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Contents

Introduction	3
1. New energy rules.....	4
2. Update on energy offers.....	6
3. Customer debt and disconnection.....	9
4. Newly licensed energy companies	12
5. Compliance with the energy rules	13
6. Work in progress	15



Introduction

This is our first update on the Victorian energy market in 2017-18. It provides important information about the market for the first two quarters of 2017-18; July to September 2017, and October to December 2017.

This update provides a summary on:

- new energy rules we have developed and are implementing
- an update on energy offers
- latest information about customers in debt and facing disconnection
- newly licensed energy companies and their innovative business models and approaches
- how energy companies are complying and performing against a range of indicators and rules, and
- the actions we are undertaking 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*.

1. New energy rules

Between July and December 2017, our main focus was on promoting efficiency in the energy market and improving the way energy companies serve their customers.

A new payment difficulty framework

Around four thousand households are cut off from gas or electricity each month for not paying their energy bills. 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.

What do the changes mean for you?

From 1 July 2018, the minimum debt you could owe before being disconnected will increase from \$132 to \$300 including GST.

From 1 January 2019, retailers must also provide new entitlements for customers anticipating or facing difficulty in paying their energy bills.

The new entitlements for customers, which come into effect from 1 January 2019, include:

- All customers will be automatically entitled to **standard assistance** from their retailer, including flexible payment options, information about support from government and community service providers, and energy management advice.
- Customers who have missed a bill will be entitled to **tailored assistance** by their retailer. The new rules require retailers to work directly with customers to create affordable payment options and advise ways to reduce energy costs. The changes also mean customers cannot be disconnected unless a retailer has met all their obligations.

New rules on fixed benefit periods

We recently changed the Energy Retail Code to introduce new rules on fixed benefit periods.

'Fixed benefit' periods are usually a set period during which a discount or benefit applies. For example, a 20 per cent discount for the first 12 months of a two year contract.

Under the former rules, retailers did not have to tell a customer when their fixed benefit period was ending. Now, retailers must notify customers no earlier than 40 business days and no later than 20 business days before any change to their 'benefit' period.

This change is in line with changes to the national energy retail rules.

What do the changes mean for you?

From 1 February 2018, retailers are required to contact a customer 20-40 business days before their benefits are due to change or end. This will give you an opportunity to consider your options.

Retailers must also give you information on:

- how to request your billing history
- the fees and charges for terminating your contract early
- reminders to compare energy deals by visiting the government's Victorian Energy Compare website.

New minimum feed-in tariff rates

From 1 July 2018, households with solar panels or other forms of small renewable energy sources, may benefit from time-varying tariffs.

Every year, we review the minimum electricity feed-in tariff (FiT) for households and business that generate electricity from small renewable energy sources (like solar PV panels) and export it into the grid.

For the first time, we are allowing retailers to give eligible customers credit for exported electricity under either a single-rate FiT or time-varying FiT.

The change recognises that the ‘value’ of the electricity being fed back into the grid is different depending on the time of day.

What do the changes mean for you?

If your retailer offers you a single rate tariff, you will receive 9.9 cents for every kilowatt hour you export to the grid.

If your retailer offers you a time-varying tariff, you could receive between 7.1 cents and 29 cents per

kilowatt hour of electricity exported, depending on the time of day.

Unaccounted for gas benchmarks

‘Unaccounted for gas’ is the difference between the measured quantity of gas entering the gas distribution system from various supply points and the gas delivered to customers.

Unaccounted for gas is managed through a benchmark that we review and set every five years. We recently set new benchmarks for 2018 to 2022 for each gas distributor in Victoria. Gas distributors are rewarded for keeping their unaccounted for gas less than the benchmarks set for them.

What do the changes mean for you?

We set benchmarks to incentivise gas distributors to reduce unaccounted for gas levels. By doing so, we limit the cost of unaccounted for gas levels, which impacts your gas bills.



Summary of the new energy rules



Notification of changes to fixed benefit periods of energy contracts

Since February 2018, retailers need to contact you within 20-40 business days before any benefits to your energy contract change or end.



A higher threshold for customer disconnections

From 1 July 2018, retailers can only disconnect a customer if their debt is \$300 or more. The threshold was previously \$132 (including GST).



Retailers can offer solar customers a single or time-varying feed-in tariff

From 1 July 2018, for customers who own solar PV systems, you could receive a single rate of 9.9 c/kWh or more for any exported electricity. Retailers can now also offer three different rates depending on the time of day you are exporting electricity.

2. Update on energy offers

Energy prices continue to increase

A review of offers published by energy retailers on 31 October 2017 and 31 January 2018 shows energy prices have continued to rise. Based on the rates available on 31 January 2018, a typical household's annual bill would increase between 12 to 22 per cent for electricity, and 4 to 16 per cent for gas (based on the same annual energy usage) since 30 June 2017.

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.

Figure 2.1 Estimated residential annual energy bill increases in 2017-18



Table 2.1 Residential customer annual bill estimates for energy offers since 30 June 2017

	Electricity			Gas		
	30 June 2017	31 October 2017	31 January 2018	30 June 2017	31 October 2017	31 January 2018
Undiscounted offers						
Standard contract offers ¹	\$1,438	\$1,601	\$1,740	\$1,455	\$1,505	\$1,692
(% change from 30 June 2017)		↑ 11%	↑ 21%		↑ 3%	↑ 16%
Unconditional market offers	\$1,294	\$1,359	\$1,577	\$1,427	\$1,401	\$1,484
(% change from 30 June 2017)		↑ 5%	↑ 22%		↓ 2%	↑ 4%
Discounted offers						
Discounted market offers (conditional discounts applied)	\$1,172	\$1,222	\$1,317	\$1,263	\$1,319	\$1,436
(% change from 30 June 2017)		↑ 4%	↑ 12%		↑ 4%	↑ 14%
Discounted market offers (all discounts not applied)	\$1,486	\$1,566	\$1,679	\$1,453	\$1,542	\$1,668
(% change from 30 June 2017)		↑ 5%	↑ 13%		↑ 6%	↑ 15%

Based on a typical residential customer using 4,000 kWh per year for all generally available electricity offers (excluding offers with controlled loads) and 54.4 GJ per year for all generally available gas offers (including gas standing offers from Sumo Power which are applicable from 1 February 2018). Estimates exclude GST.

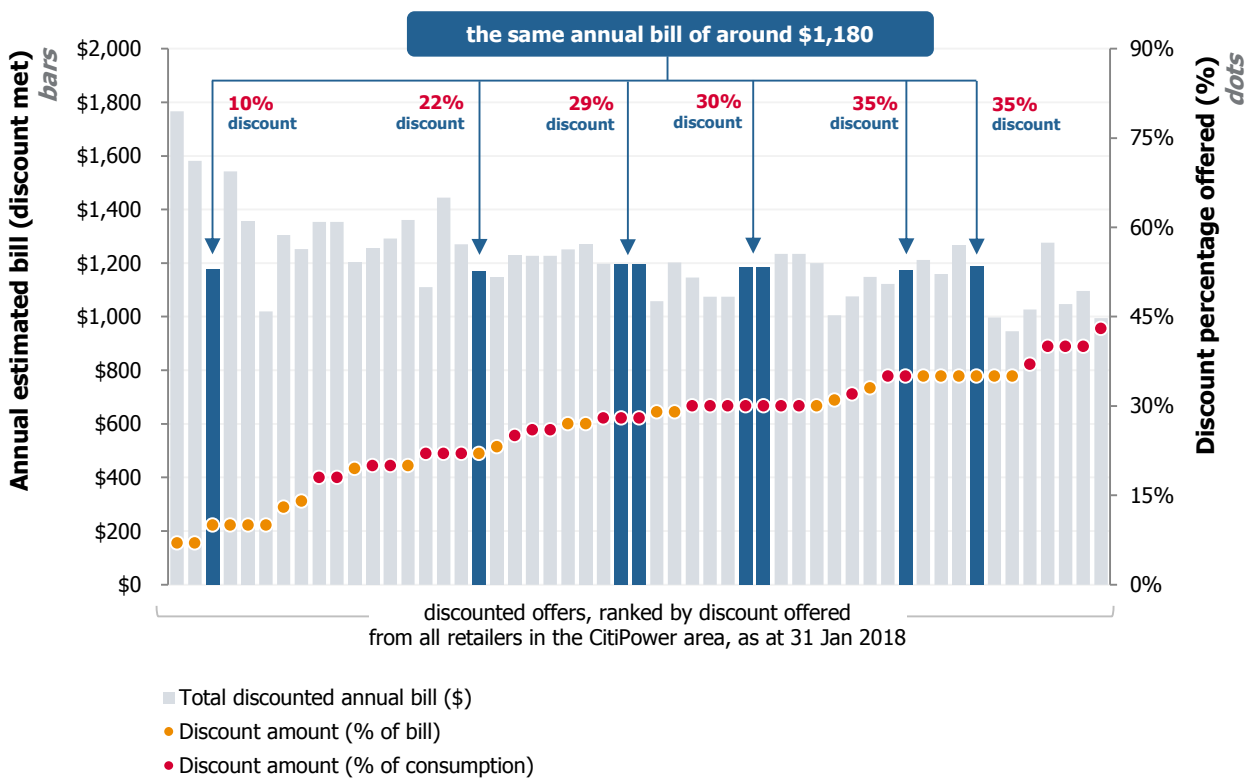
¹ The rates used for analysis are those that appears in the Victorian Government Gazette. Analysis does not apply any rebates offered from retailers to their standard contract customers.

Discounts are still an unreliable indicator of price

In our previous Victorian energy market reports, we have highlighted how the highest discounts offered by retailers do not necessarily mean lower bills. We found different offers with very different discounts could result in the same annual bill for a customer.

Six months on, the situation has not changed. Offers that look very different in terms of the discount being offered still do not necessarily lead to better deals in terms of lower bills.

Figure 2.2 Discounted electricity offers (flat and multi-flat tariffs) ranked by lowest to highest discount, for a residential customer (in the CitiPower area) using 4,000 kWh per annum



The identified offers gave estimated annual bills of \$1,180 plus or minus \$15.

What effect does an electricity retailer’s size have on the price of its offers?

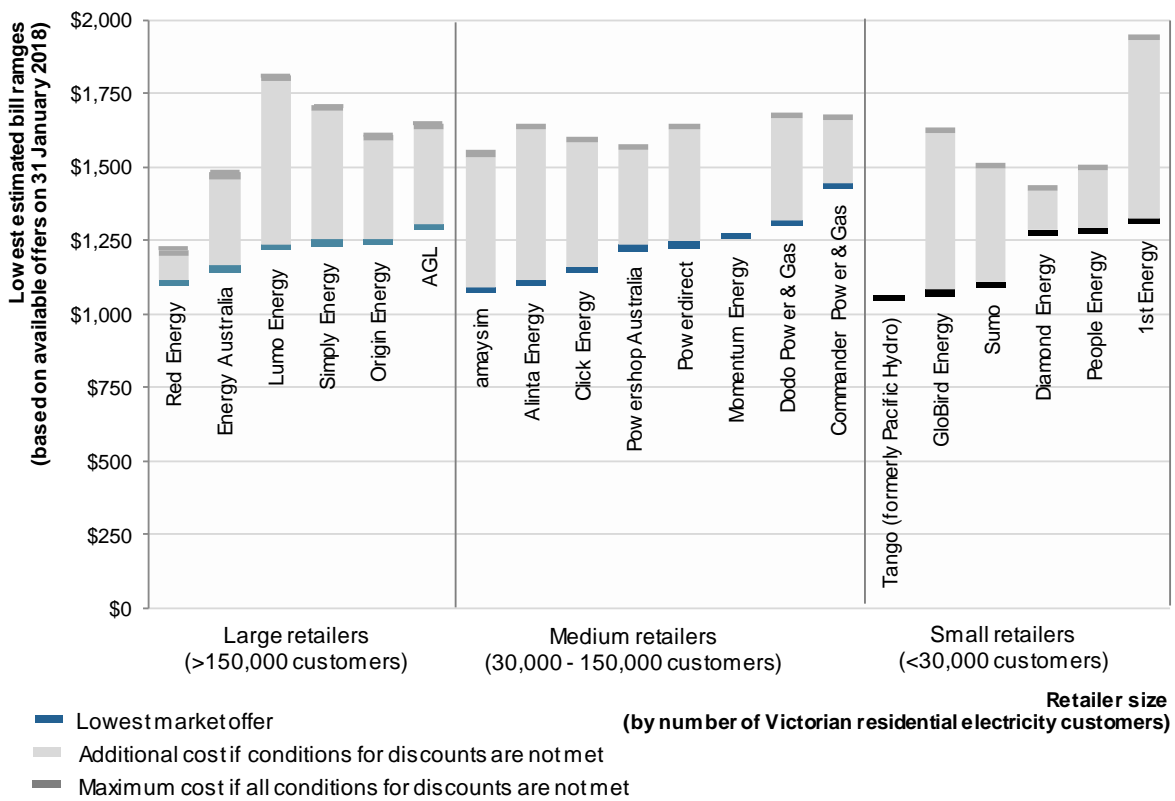
We looked at whether the size of the retailer – in terms of how many customers they have in Victoria – has any bearing on what they offer customers in terms of lower prices.

It also appears that the lowest market offers from large retailers are spread over a slightly smaller range than those offered by medium and small retailers.

We compared the lowest market offers, including discounts, available on 30 January 2018 from all retailers and found size had little effect on the offers.

Our analysis of prices in the Jemena area showed that the five lowest offers were from two small retailers (Globird and Pacific Hydro), two medium sized retailers (Alinta and amaysim) and a large retailer (Red Energy).

Figure 2.3 Lowest market offers compared to size of retailer (in the Jemena area)



Analysis takes the lowest market offer by a retailer on 31 January 2018 (flat and multi-flat, excluding controlled loads). Annual bill estimates are based on a typical residential customer using 4,000 kWh per year. Estimates exclude GST.

Note that the analysis excludes QEnergy as their lowest market offer has been treated as an outlier compared to other retailers, with the estimated annual bill of their lowest offer being \$2,610. Analysis excludes retailers Blue NRG, CovaU and Next Business Energy, which only offered standard contracts to customers on 31 January 2018. Note also that amaysim is currently retailing under the same licence as Click Energy, and Command Power & Gas are retailing under the same licence as Dodo Power & Gas.

3. Customer debt and disconnection

Some customers find it difficult to pay for their energy bills, which could result in debts with their retailer.

Customers could also be included in retailers' hardship programs, particularly if they are facing payment difficulty. However, if a customer is not in a hardship program and has not paid their bill, they could be disconnected by their retailer.

Customer disconnections

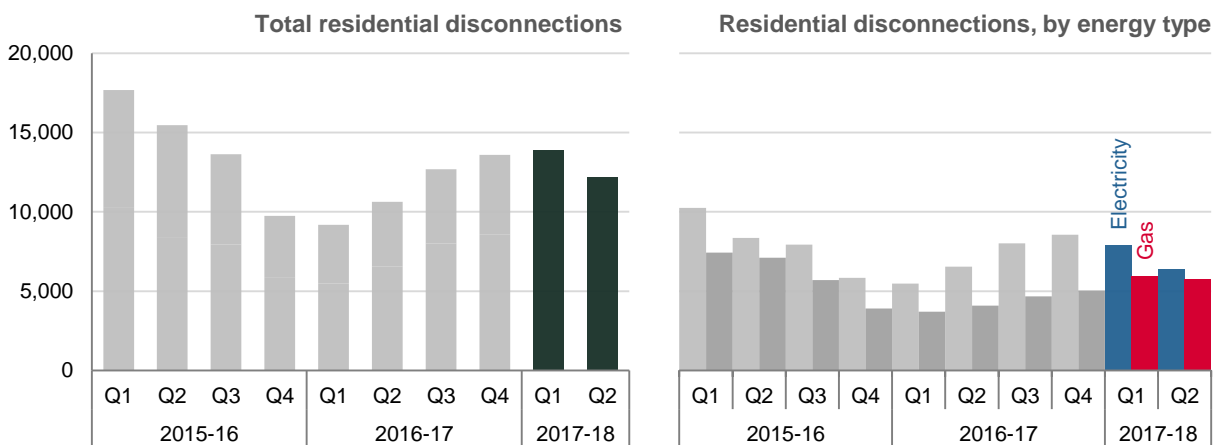
Customer disconnections steadily increased throughout 2016-17. Disconnections continued to increase from July to September 2017. However, since October 2017, total residential disconnections have fallen. This is mainly due to a 19 per cent reduction in electricity disconnections, although gas disconnections increased over the last six months.

Over the last half-year, a total of 26,004 customers were disconnected for non-payment of their energy bills.

We will continue to monitor trends in disconnections for non-payment, particularly as there will be a higher threshold for disconnections from 1 July 2018 (see page 4).

Customers can be disconnected only after their retailer follows strict procedures set out in the energy rules.

Figure 3.1 Quarterly residential customer disconnections for non-payment



More customers are participating in retailer hardship programs

By the end of December 2017, 36,239 customers were participating in retailer hardship programs, which is more than we have reported on before.

In the first half of 2017-18, 26,556 customers entered hardship programs – this was an increase of around 6,600 customers compared to the previous six months. The number of customers exiting hardship programs has also increased, but to a lesser extent than those entering hardship programs.

The increasing number of customers entering hardship programs also coincides with fewer customers being disconnected for non-payment in the last quarter of 2017.

Customers cannot be disconnected if they are in a retailer hardship program.

Figure 3.2 Customers in hardship programs in each quarter since 2014-15

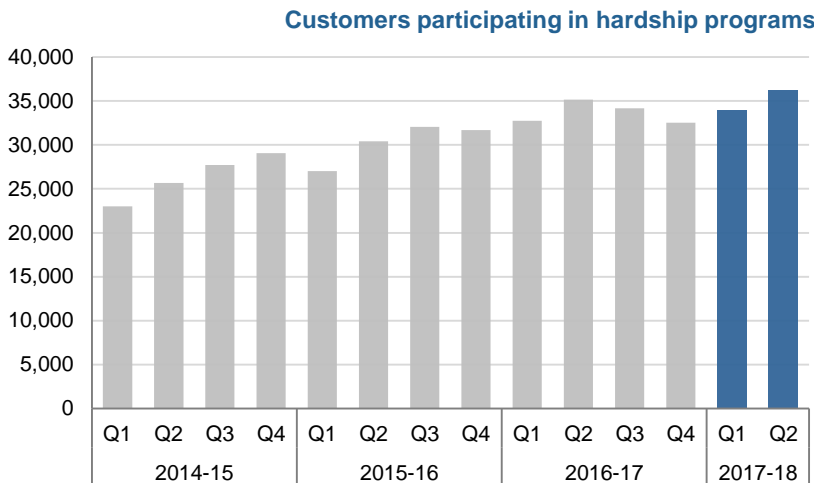
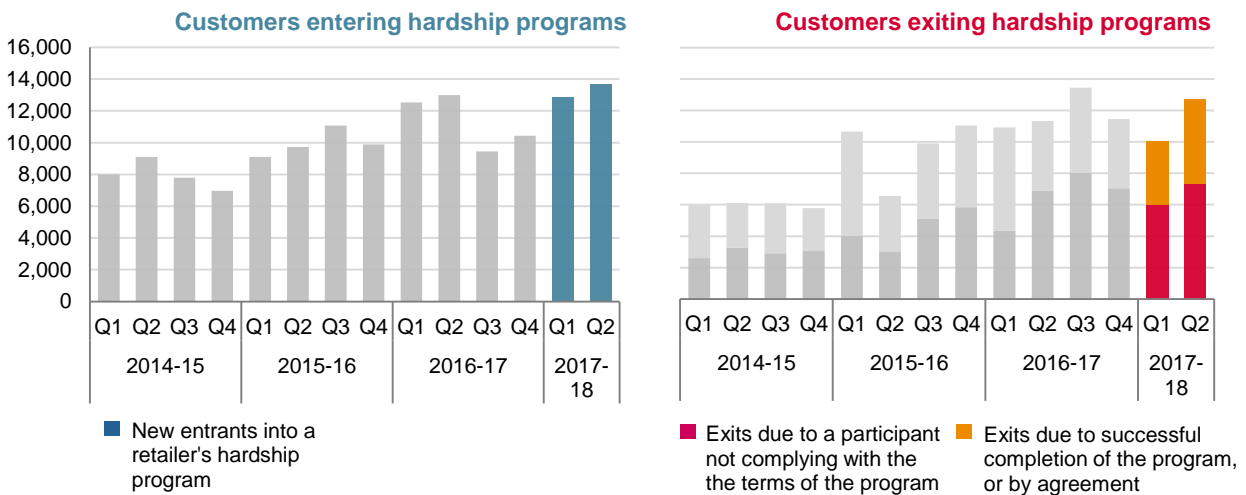


Figure 3.3 Customers entering or exiting hardship programs in each quarter since 2014-15



Total energy debt of customers in hardship programs remains high

Customers in hardship programs have debts with their retailers due to unpaid energy bills.

The total debt of customers in hardship programs in Victoria was \$62.2 million by December 2017. This is approximately the same as it was in June 2016.

The average debt of a customer in a hardship program was \$1,531 by December 2017, which is largely the same as in 2016-17.

The average debt of new customers entering hardship programs during the first half of 2017-18 was broadly consistent with average debt on entry during 2016-17.

A retailer cannot take action to recover debt owed by a customer if that customer is meeting the terms of their payment plan.

Figure 3.4 Total debt of energy customers in hardship programs since 2016-17

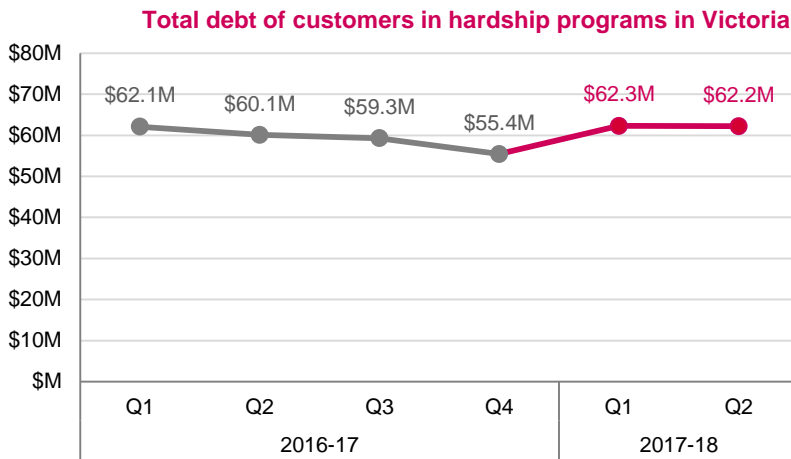
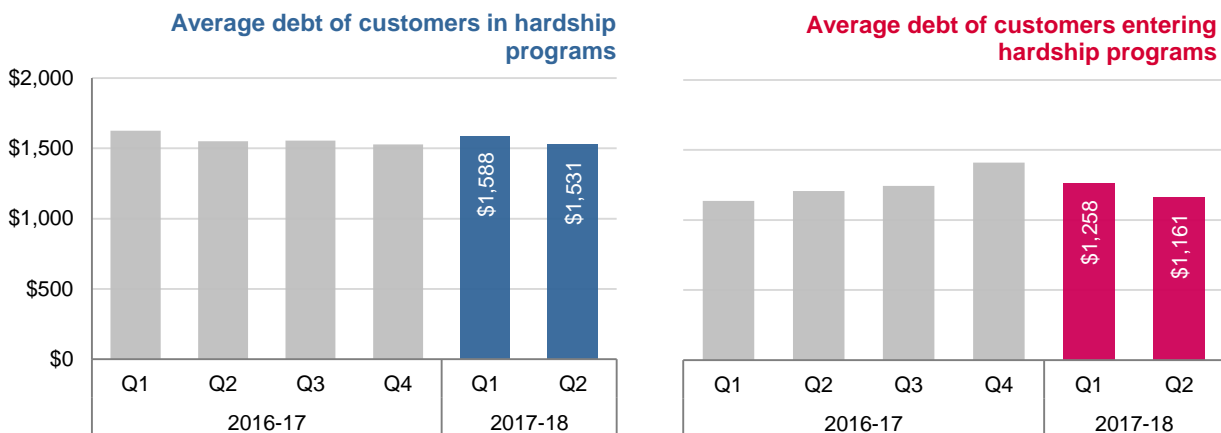


Figure 3.5 Average debt of energy customers in hardship programs since 2016-17



Note that from 1 July 2016, the definition of debt was changed to mean customer debt outstanding for anytime past the due date of an energy bill. Previously debt was defined as customer debt that is outstanding over 90 days.

4. Newly licensed energy companies

Depending on where you live, Victorian households and businesses can choose between up to 27 electricity retailers and 14 gas retailers.

So far in 2017-18, we have varied the licences of a number of existing electricity and gas retailers and approved two new electricity generation licences - namely large scale windfarms in the state's west.

- In December 2017, we varied the licence of WINconnect to allow it to sell electricity to residential and small business customers. WINconnect was previously licensed to sell electricity to large business customers only.
- We granted a licence to Weston Energy to sell gas to large customers who consume more than 10 terajoules of gas a year.
- We issued an electricity transmission licence to Transgrid for the operation of a new Deer Park terminal station. We also varied gas distributors' licences to specify the Victorian postcodes that they service.

We also license large-scale generators to supply or sell electricity in Victoria. We granted two electricity generation licences in 2017-18, including:

- A 28.7 megawatt wind farm located near at Mount Wallace, near Ballan. The wind farm is owned and operated by Pacific Hydro, which also has a licence to retail electricity to residential customers.
- A 30 megawatt wind farm located 50 km north-west of Horsham. The wind farm will be managed by Windlab, which has developed two other wind farms in Victoria in the past.

Find out more information about your energy retailer's performance in the profiles of each Victorian retailer within our [2016-17 Victorian Energy Market Report](#).

Figure 4.1 Location of newly licensed electricity businesses in Victoria



5. Compliance with the energy rules

Energy companies are required to report to us when they break the rules – we refer to these as breaches.

In the first half of 2017-18, retailers reported 116 breaches which affected more than 12,000 customers. The reported breaches affecting the most customers related to:

- customers not being notified of price changes (around 3,000 customers affected)
- overcharging customers (more than 4,100 customers affected), and
- new customers not receiving welcome packs when signing up to a retailer (around 2,600 customers affected) .

These breaches are being investigated further.

Retailers also reported that they had wrongfully disconnected 211 customers, which is around half the same time last year. Retailers paid a total of \$325,148 to customers for being wrongfully disconnected between July and December 2017.

Electricity distributors also reported 250 breaches for failing to notify 691 customers of when an outage to their electricity supply was planned.

We asked distributors to explain how they plan to prevent this from happening again. Each distributor suggested different ways to manage these issues, including refining notification processes, updating IT systems and network maps, and carrying out further staff training. We have since seen a reduction in reported breaches of planned outage notifications in October to December 2017.

Two reported breaches also affected customers on life support systems connected to the electricity grid. We are currently investigating these two breaches.

Table 5.1 Breaches reported by energy companies that started occurring between 1 July to 31 December 2017

Breach type	Number of breaches reported (starting in that quarter)		Customers affected by reported breaches	
	Jul – Sep 2017	Oct – Dec 2017	Jul – Sep 2017	Oct – Dec 2017
Retailers				
Information to consumers ²	21	22	6,176	26
Explicit informed consent	38	17	284	68
Marketing conduct	7	5	26	1,221
Overcharging ³	1	1	13	4,129
Payment difficulties	0	0	0	0
Wrongful disconnections	109	97	109	102
Other	2	1	46	1
Sub-total	178	143	6,654	5,547
Distributors				
Information to consumers	0	0	0	0
Service standards	0	0	0	0
Planned outage notification	147	103	511	180
Life support	1	1	1	1
Other	1	0	0	0
Sub-total	149	104	512	181

From 2017-18, our reporting of breaches will be related to the quarter in which a reported breach has begun (as opposed to the date the breach has been reported, which was reported from 2015-16). This has been made possible due to an IT systems upgrade that we have recently implemented.

² Around 3,000 customers were not notified of price changes, and around 2,600 customers did not receive welcome packs when signing up to a retailer between July and September 2017

³ More than 4,000 customers were overcharged between October and December 2017.

6. Work in progress

As the state's energy regulator, we have a number of roles including licensing new energy businesses, monitoring and reporting on the market, and some price setting functions (such as setting the minimum feed-in tariff). Our overarching objective is to promote the long-term interest of Victorian consumers. It is this role which has driven aspects of our work program over the past several years and will continue to do so in the foreseeable future.

Retail market modernisation

The Victorian Government recently asked the commission to implement a number of recommendations arising from an independent review of the energy market in Victoria. We will work with energy businesses and consumer groups to ensure customers receive the information they need to navigate the market. We will also be developing a framework for assessing the competitiveness and efficiency of the retail energy market. Further details on this project are available on our website.

You can stay up to date with this work by sending an email to retailenergyreview@esc.vic.gov.au to register your interest.

Implementing the payment difficulty framework

We are continuing to work with energy retailers to implement our new payment difficulty framework. We will be monitoring how well retailers are updating their systems and processes to be ready to implement the new framework from 1 January 2019. We will begin reporting on retailers' readiness in our next quarterly update.

Registration for exempt persons

Many Victorian customers have electricity contracts with exempt persons. This includes customers in apartment buildings, shopping

centres, and caravan parks that operate embedded networks. Many of these providers are not required to have an electricity licence to supply or sell electricity to other people.

New energy rules have recently been introduced for exempt persons. These providers will need to register with us. Over the coming months, we will be talking to these providers and consumer representatives on the new rules.

Reviewing voltage limits for operating bushfire mitigation equipment

Stemming from recommendations of the Victorian Bushfires Royal Commission, Victoria introduced new bushfire mitigation regulations.

Part of the new regulations requires the installation of technology, known as rapid earth fault current limiter equipment, to be installed on sections of the Victorian grid.

The introduction of this technology in Victoria means we need to review the voltage standards in the Electricity Distribution Code. We will be talking to stakeholders as part of the review.

Our on-going activities

We will continue carrying out our regulation of the industry by assessing licence applications, investigating and deciding on breaches of the energy rules, commencing this year's audits of energy businesses, and pursuing enforcement where necessary.

We also actively work to promote energy businesses' compliance with the rules. For example, in response to recent electricity outages due to hot weather, we have been engaging distributors about their systems. We have also been clarifying customers' entitlements to payments related to the outages.

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



Do I get a payment if my electricity or gas goes off?

If the power goes out, customers may be entitled to payments under the Guaranteed Service Level scheme.

Is anyone eligible for a payment when the power goes out?

In some circumstances, where there's a power outage, customers may be eligible for payments, however, the scheme doesn't apply in every circumstance. If the outage is a result of a major event outside the control of the electricity distributor, the distributor may be exempt from making payments.

Who may be eligible for a payment for a power outage?

If a distributor is not exempt due to a major event, and if you have been cut off from power for *more than 12 hours*, you may be eligible for a payment.

The power has been off for days, what now?

After an extreme weather event, the focus for the energy distributor is to restore power. Afterwards, the distributor may be obliged to make payments if:

- it has not been decided that the cause was a major event, and
- the customer service level was lower than the regulated standard.

If you have not heard from your distributor, give them a call. Be sure to call your distributor, who is responsible for running the network, rather than your retailer.

If you are not satisfied with the response from your distributor, you can contact the [energy ombudsman](#) on FREECALL 1800 500 509.

How much might you be eligible for?

If you are eligible for payments, the amounts range from \$80 to \$360 depending on how long the power is out and where you live.