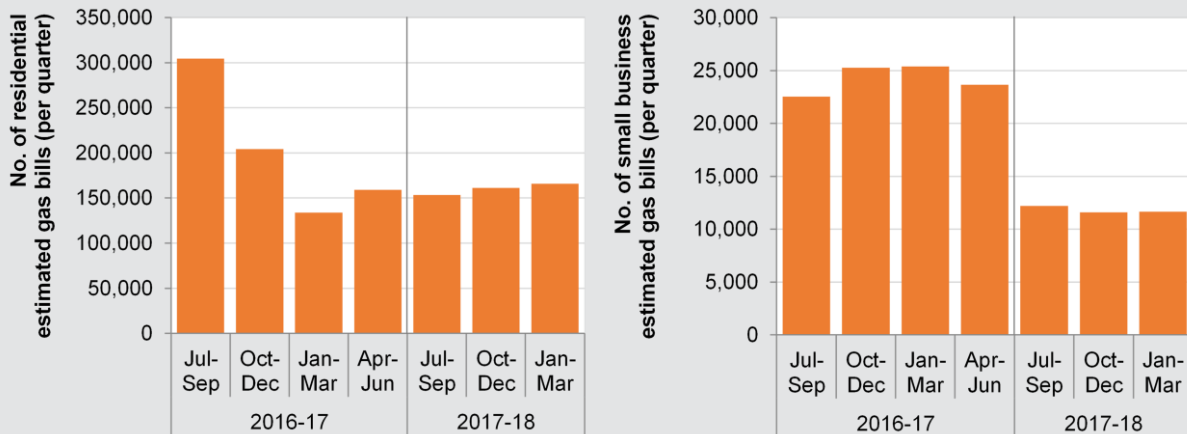
Auditing estimated billing practices of energy companies

Under the energy rules, retailers and distributors can estimate the energy use of customers to issue energy bills rather than the measured energy usage from their meter. However, energy companies can only estimate energy use in specific circumstances, for example, when they cannot physically access the meter to conduct the reading, or they are not able to receive reliable data from the meter. Each meter also is to be physically read at least once every twelve months under the energy rules.

Around 802,000 residential gas bills were estimated in 2016-17 in Victoria. From July 2017 to March 2018, 481,000 residential gas bills were estimated – a 25 per cent reduction compared to the same time in 2016-17. Around 97,000 small business gas bills were estimated in 2016-17.

Some customers have reported receiving estimated gas bills of very high amounts when compared to their actual usage. We are currently auditing the estimated billing practices of energy retailers and distributors, with a focus on the estimations that occurred in 2017. Our pulse check audit will focus on the specific processes in estimating bills, and whether it leads to appropriate outcomes for customers.

Figure 4.2 Estimated residential and small business gas bills per month since June 2016



Customers compensated by AusNet Services for delayed connection times

Unsuccessful pay negotiations between AusNet Services and the Electrical Trades Union led to the union engaging in industrial action from August 2017 to February 2018. We met with AusNet Services to work out what this meant for customers, and in particular, what they were doing to ensure they were complying with their licence obligations during this period of industrial action.

Based on our inquiries, AusNet services advised that they had failed to connect 733 customers within the required time frames. As a result, AusNet Services was required to pay \$235,550 in compensation to these customers. This payment has now been paid to all the relevant customers.

Resolving wrongful disconnection disputes

Retailers can disconnect customers for not paying their energy bill only after following strict rules that we set for the industry.

Retailers have reported to us that they had wrongfully disconnected 145 customers and paid a total of \$148,909 to customers for being wrongfully disconnected between January and March 2018.

In some cases, customers might complain to their retailer for being wrongfully disconnected. A dispute could also be referred to the Energy and Water Ombudsman of Victoria (the ombudsman) to resolve. If the ombudsman is

unable to resolve the matter, the matter can be referred to us to decide.

The commission has resolved five wrongful disconnection cases. AGL was required to make a \$526 payment to a customer. EnergyAustralia was required to make \$45 and \$316 payments to two separate customers. However, we found that EnergyAustralia had not breached their retail licence in two other matters.

It is important that energy retailers strictly follow the energy rules before disconnecting any Victorian customer from their energy supply. Our decisions on wrongful disconnection cases can be found at www.esc.vic.gov.au/electricity-and-gas.

Table 4.1 Reported wrongful disconnection payments between July 2017 and March 2018

| Retailer | Total amount paid during the quarter | | | Total customers affected | | |
|------------------------------|--------------------------------------|------------------|------------------|--------------------------|----------------|----------------|
| | Jul – Sep 2017 | Oct – Dec 2017 | Jan – Mar 2018 | Jul – Sep 2017 | Oct – Dec 2017 | Jan – Mar 2018 |
| AGL | \$99,723 | \$79,822 | \$20,132 | 39 | 33 | 16 |
| Energy Australia | \$13,223 | \$38,830 | \$26,108 | 15 | 23 | 22 |
| Origin Energy | \$7,258 | \$4,937 | \$14,792 | 10 | 7 | 18 |
| Lumo Energy | \$14,982 | \$8,054 | \$9,792 | 10 | 4 | 10 |
| Red Energy | \$5,087 | \$75 | \$6,082 | 7 | 1 | 9 |
| Simply Energy | \$8,133 | \$14,375 | \$6,192 | 5 | 14 | 5 |
| Alinta Energy | \$3,254 | \$4,922 | \$2,076 | 5 | 5 | 2 |
| Click Energy (amaysim) | \$2,467 | \$6,009 | \$2,543 | 4 | 5 | 3 |
| Dodo & Commander (M2 Energy) | - | \$1,704 | - | - | 2 | - |
| Momentum | \$5,082 | \$210 | \$28,099 | 8 | 1 | 11 |
| Powerdirect | - | \$3,500 | \$1,075 | - | 1 | 2 |
| Powershop Australia | - | - | \$3,073 | - | - | 1 |
| 1st Energy | - | - | \$3,884 | - | - | 4 |
| CovaU | \$523 | \$2,596 | \$24,000 | 1 | 2 | 38 |
| Tango Energy | \$264 | \$1,165 | \$1,062 | 2 | 3 | 4 |
| TOTAL | \$159,996 | \$166,199 | \$148,909 | 106 | 101 | 145 |

Figures may not add up precisely to due to rounding.



Case-study – deciding on the wrongful disconnection of a customer in payment difficulty

We recently made a decision on a complaint referred to us by the Ombudsman about a customer being wrongfully disconnected by their retailer.

Retailers have contracts with their customers for the sale and supply of energy. Most retailers include in these contracts terms setting out the circumstances that they can disconnect a customer's energy supply. If a retailer disconnects a customer's supply and breaches such a term, the disconnection is wrongful under industry legislation and the retailer is required to make a payment to the customer.

What happened?

Customer T advised their retailer that they were having trouble paying their electricity bills, and had previously failed to make payments towards payment plans established with the retailer. The retailer offered the customer a new payment plan but they were unable to agree on the instalment amounts.

Customer T continued to make regular payments but the amounts were not enough to cover their debt. As a result, the debt continued to grow and the customer was sent a bill for the amount outstanding a few months later. In the lead up to disconnection, the retailer made a number of attempts to contact the customer but was unsuccessful. While payments were made up until the day prior disconnection, the retailer disconnected Customer T for non-payment of their bill. Customer T was cut off from their electricity supply for over 30 hours.

Our decision

We reviewed the interactions between Customer T and their retailer leading up to the disconnection and considered whether the retailer complied with the Energy Retail Code, as required by the terms and conditions of the retailer's contract with Customer T.

We found that the retailer knew that Customer T was facing payment difficulty, but did not offer the customer a second payment plan to help them better manage their growing debt. The Energy Retail Code states that a retailer cannot disconnect a customer in payment difficulty unless two payment plans are offered in a 12 month period. On this basis, we found that the retailer had wrongfully disconnected the customer and was required to pay compensation to the customer.

5. Our work in progress

Our overarching objective is to promote the long term interests of Victorian consumers. This role informs the work we have been progressing in 2017-18.

Implementing changes to the retail energy market

We have been asked by the Victorian government to implement specific recommendations arising from an independent review of the energy market in Victoria, such as:

- **Bills and marketing.** We are setting new standards for retailers on the bills and marketing materials sent out to customers. These standards are to take effect no later than 1 July 2019.
- **A review of competitiveness in the market.** We are developing a framework for assessing the competitiveness and efficiency of the retail energy market. This includes setting a reference price for energy offers available in the market, subject to government decision.
- **A review of the energy rules.** We are reviewing our energy rules, specifically our regulatory codes, to ensure they focus on customer outcomes.

We have been working with the energy sector and community stakeholders as part of this review.

New voltage limits for distributors to operate bushfire mitigation equipment

Stemming from recommendations of the Bushfires Royal Commission, the Victorian government amended regulations to require bushfire mitigation equipment to be installed on sections of the electricity grid. We are proposing changes to the voltage standards applying to the electricity network, to permit the operation of this new equipment. We have since received feedback on our proposed changes from stakeholders and will make a final decision in August 2018.

New protections for electricity customers in 'embedded networks'

People who buy their electricity through 'exempt persons' or 'embedded networks' currently do not have access to the same consumer protections as those who buy through licensed energy retailers.

We have set up a register for 'exempt persons' so that customers can search for and contact their provider if they have concerns with their service.

We have also appointed a customer dispute resolution body. From 1 July 2018, these customers will also be able to access the Ombudsman to help resolve their complaints or disputes. We are currently working with the Victorian community to identify the appropriate obligations that relevant energy providers will need to follow.

These new protections will apply to some customers living in premises such as apartments, caravan parks and retirement villages – as well as small businesses operating in shopping centres.

Reviewing electricity connections processes

We are also providing advice to the Victorian government on how effective the energy rules are in achieving timely electricity connections for new developments. Our review involves consultation with interested stakeholders, reviewing existing information and analysis, and considering approaches in other jurisdictions related to connections of new developments.

For more information, visit our website at www.esc.vic.gov.au/electricity-and-gas.