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Introduction

This is our first update on the Victorian energy market for 2019–20. It provides important information about the market, largely covering the first two quarters of 2019–20.

This update provides a summary on:

- newly licensed energy companies and their innovative business models and approaches
- price of energy offers in the market and the new Victorian default offer rates
- new energy rules we have developed and are implementing
- disconnections of energy customers for non-payment
- how energy companies are complying and performing against their regulatory obligations.
- Our education campaign – It’s your Energy

Our new commissioner, Rebecca Billings

Rebecca was appointed part-time commissioner in February 2020. Rebecca is an economist with over 18 years’ experience providing economic and policy advice to government across a diverse range of regulatory systems.

Rebecca's consulting roles include being a director at PwC, NERA Economic Consulting and Deloitte Access Economics. She was previously a senior economist at the Department of Treasury and Finance, where she supported the implementation of the Reducing Regulatory Burden reforms.
1. Price of energy offers in the market

We regularly analyse the price of energy offers published by retailers. These prices may not be what customers currently pay. They can reflect the energy offers retailers make available for customers to switch.

**Prices of energy offers remain stable**


The largest change was seen in the price paid when discount conditions are not met.

These decreased by 15 per cent for electricity and 11 per cent for gas, compared with 30 June 2019.

For electricity prices, the price of unconditional discount market offers decreased by three per cent. However, the price of market offers with conditional discounts increased by two per cent.

The opposite was seen for gas prices. Unconditional market offers increased marginally while conditional discount market offers decreased by two per cent.

**Figure 1.1 Residential customer annual bill estimates for energy offers since 30 June 2019**

<table>
<thead>
<tr>
<th></th>
<th>Electricity</th>
<th>Gas</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Unconditional market offers</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>No discount offers</td>
<td>$1,391</td>
<td>$1,398</td>
</tr>
<tr>
<td>(% change from 30 June 2019)</td>
<td>↑ 1%</td>
<td></td>
</tr>
<tr>
<td>Unconditional discounted market offer</td>
<td>$1,468</td>
<td>$1,422</td>
</tr>
<tr>
<td>(% change from 30 June 2019)</td>
<td>↓ 3%</td>
<td></td>
</tr>
<tr>
<td><strong>Conditional market offers</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Discount market offers (conditional discounts applied)</td>
<td>$1,360</td>
<td>$1,381</td>
</tr>
<tr>
<td>(% change from 30 June 2019)</td>
<td>↑ 2%</td>
<td></td>
</tr>
<tr>
<td>Discount market offers (all discounts not applied)</td>
<td>$1,752</td>
<td>$1,486</td>
</tr>
<tr>
<td>(% change from 30 June 2019)</td>
<td>↓ 15%</td>
<td></td>
</tr>
</tbody>
</table>

The figures represented in the table are a simple average of all offers in the market, by distribution zones. Based on 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. Figures include GST.
Offers with no discounts are now the most common

The number of electricity offers a Victorian consumer sees when using the government comparison website has been largely unchanged in the last two years. But the types of electricity offers that customers can access has changed significantly (Figure 1.2).

As at the end of January 2018, 86 per cent of offers available had some form of discount. This is compared to the end of January 2020, where only 40 per cent of offers had some form of discount attached.

Similarly, in 2018 conditional discount offers were the most common (Figure 1.3). This is where a customer must meet certain conditions to receive the discount. These are generally related to paying a bill on time, direct debit payment or having both electricity and gas accounts with the same provider.

At the end of January 2018, 75 per cent of available electricity offers had at least one condition attached to their discount. This proportion has significantly decreased, and at the end of January 2020 only 33 per cent of offers available had a discount with conditions.
Pay-on-time discounts have decreased, but large conditional discounts remain

The level of discount associated with offers has decreased over the last two years.

At the end of January 2020, we found that of the conditional pay on time discounted offers available in the market, 58 per cent of electricity offers had conditional percentage discounts of more than five per cent (Figure 1.4)

In comparison as at the end of January 2018, all conditional pay on time discounted offers had conditional percentage discounts of more than five per cent.

The cost of not paying your electricity bill on time has decreased but there are still some plans with high costs for not meeting discount conditions

Over the last two years, the average cost of not paying your bill on time has decreased from $469 to $106. However, there are still electricity offers in the market that could cost a customer an extra $421 a year.

From 1 July 2020, we are capping the size of pay-on-time discounts retailers can offer on new contracts. Customers on these contracts who pay a bill late will no longer be disproportionately penalised. This cap will be based on a retailers’ cost of debt.
2. It’s your Energy campaign – using findings to inform the second phase

Following the introduction of the biggest reforms to Victoria’s energy market in a decade, our It’s your Energy campaign aimed to empower and educate Victorians about their energy rights. The second phase of our campaign has been focused on increasing understanding as well as raising awareness.

As part of the development and maintenance of this campaign, we convened a reference group of the public and not-for-profit sector. This reference group concluded there is a lack of trust, clarity and effective communication around energy rights.

We started a regular survey of Victorian consumers as part of the reporting of the campaign’s effectiveness. The survey showed in June 2019, 23 per cent of Victorians had not heard about the upcoming energy reforms, dropping to 13 per cent for those who identified as ‘often struggling to meet basic expenditure’.

In July 2019, following the first phase of the campaign, we saw an increase in awareness from 23 per cent to 31 per cent overall, and from 13 per cent to 18 per cent for those in the ‘struggling to meet expenditure’ category.

As a reflection of the focus on high-level awareness-raising strategy of the first campaign, the survey results showed little change (and in some cases a decrease) in knowledge of the reform specifics. This insight informed the strategy for the second phase of the campaign, where we are seeking to deepen understanding by building on increased awareness.

The campaign platform ‘It’s your Energy’ looks to inspire consumers into taking back control. Our research highlighted a lack of trust towards energy providers, as well as a high level of disengagement from the topic. Our strategy is therefore aimed at cutting through that noise to get our message across in the most creative but effective way possible.
3. Disconnections for non-payment

From 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. Customers should only ever be disconnected as a last resort.

**Customer disconnections continue to decrease**

The number of residential customer disconnections between July–September and October–December 2019 were lower than the numbers in each of the corresponding quarters of 2018.

In the second half of 2019, 18,709 residential customers were disconnected for non-payment of energy bills. This is a 17 per cent reduction compared to the same period in 2018–19, and 29 per cent lower than the same period in 2017–18 (Figure 3.2).

Compared to 2018–19 the major reduction is coming from both medium and small retailers.

**Figure 3.1 Residential disconnections for non-payment, per quarter**

**Figure 3.2 Quarterly residential customer disconnections for non-payment**

<table>
<thead>
<tr>
<th>2017-18</th>
<th>2018-19</th>
<th>2019-20</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1</td>
<td>Q2</td>
<td>Q3</td>
</tr>
<tr>
<td>Jul-Sep</td>
<td>Oct-Dec</td>
<td>Jan-Mar</td>
</tr>
<tr>
<td><strong>Electricity</strong></td>
<td>8,036</td>
<td>6,372</td>
</tr>
<tr>
<td><strong>Gas</strong></td>
<td>6,058</td>
<td>5,740</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>14,094</td>
<td>12,112</td>
</tr>
</tbody>
</table>
4. Compliance with the energy rules

Licensed energy retailers, distributors, transmitters and generators operating in Victoria must abide by the Victorian energy rules. We regulate the energy market by promoting and enforcing compliance with the rules. When we identify poor performance or potential breaches of the rules, we act to protect customers and deter future non-compliance.

**Momentum Energy penalised $900,000 for failing to inform vulnerable customers of overcharges**

In November 2019, Momentum Energy paid penalties of $900,000 for allegedly failing to apply concessions to customer’s bills and not notifying them in a timely manner.

Over 2,500 customers who qualified for concession discounts were allegedly overcharged more than $203,000 between July 2017 and May 2018.

Momentum Energy also has to pay back more than $23,000 to former customers who have yet to be reimbursed.

When a customer is overcharged, energy retailers are required to inform them within 10 business days of becoming aware of it. They must then take action to repay or credit the overcharges.

Energy retailers are responsible for returning overcharged amounts to consumers in a timely way.

**Simply Energy fined $300,000 for switching customers without consent**

In December 2019, Simply Energy paid penalties of $300,000 after allegedly transferring customers without obtaining their explicit informed consent to enter into a contract.

The alleged incidents included switching customers who had expressly stated that they did not want to be switched, providing misinformation to customers about rates they would be charged and switching customers with whom Simply Energy had no contact whatsoever.

Explicit informed consent is a core principle of customer rights, and an enduring compliance and enforcement priority of the commission.

Energy retailers are responsible for ensuring they, or sales agents working on their behalf, meet the standard by obtaining the required consent of the customer before arranging a transfer.
Wrongful disconnections

The Victorian energy rules set out provisions about when a customer can be disconnected from their energy supply. If a retailer does not follow these provisions and wrongfully disconnects a customer, they must report the breach to us.

In most cases the retailer is also required to make a payment to the customer to compensate them for being wrongfully disconnected.

Between July–December 2019, retailers reported to us they had wrongfully disconnected 185 customers (see figure 4.1). This was 60 per cent lower than July–December 2018 (291 customers).

In total, between July–December 2019, retailers paid $337,323 to affected customers, – 22 per cent lower than the same period in 2018. A breakdown of these payments is shown in figure 4.1.

Non-compliant use of third-party sales agents.

In March 2020, Alinta Energy paid penalties for again allegedly using door-to-door sales agents to switch Victorians to new energy contracts without their consent.

More details will be provided in our next quarterly Victorian energy market update.
### Figure 4.1  Reported wrongful disconnection payments between July 2019 and December 2019

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>AGL</td>
<td>$52,266</td>
<td>$26,383</td>
<td>26</td>
<td>20</td>
</tr>
<tr>
<td>Energy Australia</td>
<td>$8,522</td>
<td>$7,569</td>
<td>20</td>
<td>7</td>
</tr>
<tr>
<td>Lumo Energy</td>
<td>$8,151</td>
<td>$88,746</td>
<td>7</td>
<td>8</td>
</tr>
<tr>
<td>Red Energy</td>
<td>$4,614</td>
<td>$69,948</td>
<td>9</td>
<td>21</td>
</tr>
<tr>
<td>Simply Energy</td>
<td>$2,673</td>
<td>$9,628</td>
<td>2</td>
<td>9</td>
</tr>
<tr>
<td>Alinta Energy</td>
<td>$7,101</td>
<td>$4,015</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Dodo &amp; Commander (M2 Energy)</td>
<td>$10,633</td>
<td>$1,673</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>Momentum</td>
<td>$11,822</td>
<td>$9,007</td>
<td>4</td>
<td>8</td>
</tr>
<tr>
<td>Powerdirect</td>
<td>$512</td>
<td>$0</td>
<td>1</td>
<td>-</td>
</tr>
<tr>
<td>Powershop Australia</td>
<td>$527</td>
<td>$822</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>CovaU</td>
<td>$3,186</td>
<td>$2,973</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Tango (Pacific Hydro)</td>
<td>$37</td>
<td>$642</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Sumo Power</td>
<td>$5,315</td>
<td>$559</td>
<td>15</td>
<td>4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$115,359</strong></td>
<td><strong>$221,964</strong></td>
<td><strong>93</strong></td>
<td><strong>92</strong></td>
</tr>
</tbody>
</table>

Figures may not add up precisely due to rounding. Excludes wrongful disconnections disputes that were referred to us.
Wrongful disconnection disputes referred to us

In some cases, where the customer and retailer cannot resolve a disconnection dispute, the case is referred to Energy and Water Ombudsman. If the ombudsman and retailer are unable to agree on whether a disconnection was wrongful, the matter may be referred to us.

The commission resolved five referred disconnection disputes between July 2019 and March 2020:

- Dodo Power & Gas was required to make a payment of $63,060 to a customer. Dodo Power & Gas had disconnected the customer’s gas supply for a period of 126 days.
- 1st Energy was required to make a payment of $16,153 to one customer after a commission decision of wrongful disconnection. The customer’s electricity supply had been disconnected for a period of 32 days.
- Three of the disconnection disputes referred to us were found to have involved a wrongful disconnection but no payment was required:
  - Alinta Energy disconnected the gas supply to a customer early after an error in arranging the customer’s request to end their gas supply. However, as the customer’s gas supply was never reconnected, the compensation regime did not apply.
  - Two cases involved Lumo Energy and Red Energy each disconnecting the gas supply to customers’ premises in separate incidents. In both cases, the available information showed there may have been unlawful reconnection of the gas supply shortly after each disconnection. The commission considered that the compensation regime did not apply.

Figure 4.2 Wrongful disconnection payment cases referred to the commission between July 2019 and March 2020

<table>
<thead>
<tr>
<th>Retailers</th>
<th>Outcome</th>
<th>Number of referrals</th>
<th>Total compensation amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alinta Energy</td>
<td>Wrongful but no payment required</td>
<td>1</td>
<td>-</td>
</tr>
<tr>
<td>Dodo Power &amp; Gas</td>
<td>Wrongful</td>
<td>1</td>
<td>$63,060</td>
</tr>
<tr>
<td>Lumo Energy</td>
<td>Wrongful but no payment required</td>
<td>1</td>
<td>-</td>
</tr>
<tr>
<td>1st Energy</td>
<td>Wrongful</td>
<td>1</td>
<td>$16,153</td>
</tr>
<tr>
<td>Red Energy</td>
<td>Wrongful but no payment required</td>
<td>1</td>
<td>-</td>
</tr>
</tbody>
</table>

Figures are based on wrongful disconnection payment cases referred by the Energy and Water Ombudsman (Victoria)
5. Auditing energy businesses

We use audits to help identify potential non-compliance. If we detect problems through our audit program, we can investigate further and may take enforcement action.

In December 2019, we published the 2018–19 audit results for five energy retailers:

- Alinta Energy
- Blue NRG
- EnergyAustralia
- Origin Energy
- Simply Energy

The audit made repeat findings of inadequate systems, processes and training that could lead to overcharging customers, wrongful disconnections or transferring customers without consent. We take all findings of potential non-compliance seriously.

We are considering our compliance and enforcement options in respect of the findings.


New audit scope

In February 2020, we updated the scope for the 2019–20 retail audit program. The new and more focused scope will allow us to deliver higher quality and more timely audit results.

The scope is still aligned with our 2019–20 compliance priorities, including the payment difficulty framework, Victorian Default Offer, Victorian Energy Compare and best offer/clear advice requirements.
6. Family violence reform

New consumer protections around family violence began on 1 January 2020. They help to provide those affected by family violence with safe, supportive and flexible assistance from their energy retailer in managing their personal and financial security.

People affected by family violence, and their support workers can expect energy retailers to have a family violence policy and to meet minimum standards in relation to:

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

In addition to minimum standards, the commission published guidance to businesses on supporting staff who are affected by family violence, as well as prevention. These publications are accessible for all organisations seeking to improve their family violence assistance.


Commission receives award for innovative regulation

The commission’s work in family violence reforms won the ‘Innovative Regulation’ at the 2019 Institute of Public Administration Australia’s Leadership in Public Sector Awards.

In a world-first for an economic regulator, the commission developed a family violence response for our regulated utility providers.

Tasked by the Victorian Royal Commission into Family Violence with ensuring that utility providers offer better support for customers affected by family violence and economic abuse.

To ensure our work was firmly grounded in the experience of real people and the resulting outcomes were achievable, we collaborated closely to design our approach.

We brought together family violence survivors and experts as well as regulated businesses as part of an extensive engagement program.

We built a shared understanding of family violence, identified the role for utilities and harnessed the need for cultural change.
7. Update to the Victorian Default Offer

The Victorian Default Offer is a simple, trusted and reasonably priced electricity option that safeguards consumers unable or unwilling to engage in the electricity retail market.

The default offer is available to all households and small businesses who consume up to 40 megawatt hours of electricity per year. It does not apply to embedded network customers supplied by an exempt seller.

From 1 January 2020, we determined the tariffs that your electricity retailer charges you if you are on the default offer.

Our price determination covers all types of standing offers, including those based on flat, time-of-use, demand, and flexible tariff structures.

If you are a domestic or small business customer on a standing offer contract, your electricity tariff should be on the default offer.

Customers on market offers can ask their retailer to move them on to the default offer. However, the default offer may not reflect the best price available to them. The best option for customers who are able and willing to engage with the electricity retail market is to shop around.

To assist with this, since July last year retailers have also been required to calculate any discounts against the default offer as a reference price.

Figure 7.1 A comparison of the Victorian Default Offer (VDO) with standing offers

<table>
<thead>
<tr>
<th>Distribution zone</th>
<th>Median electricity standing offer in February 2019</th>
<th>Victorian Default Offer since 1 January 2020</th>
<th>Estimated yearly savings</th>
</tr>
</thead>
<tbody>
<tr>
<td>AusNet Services</td>
<td>$1,975</td>
<td>$1,646</td>
<td>$329</td>
</tr>
<tr>
<td>CitiPower</td>
<td>$1,641</td>
<td>$1,420</td>
<td>$221</td>
</tr>
<tr>
<td>Jemena</td>
<td>$1,779</td>
<td>$1,496</td>
<td>$283</td>
</tr>
<tr>
<td>Powercor</td>
<td>$1,833</td>
<td>$1,517</td>
<td>$316</td>
</tr>
<tr>
<td>United Energy</td>
<td>$1,712</td>
<td>$1,508</td>
<td>$204</td>
</tr>
</tbody>
</table>

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
8. 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.

**Ensuring contract periods, practices and variations are clear and fair**

We are introducing new rules in the Energy Retail Code to ensure that contract periods, practices (including discounting) and variations are clear and fair for customers. The new rules mean:

- retailers are only allowed to increase prices once a year
- any customer signing up to a new offer with a discount, credit or rebate will receive that benefit for the entire duration of their contract
- retailers to advertise electricity offers with reference to the Victorian Default Offer, so customers can compare like with like
- pay-on-time discounts will be capped at a level set by the commission, so customers who miss a bill payment will not face a large increase in costs
- retailers must honour pay-on-time discounts for customers receiving tailored assistance who miss a bill payment, and
- retailers must roll customers on fixed-term electricity contracts who do not choose another offer at the end of the contract onto the Victorian Default Offer.

These rules are part of the recommendations from an independent review of electricity and gas retail markets in Victoria and will come into effect on 1 July 2020.

**Stronger protections for life support customers**

We updated our electricity and gas codes to strengthen and clarify protections for Victorian customers who require life support equipment. The full protections for electricity customers came into effect in February 2020, and for gas customers on 1 July 2020 (with transitional arrangements until 1 July 2020).

**Stronger price protections for embedded network customers**

We are reviewing the maximum prices that can be charged for electricity supply and usage in embedded networks – such as apartment buildings, shopping centres, caravan parks and retirement homes.

Currently, the maximum pricing an embedded network can charge a customer no more than the published standing offer of the local area retailer as at 27 May 2019. These rates will be frozen until a new maximum price is introduced.

We published a paper in February 2020 to consult on how we should formulate these prices. We will publish a final decision in June 2020.

**Competition review**

We were asked by the Victorian Government to monitor and report on the competitiveness and efficiency of the Victorian energy retail market.

In December 2019, following a public forum and papers from expert economists, we published a paper that sets out the framework and approach we will take to conduct our assessment.

We will be working with our stakeholders to develop our first report on competition in the market, with an initial focus on innovation and trust, to be released in late 2020.

**Review of our Electricity Distribution Code**

We are reviewing the Electricity Distribution Code. The review is focused on:

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

In December 2019, we published a draft decision that proposed changes to technical standards. We expect to publish a draft decision on customer service standards in April 2020.

**Wider review of our energy codes and guidelines**

The energy sector is experiencing transformation and innovation.

In our role in promoting the long-term interests of Victorian customers we are stating a wider review of our energy codes and guidelines. These will make sure the framework is fit for purpose and can account for new business models of service provision. The review will cover our distribution and retail framework for electricity and gas.

From April 2020, we will begin consulting with stakeholders to understand where the framework could be improved and establish the priority areas for reform.

**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.

We will be consulting on changes to the Electricity Distribution Code throughout 2020.
9. Newly licensed energy companies

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

From 1 July 2019 to 28 February 2020, we issued two electricity generation licences, one electricity retail licence and one electricity transmission licence.

**New electricity generators**

We issued generation licences to:

- Dundonnell Wind Farm Pty Ltd,
- AusNet Transmission Group Pty Ltd (Ballarat Battery)

These companies intend to generate electricity in Victoria, and include a new wind generation facility that can produce enough renewable electricity to power 245,000 homes.

**New transmission licence**

We issued a transmission licence to:

- TransGrid Services Pty Ltd (Kiamal Solar Farm)

TransGrid plans to transmit high voltage electricity from a solar generation facility.

**New electricity retailer**

We issued a licence to the following company to sell electricity to Victorian customers:

- Balance Commodities and Energy Pty Ltd

**New licence applications**

Between July 2019 and February 2020, we received applications for new licences from 22 applicants, including:

- four new electricity generation licences
- one new electricity transmission licence
- one new electricity distribution licence
- 14 new electricity retail licences
- two new gas retail licences.