



Victorian Energy Market Update 2016-17

Issue 2 – January to March 2017

30 June 2017



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Key findings

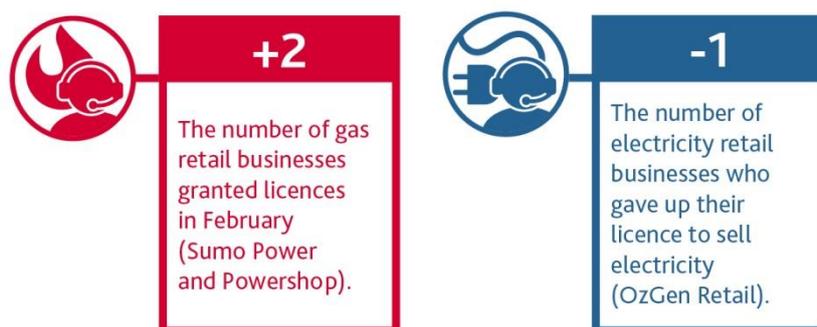
Energy price increases for customers on standard contracts



Customers facing payment difficulty



Changes to energy companies operating in the market



Introduction

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

This update summarises how we are promoting protections for customers in payment difficulty and efficiency in the energy market, as well as ensuring that energy companies are providing customers with electricity and gas according to the rules.

In particular, this report provides an update on:

- recent increases to energy prices
- customers experiencing payment difficulty
- how energy companies are performing against the standards we set for them, and
- energy companies operating in the market.

This update meets our quarterly 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*. The next update, for the period ending 30 June 2017, will be published in September 2017.

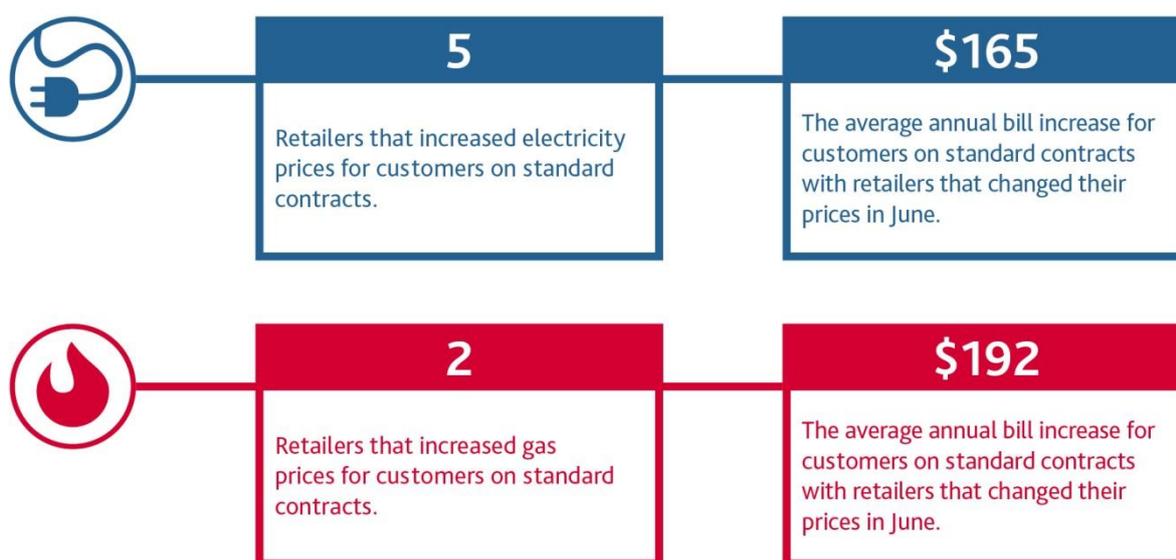
1. Standard contract energy prices increase from July 2017

If you have not changed your energy contract since 2002, you will be on a **standard contract** with an energy retailer. You could also be placed on a standard contract by default, for example, if you do not choose an energy retailer when you move house.

How much have standard contract energy prices increased by?

There are 25 energy retailers selling electricity and 13 selling gas to residential and small business customers in Victoria.

On 1 June, ten energy retailers announced increases to the energy prices of their standard contracts.¹ These ten retailers have a total of 250,000 energy customers in Victoria (11% of the market). But only five of these retailers have a total of 2700 customers on standard contracts – Alinta, Click, M2 (Dodo and Commander), People Energy and QEnergy. These customers may face average annual bill increases of \$165 for electricity and \$192 for gas. Because standard contracts often act as a signal for the market, we expect these retailers' market contracts to follow similar price increases in due course.²



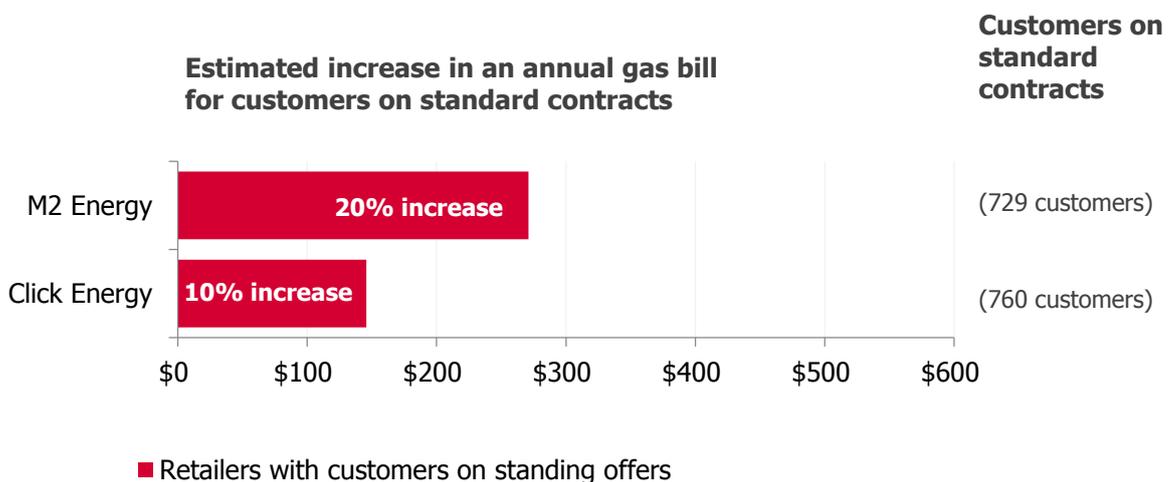
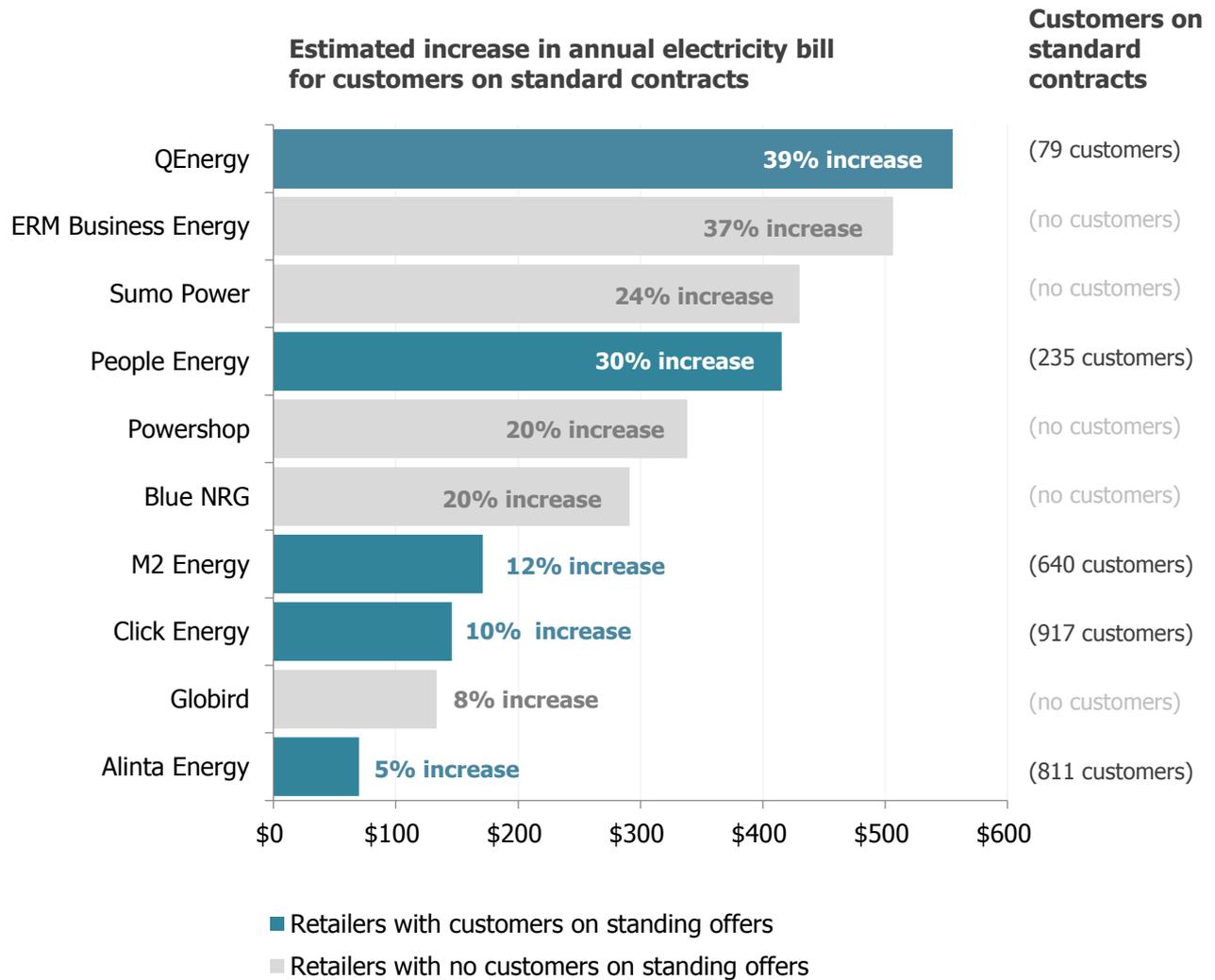
Of the remaining retailers, 11 retailers announced increases to their standard contract energy prices in December 2016. These retailers have 2 million electricity and gas customers in total in Victoria (89% of the market), and 166,000 of these customers are on standard contracts.

We will continue monitoring and reporting on prices offered by retailers to Victorians in our annual Victorian Energy Market Report.

¹ Retailers can only change their standard contract prices twice a year on dates set by the government. These dates are 1 December 2016 and 1 June 2017.

² A market contract has its terms, conditions and prices set by the retailer.

Increases in standard contract prices, by retailer in 2017³



³ Analysis based on an example customer with annual consumption of 4,000kWh for electricity and 54.5GJ for gas. Averages of flat and multi-flat tariffs (for electricity) and all tariffs (for gas) published 1 Dec 2016 and 1 June 2017 were applied (with the exception of M2 Energy based on offers as at 1 October 2014, and People Energy based on offers as at 30 April 2015). Average of flex tariff used for People Energy in lieu of applicable previous tariffs for electricity.

2. Customers facing payment difficulty

Disconnections on the rebound?

Energy businesses can disconnect a customer for not paying a bill after following a strict procedure set out in the energy rules. This includes sending the customer a reminder notice and a disconnection warning notice.

After steadily falling during the 2015-16 financial year, disconnections increased by around 2,000 since last quarter (October to December 2016). Despite this trajectory, the total number of customers disconnected during January to March 2017 is still lower overall than at this time last year.

We will closely monitor the recent increasing trend of disconnections for non-payment.

Customers entering payment plans with high levels of debt

The effectiveness of energy retailers' hardship programs was the subject of our 2016 *Inquiry into best-practice financial hardship programs of retailers*. During that inquiry we found retailers' hardship programs were not effective in reducing customer debt. We are working to improve this arrangement. In May 2017, we proposed a new framework for retailers to provide three different types of assistances for customers anticipating or in payment difficulty.

Recent data shows that current hardship programs are still not effective in assisting customers to reduce their debt. Many customers have high levels of debt when they enter into hardship programs. Of the customers participating in hardship programs in the last quarter, 41 per cent had debts of over \$1,000.⁴ More than a third of hardship program customers with payment plans are on these plans for one to two years.

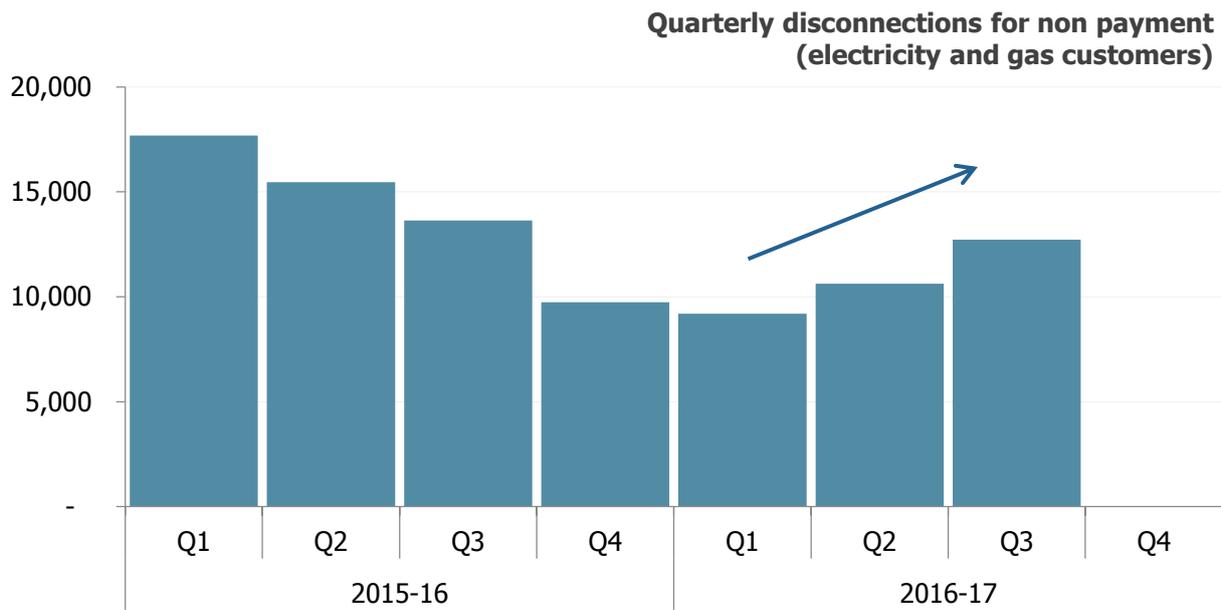
More information on our work on payment difficulty can be found at our website.⁵



⁴ Customers in hardship programs who have entered into an instalment payment plan for their energy debt

⁵ <http://www.esc.vic.gov.au/project/energy/35945-protections-for-customers-facing-payment-difficulty/>

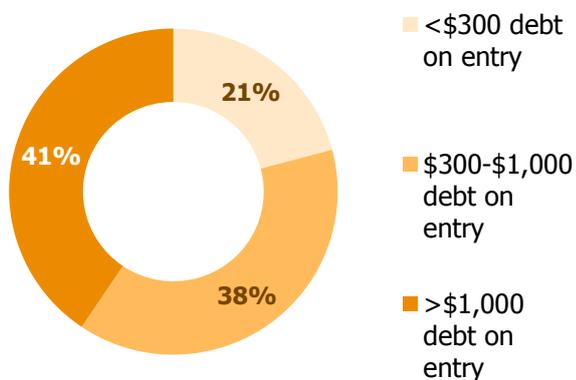
Customers disconnected for not paying their energy bills



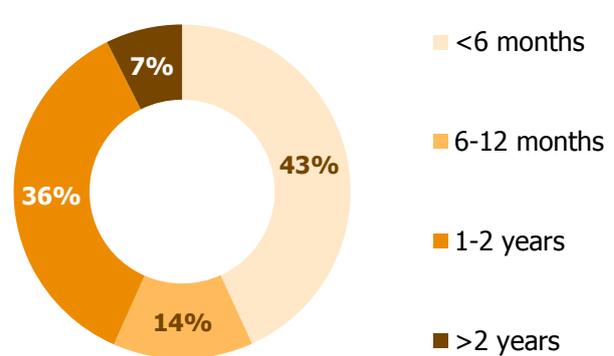
Despite the current trajectory of increasing disconnections, the 32,537 customers disconnected during the previous three quarters is lower than the 46,764 customers last year.

Debt and length of payment plans for customers in hardship programs

Debt on entry of hardship customers paying by instalments (Jan-Mar 2017)



Plan length of hardship customers paying by instalments (Jan-Mar 2017)



3. Compliance with energy rules

Energy businesses are required to tell us when they have not complied with the energy rules – we call these “breaches”. We check that the information energy businesses send us is accurate through independent audits. We also draw on other publicly available sources of information about customers’ experiences.

Compared to last quarter, energy companies are reporting fewer breaches of the energy rules. This reduction in reported breaches could be due to the reporting period including the holiday season – traditionally a slower time for energy business activity.



Energy companies reporting fewer breaches

There was a decrease in reported breaches this quarter, with 549 customers reported as being affected by energy company breaches. This is a large reduction from the previous quarter reports of 3,853 affected customers.



Payments for customers who have been wrongfully disconnected

141 customers were reported as being wrongfully disconnected from their energy. This is a slight reduction from 164 customers last quarter. Retailers paid customers a total of \$273,871 for these disconnections.



Life support customer disconnected from energy supply

This quarter, a distribution business disconnected a life support customer without prior notice. We are currently assessing this incident with the distributor to ensure they have established processes to prevent the incident from reoccurring.



Fewer customers experiencing an outage without being notified

Two-hundred and six customers had their electricity turned off without warning. This is 55 per cent less than last quarter.

This improvement follows our work with energy distributors on improving their notification processes.

Customers affected by reported breaches from energy companies

Type of breach by energy retailers	1 Jul to 30 Sep 2016	1 Oct to 31 Dec 2016	1 Jan to 31 Mar 2016	Year to date
Wrongfully disconnecting a customer	215	164	141	520
Failure to notify a customer of overcharging	547	2 100	0	2 647
Transferring a customer without obtaining explicit informed consent	12	94	14	120
Failing to provide new customers with complete information	282	1 039	5	1 326
Failing to notify a customer of changes to tariffs or charges	<i>No customers directly affected</i>	0	182	182
Failing to publish energy prices	<i>No customers directly affected</i>	0	0	0
Failing to organise reconnection in a timely manner	1	0	0	1
Subtotal (by energy retailers)	1 057	3 397	342	4 796

Type of breach by energy distributors	1 Jul to 30 Sep 2016	1 Oct to 31 Dec 2016	1 Jan to 31 Mar 2016	Year to date
Failing to notify life support customers of planned outages	3	2	1	6
Failing to notify customers of planned outages	296	454	206	956
Failing to provide metering data in a timely way	0	<i>No customers directly affected</i>	0	-
Subtotal (by energy distributors)	299	456	207	962

	1 Jul to 30 Sep 2016	1 Oct to 31 Dec 2016	1 Jan to 31 Mar 2016	Year to date
Total breaches by energy companies	1 356	3 853	549	5 758

4. Choosing your energy company

Victorians can choose between a number of electricity and gas retailers. Depending on where you live, there will be up to 20 electricity retailers and 12 gas retailers competing to sell you energy.

Two additional retailers are now licensed to sell gas in Victoria, increasing your options when purchasing energy.

In February, we granted licenses to SparQ Pty Ltd (trading as Sumo Power) and Powershop Australia to sell gas in Victoria. Both companies were already licensed to sell electricity in Victoria.



Other changes to energy retailers

In Victoria, all businesses involved in the supply of energy are required to hold a licence unless they are exempt from law to do so. This enables us to set rules to help you participate in the energy market and ensure your energy supplier complies with the rules designed to protect you.

Before we grant electricity and gas businesses a licence, they must demonstrate they are financially viable, technically capable and are 'fit and proper'. Licences are granted with a range of conditions which include obligations to comply with the codes and guidelines we publish.

In February, OzGen Retail Pty Ltd voluntarily gave up their licence to sell electricity. The licence was granted in 2008. They had no customers.

We also extended the energy retail licence of Onsite Energy Solutions to 31 March 2019. The extension enables Onsite Energy Solutions to continue its 'virtual power plant' trial in Victoria, which is limited to a maximum of 20 customers.

Hazelwood hands back its energy licence

Energy companies can ask us to revoke their licence at any time.

In March 2017, Hazelwood Power Partnership applied to revoke its licence to generate electricity for the Hazelwood Power Plant. The application coincides with the plant ceasing generation on 31 March 2017.

Before we can revoke the licence, we must have regard to matters relevant to health, safety, environmental and social legislation that apply to the energy industry. To do this, we are engaging with relevant agencies and government departments including the Latrobe Valley Authority, the Australian Energy Market Operator, the Environment Protection Authority, the Department of Environment, Land, Water and Planning, and the Department of Economic Development, Jobs, Transport and Resources.

Licensing activities by the ESC over the last year (by quarter)

Licensing activity	1 Jul to 30 Sep 2016	1 Oct to 31 Dec 2016	1 Jan to 31 Mar 2017
New applications advertised	-	3	-
Granted	-	2	2
Revoked	-	2	1
Varied	5	1	1

5. Priorities for action

We have responsibility for promoting and enforcing compliance with Victoria's energy rules. The rules contain many types of obligations, affecting different aspects of the supply of energy to Victorians. This includes rules about contract formation, tariff changes, disconnection and service reliability.

We have processes in place to monitor and respond to breaches of the energy rules. However, in 2017-18, we will focus on five important areas as shown below.



We describe these priorities in more detail as follows.

Entering into contracts

Energy laws require energy businesses to report to us when they do not comply with the conditions of their licence. Over the past nine months, energy companies have reported to us breaches relating to contract formation (see page 6). This includes failing to:

- acquire the consent of a customer before signing them up to a new energy contract, and
- send new customers with contract information after the customer agrees to the contract over the telephone.

These actions can affect a customer's trust and confidence to participate in the energy market. Therefore, we will be closely monitoring the behavior of energy companies in these areas over the coming financial year. Where non-compliance is identified, we will consider taking enforcement action (including issuing penalties).

Wrongful disconnection and life support customers

Energy companies must also follow procedures in the energy rules before disconnecting a customer. However since July 2016, at least 520 customers have been wrongfully disconnected by their energy retailer. This includes six life support customers.

Over the next year, we will be working with energy businesses to ensure customers are only disconnected as a last resort. If performance does not improve, we will pursue enforcement action wherever required.

Case-study: Making it clearer when payments are due

Energy companies must give you at least six business days to pay the amount due on your reminder or disconnection warning notice.

Up until late last year, energy companies either commenced this notification period on or after the date the notice was issued. However, following our consideration of disconnection cases referred to us by the Energy and Water Ombudsman (Victoria) in 2016, we clarified our position by finding the notification period begins the day after the date of issue. This finding ensures customers receive adequate time to comply with reminder and disconnection warning notices.

In March 2017, we communicated this standard to energy companies at our quarterly industry forums. We expect energy companies to comply with this standard.

End of contract notice

Before the end of a fixed term contract, energy companies must send you a notice setting out what will happen following the end of the contract. End of contract notification is critical for ensuring customers, like you, can make fully informed decisions about whether to remain with an energy company following the end of the contract. Without it, customers may unknowingly lose certain benefits or be placed on higher prices, possibly placing them under unnecessary financial stress.

In 2017-18, we will continue monitoring how retailers communicate with customers at the end of their contract. This will include assessing the end of contract letters sent by energy retailers to customers. We will also consult with relevant agencies, including the Energy and Water Ombudsman (Victoria), the Australian Energy Regulator and the Victorian Government.

Protecting solar customers

In 2015, Victorian Parliament passed a law to strengthen our powers, and to enhance protections for consumers in the energy retail market. This included banning energy companies from discriminating against solar customers, such as applying extra charges for customers with solar panels.

Consistent with this new law, we want to make sure energy companies are not discriminating against Victorians with solar panels. Therefore, in 2017-18 we will review energy retailer offers and contracts for solar customers in the Victorian energy market.

Self-reporting by energy companies

To help us monitor the performance of energy companies, we require energy companies to provide us with information about how they are complying with the energy rules and about their performance in the market. This information includes how many customers the energy retailer has disconnected over the past three months, as well as breaches of the energy rules.

Over the past six months, some energy retailers have failed to provide timely and accurate information to us. This is of concern, since information delays impact our ability to monitor the market and report our findings to the community and policy makers. Over the coming months, we will be paying particular attention to energy businesses who fail to provide information in an accurate and timely manner.