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Introduction

This is our second update on the Victorian energy market for 2018-19.

This report provides an update on:

- disconnections of energy customers for non-payment
- prices of energy offers in the market
- compliance of energy companies with the energy rules
- our compliance priorities for 2019-20
- recent changes to the energy rules and
- newly licensed energy companies.

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.

A transformative leader moves on

Essential Services Commission chair Ron Ben-David has ended his term at the head of the state's economic regulator after 10 years.

Dr Ben-David has taken great strides in reforming energy regulation in Victoria including increasing customer protections for energy customers, monitoring, setting and reporting on prices in the energy sector.

We wish Dr Ben-David all the best in his future endeavours.

Commissioner Kate Symons now takes over as acting chair.





1. Lower disconnections for non-payment

From 1 January 2019, all energy retailers in Victoria were required to implement the new payment difficulty framework. The purpose of the framework is to make it easier for customers to access help from a retailer if they are finding it difficult to pay their bill. This also means that customers should only ever be disconnected as a last resort for not being able to pay their bill.

Since the introduction of the framework, between January and March 2019, customers disconnected for not paying their energy bill decreased by 45 per cent compared to the same period last year.

Since July 2018, there were a total of 30,133 disconnections of customers for not paying their energy bills. This is 25 per cent lower than the previous year (July 2017 to March 2018).

The reduction in disconnections started from November, this has been driven by large retailers, which could be a result of these retailers transitioning to the new framework. It should be noted that the reductions are also influenced by the monetary threshold for disconnections, which changed last year.¹ We will continue to monitor retailer performance related to disconnections, and the support they provide to customers.

Since 1 January 2019, Victorian customers who are struggling to pay their energy bills can access more tailored assistance from their energy retailer. This includes different arrangements to pay their energy bills or debt.

Figure 1.1 Residential disconnections for non-payment, cumulative per quarter

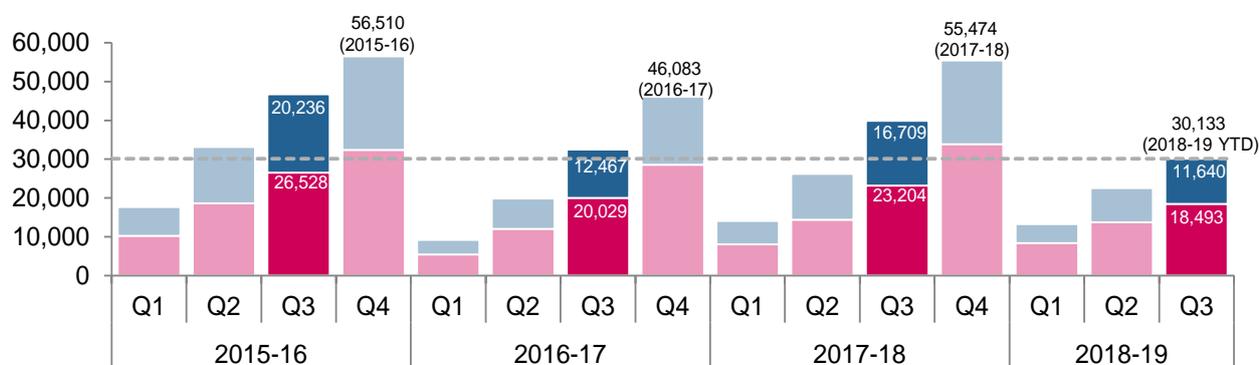


Table 1.1 Residential disconnections for non-payment, per quarter

Financial year quarter	Electricity				Gas			
	2015-16	2016-17	2017-18	2018-19	2015-16	2016-17	2017-18	2018-19
Q1: July to September	10,255	5,476	8,036	8,399	7,420	3,706	6,058	4,821
Q2: October to December	8,345	6,543	6,372	5,363	7,113	4,092	5,740	3,959
Q3: January to March	7,928	8,010	8,796	4,731	5,703	4,669	4,911	2,860
Q4: April to June ²	5,832	8,560	10,620	-	3,914	5,027	4,941	-
Total (year to date)	32,360	28,589	33,824	18,493	24,150	17,494	21,650	11,640

¹ Since 1 July 2018, the minimum debt you could owe before being disconnected increased from \$132 to \$300 including GST

² Q4 data on disconnections will be published in the next Victorian energy market update in September 2019.



2. Prices of energy offers in the market

Prices of energy offers remain stable

Our review of offers published by energy retailers on 30 June 2018 and 31 May 2019 shows energy prices have been relatively stable.

Although electricity offers before discounts have decreased, the discount amounts have also decreased. This means typical yearly electricity bills (of discounted offers) remain relatively stable.

However, we also note that the estimated annual bills of undiscounted electricity market offers have increased by seven per cent.

From 1 July, all customers on simple standard contracts will be rolled onto the Victorian Default Offer, an independent electricity offer that you also can switch to. A typical household could save between \$310 to \$450.

Table 2.1 A comparison of the Victorian Default Offer (VDO) with standing offers

Distribution zone	Median electricity standing offer	VDO	Estimated savings
AusNet	\$1,975	\$1,528	\$447
CitiPower	\$1,641	\$1,334	\$307
Jemena	\$1,779	\$1,385	\$393
Powercor	\$1,833	\$1,411	\$422
United Energy	\$1,712	\$1,380	\$331

Based on median standing offers available on Victoria Energy Compare as at 28 February 2019 for a typical residential customer using 4,000 kWh per year. Estimates include GST.

Table 2.2 Residential customer annual bill estimates for energy offers since 30 June 2018

	Electricity		Gas	
	30 June 2018	31 May 2019	30 June 2018	31 May 2019
Undiscounted offers				
Standard contract offers ³	\$1,825	\$1,825	\$1,770	\$1,791
(% change from 30 June 2018)		0%		↑ 1%
Unconditional market offers	\$1,326	\$1,415	\$1,470	\$1,474
(% change from 30 June 2018)		↑ 7%		0%
Discounted offers				
Discounted market offers (conditional discounts applied)	\$1,354	\$1,384	\$1,451	\$1,451
(% change from 30 June 2018)		↑ 2%		0%
Discounted market offers (all discounts not applied)	\$1,810	\$1,744	\$1,745	\$1,780
(% change from 30 June 2018)		↓ 4%		↑ 2%

The figures represented in the table are a simple average of all offers in the market, by distribution zones. Based on a typical residential customer using 4,000 kWh per year for generally available electricity offers (excluding offers with controlled loads) and 54.4 GJ per year for generally available gas offers (including gas standing offers from Sumo Power from 1 February 2018). Includes GST.

³ Rates used as per those published by retailers in the Victorian Government Gazette. Retailers can only change standing offer prices at times set by the Minister for Energy. Analysis does not apply rebates from retailers to standard contract customers.



Our recommended price for the Victorian Default Offer was accepted by Government

The government accepted our advice on the price of the Victorian Default Offer. The VDO captures the efficient costs retailers need to recover to provide electricity to Victorian customers. A typical residential customer who is currently on a standing offer could save on their electricity between \$310 to \$450 and business customers between \$1,380 to \$2,050 in a year on their electricity.⁴

The VDO will apply on 1 July 2019. Around 130,000 residential customers⁵ on flat rate standing offers will automatically be put onto the VDO. At the end of March, 4.9 per cent of all residential customers are on standing offer contracts, as per figure 2.2.

Figure 2.2 Percentage of residential customers on standard contracts in Victoria



Discounting remains a common practice by retailers

The number of electricity market offers featured large discounts (greater than 30 per cent) within ‘benefit periods’ increased compared to last year (figure 2.3). Often at the end of a benefit period,

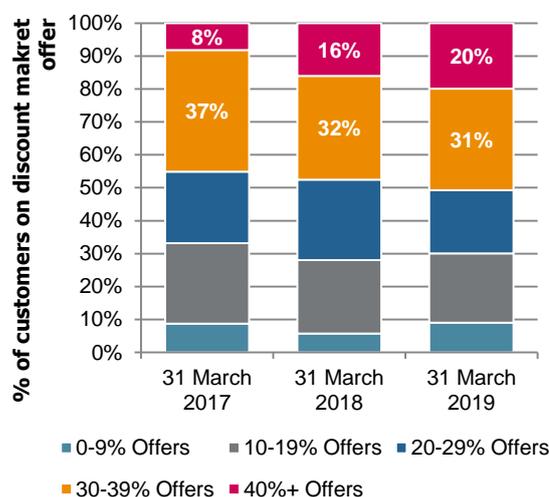
customers will be paying higher prices for their energy, despite the availability of better offers.

This means its important customers understand what happens at the end of a contract or benefit period.

Discounts are still widely used in the market. In 2017–18, 76 per cent of all residential electricity market offers and 83 per cent of residential gas market offers in Victoria included discounts. Almost all these offers had conditions such as having to pay bills on time.

Over half of all current electricity market offers included a discount larger than 30 per cent (figure 2.3). Our previous analysis has shown that large discounts do not necessarily mean a customer is paying a low price for their energy.⁶ Large discounts also mean there is a larger cost for not meeting a condition for a discount. In May 2019, the average annual cost for not meeting a discount was \$372 (refer to table 2.1).

Figure 2.3 Single rate residential electricity market offers in Victoria with discounts



Source: ESC analysis of Victorian Energy Compare data, April 2019. The total discount on an offer can include usage and/or whole of bill discounts.

⁴ Based on a typical residential customer using 4,000 kWh per year, compared to average standing offer prices from retailers as at February 2018.

⁵ Based on the estimated number of customers previously on flat rate standing offers

⁶ Essential Services Commission 2018, Victorian energy market update: July to December 2017



3. Compliance with the energy rules

We are responsible for regulating the retail energy market and aspects of the electricity and gas distribution sector in Victoria. We can take a variety of actions against energy companies to make sure customers are being protected.

Retailers and distributors are required to report when they potentially break the energy rules – we refer to these as breaches. If we find serious breaches we investigate further and have the power to issue penalty notices. We also regularly conduct audits of Victorian energy businesses.

Our audit program so far

We audit and monitor retailers' and distributors' compliance with their obligations under the energy rules, and identify areas for improvement.

During January to May 2019:

- We have continued to work with retailers to address the problems identified in our 2018 audits. This includes ensuring that retailers have obtained the consent of customers when signing them to a new energy deal.
- We finalised our 2018 audit of distributors. We found that distributors have improved their performance by addressing areas of non-compliance. However, distributors could do more to check their staff's understanding of customer rights.
- We published the results of our heat relief payment audits for the 2018 Australia Day outages. The audit showed that most payments had been made, however, there were 4,625 cheques that had not been banked. If you are a customer that has received a cheque you should go to the bank to finalise the payment.
- We reviewed retailers' websites for information around accessing payment support and that it was easy to find and understand. We found some retailers' websites were missing the required information for customers. This

information should now be available on all retailers' websites.

We have commenced planning our audits of companies in 2019-20. Our audits will focus on seven key areas, outlined in chapter 4 of this update.

Distributors paid penalties of \$350,000 for failing to notify customers of planned outages

In May 2019, we completed three enforcement actions against energy distributors for allegedly failing to notify customers of planned outages.

- AusNet Services paid fifteen penalty notices, totalling \$150,000, after we found they left a mix of residential and business customers in Bass, Woolamai and Glen Forbes without electricity for three hours on 18 July 2018.
- United Energy paid nine penalty notices, totalling \$90,000, for leaving customers in Springvale South without electricity for more than six hours on 1 August 2018.
- Jemena paid five penalty notices, totalling \$50,000, after we found it did not give customers in Greenvale four business days' notice about a planned outage which lasted 34 minutes on 22 October 2018.
- CitiPower paid three penalty notices, totalling \$30,000, for failing to provide four business days' notice to customers of a planned interruption in East Melbourne that lasted for one hour and one minute on 22 October 2018.
- Powercor paid three penalty notices, totalling \$30,000, for failing to provide four business days' notice to customers of a planned interruption in Iraak in Victoria's north west that lasted for 2 hours and 28 minutes on 15 October 2018.

The penalties demonstrate the importance of giving customers enough notice of an electricity outage, as customers who are not notified of a



planned interruption do not have the chance to prepare for the loss of power.

Making sure customers are notified of planned outages has been a strategic focus of the commission since mid-2017.

1st Energy fined \$20,000 for switching a small business customer without consent

1st Energy paid a \$20,000 penalty for switching a small business customer without its consent after getting their address mixed up with a nearby aged care home resident. A telemarketer cold-called an aged care home resident and talked her into signing up for a new electricity deal. The elderly Victorian was not a representative of the business which 1st Energy subsequently switched.

Wrongful disconnections

The Victorian energy rules set out the conditions when a customer can be disconnected from their energy supply. When a retailer does not follow these rules and wrongfully disconnects a customer they must report the breach to us. In most cases the retailer also must compensate customers for being wrongfully disconnected.

Between January and March 2019, retailers reported to us that they had wrongfully disconnected 117 customers (see table 3.1).⁷ This is less than the number of customers wrongfully disconnected between January and March 2018, which was 145 customers. In total between January and March 2019, retailers paid \$243,451 in compensation to affected customers. This was 63.5 per cent higher than the same period in 2018. A breakdown of these payments is shown in table 3.1.

⁷ Excludes wrongful disconnections disputes that were referred to us by the Energy and Water Ombudsman (Victoria).

Disconnection disputes referred to us

In some cases, the Energy and Water Ombudsman (Victoria) is made aware of a disconnection dispute between the customer and retailer. If the ombudsman and retailer are unable to agree on whether a disconnection was wrongful, we can be asked to decide on the matter.

The commission resolved three disconnection disputes between January and May 2019:

- Simply Energy was found not to have wrongfully disconnected one customer's electricity supply.
- Red Energy was found not to have wrongfully disconnected one customer's gas supply.
- Momentum Energy was found to have wrongfully disconnected one customer and was required to pay \$117 to the customer.



Disconnection dispute referral case study

We recently decided on a disconnection dispute involving Momentum Energy, referred to us by the Energy and Water Ombudsman (Victoria).

We found that Momentum Energy wrongfully disconnected a customer because they did not include all the required information on the disconnection warning notice they sent to the customer. This meant that they did not follow the terms and conditions of their agreement with the customer.

Because the customer went without electricity supply for over five hours, Momentum Energy was required to pay the customer \$117 in compensation.

**Table 3.1** Reported wrongful disconnection payments between July 2018 and March 2019

Retailer	Total amount paid during the quarter			Total customers affected		
	Jul – Sep 2018	Oct – Dec 2018	Jan – Mar 2019	Jul – Sep 2018	Oct – Dec 2018	Jan – Mar 2019
1st Energy	\$2,168	\$1,024	\$1,530	1	1	2
AGL	\$59,482	\$85,756	\$133,028	32	45	29
Alinta Energy	\$29,622	\$24,237	\$2,717	17	14	3
Blue NRG	-	-	\$11,043	-	-	7
Click Energy and amaysim	\$2,316	\$10,699	\$10,649	3	6	4
CovaU	\$488	-	\$763	1	0	2
Dodo & Commander (M2 Energy)	-	-	-	-	-	-
Energy Australia	\$16,871	\$90,035	\$2,272	23	17	7
Lumo Energy	\$14,599	\$8,958	\$37,762	7	4	10
Momentum	\$20,434	\$637	\$10,755	49	2	7
Origin Energy	\$2,220	\$22,144	\$10,117	8	19	10
Powerdirect	\$9,664	-	\$3,500	1	-	1
Powershop	\$1,234	\$4,634	\$573	6	4	6
QEnergy	\$205	-	-	1	-	-
Red Energy	\$1,188	\$4,061	\$8,265	8	5	8
Simply Energy	\$9,111	\$26,446	\$6,753	6	14	5
Sumo Energy	-	\$613	\$1,289	-	1	12
Tango Energy	-	\$132	\$2,438	-	1	4
TOTAL	\$169,599	\$279,375	\$243,451	163	133	117

Figures may not add up precisely due to rounding. Excludes wrongful disconnections disputes that were referred to us. Jul-Sep and Oct-Dec figures have been updated since our last update due to retailer amendments.

Table 3.2 Wrongful disconnection payment cases referred to the commission between January 2019 and May 2019

Retailer	Outcome	Number of referrals	Total compensation amount
Momentum	Disconnection wrongful	1	\$117
Red Energy	Disconnection not wrongful	1	-
Simply Energy	Disconnection not wrongful	1	-

Figures are based on wrongful disconnection payment cases referred by the Energy and Water Ombudsman (Victoria)



4. Priorities for action

A recent independent review of the Victorian energy market⁸ found that customers had lost trust and confidence in the market because of confusing discounts, high prices and general retailer behaviour.

Since the review, the commission amended the energy rules to provide further protections for customers facing payment difficulty or family violence and for those living in embedded networks. New rules addressing retailers' billing and marketing practices have also been introduced to help build trust in the retail energy market.

In 2019-20, following these new energy rules, we will be focusing on seven key areas when conducting compliance activities and audits (as shown below).



Each of these focus areas relate to changes occurring in the Victorian energy market. These areas are either new to the market, promote competition or transparency in the market or improve protections for consumers. The aim of the 2019-20 compliance program will be to monitor that each of the seven areas are correctly implemented and that all retailers are meeting their regulatory requirements.

Further to the seven areas identified, we will continue to closely monitor and take action where energy businesses:

- transfer customers without consent
- wrongfully disconnect customers
- fail to notify customers of planned interruptions, especially registered life support customers and
- discriminate against customers with solar panels.

⁸ Thwaites, J., P. Faulkner, and T. Mulder. "Independent Review into the Electricity and Gas Retail Markets in Victoria." State Government of Victoria, Melbourne (2017).



Payment difficulty framework

The framework makes it easier for customers to access assistance if they are finding it difficult to pay their bill. It also requires disconnection only happens as a last resort. During 2019-20 we will focus on monitoring the implementation of the framework, which came into force on 1 January 2019.

Family violence protections

New family violence protections will require energy retailers to have robust family violence policies and effectively help customers affected by family violence. These requirements put an emphasis on retailers treating customers that may be experiencing family violence with respect and care, while also avoiding actions that may endanger the customer.

During 2019-20 we will be assessing whether retailers have a policy. The new family violence protections will be implemented from 1 January 2020.

Best offer messages and clear advice entitlements

To help build trust between the customer and the retailer, energy retailers will have to tell customers if they are on the best available offer and provide advice on how to find the right energy plan for them. These requirements come into effect from 1 July 2019.

Victorian Default Offer

The Victorian Default Offer is an electricity plan that has a price we have independently recommended. It will be the same for all retailers within the same distribution zone. On 1 July – flat/simple standing offer customers will automatically be transferred onto the default offer. We will be making sure that all standing offers have been transferred and the default offer is available. The offer is available from 1 July 2019.

Smart meter data

Most Victorian electricity customers have a smart meter. Smart meters can provide customers access to real time usage data and to reduce the speed and cost of things such as meter reads and reconnections. During 2019-20, we intend to confirm electricity distributors are complying with their obligations and customers are receiving the benefits.

Offers published on Victorian Energy Compare

Victorian customers have access to the Victorian Energy Compare website, where retailers have to upload and maintain their available energy plans. This allows customers the ability to see all available offers and services so they can choose the best plan for their needs. To make sure customers can rely and trust the information provided on the website, we intend to check the accuracy of the information provided.

Embedded networks

If you live in an apartment complex, retirement home, or caravan park, or you are a tenant in a shopping centre, you may receive your electricity via an embedded electricity network. Embedded network customers may not have access to the some benefits available to other customers in the retail electricity market.

While embedded network operators do not need a licence to sell electricity, they must be registered with us and the Energy and Water Ombudsman Victoria. During 2019-20 we will be monitoring that all embedded networks are complying with the conditions of their exemption.



5. Recent changes to the energy rules

We have an important role in making sure the rules and regulations in the energy industry promote the long term interests of consumers.

New protections for energy customers experiencing family violence

We are updating the Energy Retail Code to strengthen protections for residential and small business customers of energy retailers affected by family violence.

These protections are part of our implementation of recommendation 109 from the Victorian Royal Commission into Family Violence. The royal commission identified how essential services are used by perpetrators of family violence to coerce and cause harm. It recommended that we amend our energy code and water codes to ensure customers experiencing family violence receive the support they need when they need it.

We developed a family violence framework for energy customers in Victoria, designed around the proposed amendments to the code and a better practice guide. We worked with energy retailers, family violence specialists and victim-survivors of family violence, who generously shared their stories and experiences with us.

In August 2019 we will publish a better practice guide with family violence initiatives from across the energy and water sectors. The guide will highlight innovation and support improvement beyond the minimum standards of the code. From 1 January 2020, the Energy Retail Code will provide customers affected by family violence with an entitlement to safe, supportive and flexible assistance from their energy retailer in managing their personal and financial security. Energy retailers will need to have a family violence policy, and meet minimum standards on:

- training
- account security
- customer service
- debt management practices
- external support services
- evidence of family violence.

A simple and accessible Victorian energy fact sheet

In May 2019, we finalised a new format for a Victorian energy fact sheet that will help customers assess and compare energy offers.

The new energy fact sheets will be available from retailers from 1 July 2019

The fact sheet will be produced by retailers for all their energy offers. These fact sheets will display key information about available energy offers in a consistent format across retailers. It will also include a table that will help customers to easily compare plans based on an average yearly cost for a range of typical customers.

Necessary changes to support the Victorian Default Offer

From 1 July 2019, Victorian residential and small business electricity customers will be able to sign up to the Victorian Default Offer (VDO) under legislation passed in the Parliament of Victoria and rules set by Governor in Council Orders.

As part of implementing the VDO, we have considered how it will interact with other rules that retailers must comply with. We made some changes that clarify the way the VDO interacts with the best offer and clear advice entitlements.

For more information on changes we are making to the energy market and your energy rights visit: <http://vic.gov.au/itsyouenergy>.



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A new approach to improving electricity connections times

Last year the Assistant Treasurer (then Minister for Finance) asked us to provide advice on the causes of delays to electricity connections to new developments (such as apartment buildings). In September 2018, all five Victorian electricity distribution businesses voluntarily signed a service improvement commitment to deliver several initiatives. More information can be found on our website: www.esc.vic.gov.au/connections-review.

We established a governance committee to oversee the implementation of the service improvement commitment. The committee is chaired by our chief executive officer Dr John Hamill.

In May 2019, developers reported a considerable improvement in distribution businesses' performance over the last 12 months. The committee also raised several themes to help improve the timeliness of electricity connections further, such as:

- the importance of good relationships and communication between businesses
- creating the right incentives to improve the quality of works
- developers making it clear who is in control of the different activities on site
- developers and distribution businesses implementing good processes.

We committed to reporting on complaints we received about electricity connections. Since April this year we have received two complaints.

The first complaint was concerned with the time taken to receive an offer to connect from the distribution business. The second was concerned about resourcing levels and customer service focus being too low in another distribution business.

The committee will meet again in July 2019.

Approach paper for the Electricity Distribution Code review

The Electricity Distribution Code sets out requirements for distributors and customers for the safe and efficient delivery of electricity for Victorians.

Given the technological change facing the electricity network, we are now undertaking a review of the code. In April 2019, we set out our approach in reviewing the code, this followed a forum we held in December 2018, attended by a diverse group of stakeholders. The forum helped us focus our code review on:

- Technical standards, which set the level quality the distribution network must provide and manage.
- Customer protections, which include recognition payments for customers experiencing poor reliability due to the physical network, and distributor requirements to notify customers of planned outages.

Once this is completed, we will look at broader changes that may improve how the code is used and how it improves service to consumers.

Figure 5.1 Governance committee – Timely electricity connections





6. Newly licensed energy companies

Anyone generating, transmitting, or selling electricity or gas to retail customers in Victoria must hold a licence granted by us, or be exempt from this requirement.

From March 2019 to May 2019, we have issued:

- three electricity generation licences.
- one electricity retail licence.
- one electricity wholesale licences.

We have also registered 1,100 embedded electricity networks exemptions.

New electricity generators

We issued generation licences to the following companies:

- Moorabool Wind Farm Pty Ltd
- Moorabool South Wind Farm Pty Ltd
- Yatpool Sun Farm Pty Ltd

These companies intend to generate renewable electricity in the north-western part of Victoria from wind and solar resources.

New electricity retailers

In March 2019, we issued a licence to Power Club Limited to retail electricity to Victorian customers.

New electricity wholesalers

Electricity wholesalers typically sell electricity through the wholesale market rather than the retail market. In April 2019, we issued a Victorian wholesale licence to Moorabool Wind Farm Interface Company Pty Ltd.

Embedded network registration

In 2017-18, the Victorian government established a framework to allow for certain electricity networks to be exempt from having a licence.

However, these networks still have obligations to customers and are required to register their networks with the commission.

Embedded electricity networks can be found in:

- apartment buildings
- shopping centres
- retirement villages
- lifestyle villages
- caravan parks
- manufactured home estates
- land lease parks
- rooming houses.

Some people do not need to register with us as they have deemed exemptions that automatically apply.

There are over 1,100 registered embedded networks that supply electricity to over 140,000 consumers.

Table 6.1 Total consumers in registered embedded networks as at 31 May 2019

Embedded network type	Total consumers
Apartment buildings, rooming houses and other residential buildings	81,498
Retirement villages	13,714
Caravan, holiday, land lease parks and manufactured home estates	25,146
Small and large businesses	20,345

A small number of embedded network sites are owned by multiple parties and are therefore registered with us multiple times. This means that a small percentage of the customer numbers in the figures above are counted twice. We estimate that this is approximately a few hundred mainly business customers