AUSTRALIAN COMPETITION & CONSUMER COMMISSION

# Inquiry into the National Electricity Market

## December 2024 Report

3 December 2024

## Acknowledgment of country

The ACCC acknowledges the traditional owners and custodians of Country throughout Australia and recognises their continuing connection to the land, sea and community. We pay our respects to them and their cultures; and to their Elders past, present and future.

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# Executive summary

The retail electricity market has experienced some modest improvements in competitive conditions over the past year. After consecutive years when the number of retailers declined following the 2022 energy crisis, there has been net growth in the number of new retailers entering the market.

We find smaller retailers substantially increased their spending on acquiring new customers and have made more acquisition offers available, indicating they are making greater efforts to compete for new customers. This is in contrast to the second half of 2022 where we observed high wholesale electricity spot and contract prices and several retailers sought to reduce market share to reduce their exposure to market volatility.[1] We will monitor these emerging signs of improved competition in our next electricity inquiry report.

To further understand the level of competition for new and switching customers we compared generally available offers in Energy Made Easy and Victorian Energy Compare against the Default Market Offer and Victorian Default Offer. Our analysis of these publicly available acquisition offers shows that retailers are competing for new customers and offering prices below the default offers.

We also collected prices for flat rate, time of use and demand offers, capturing the prices for 6.7 million (or 78% of) residential customers, to understand pricing outcomes for existing customers on a range of offer types, including customers on legacy offers that have been withdrawn from the market. We find that calculated annual prices decreased from 1 August 2023 to 2024, and more customers are on offers with calculated annual prices below the default offers.

However, a substantial proportion of customers remain on offers priced at or above the Default Market Offer and Victorian Default Offer, and this proportion is higher for offers with a demand charge. We found that 51% of customers on flat rate offers with a demand charge were on offers with calculated annual prices at or above the Default Market Offer for flat rate offers.

We also see increasing numbers of customers on offers with multiple layers of complex pricing, for example, time of use offers where tariff components vary by season or time of use offers that also have a demand charge. We observe that many customers struggle with the increasing complexity in their tariffs, including moving to time of use or demand tariff structures.

We also observe a spectrum of customers; ranging from those that switch offers regularly to those who do not or cannot switch. Customers who switch regularly tend to be on better prices. Most retailers' price setting policies or processes intentionally treat the setting and adjustment of prices for new and existing offer prices differently. This contributes to those customers who do not switch regularly paying a 'loyalty penalty'.

[1] ACCC, *Inquiry into the National Electricity Market: December 2023 report*, ACCC, Australian Government, 15 December 2023, p 22.

# Retail prices have fallen, more customers are on offers with prices below the default offers

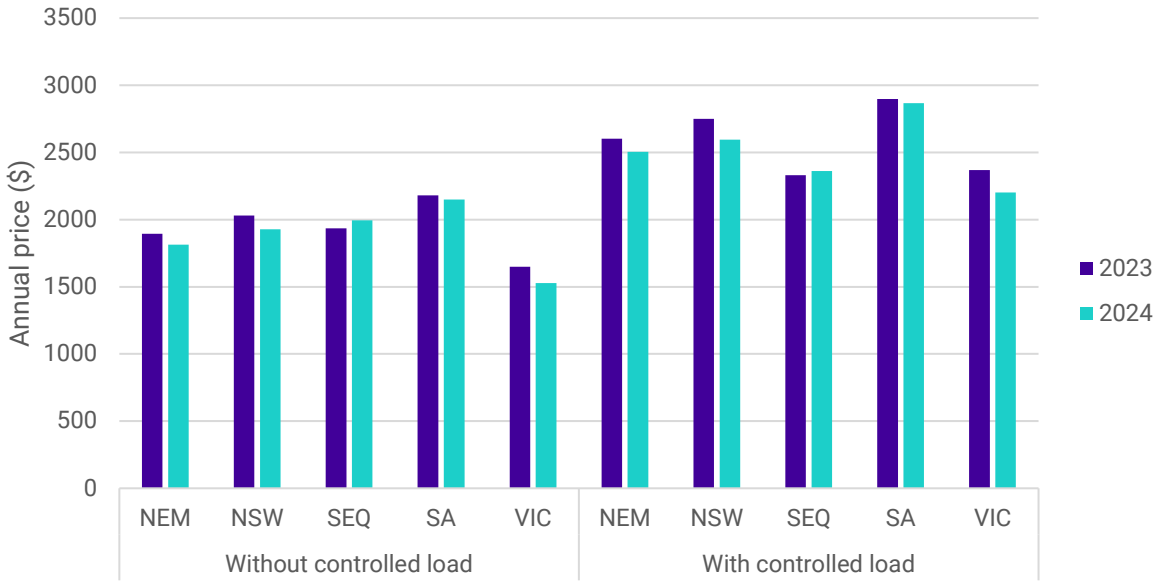
Our retail pricing analysis presents customer-weighted calculated annual prices for flat rate, time of use and demand offers based on usage assumptions from the default offers. We present most of our results assuming customers achieve conditional discounts.

We find that calculated annual prices for residential offers decreased in the year to 1 August 2024 across New South Wales, Victoria, South Australia, and South East Queensland. On average, customers on flat rate offers experienced a decrease of 4.0%. Customers on time of use offers decreased by 5.5%. However, customers on demand offers only experienced slight decreases. These declines are not large enough to offset the large price increases from 2022 to 2023, meaning prices in 2024 are still higher than 2022 levels.

As shown in Figure 1, prices for all offer types combined fell across all regions in 2024 except for South East Queensland. Our results do not incorporate government rebates or solar feed-in tariffs. Many customers in all regions would have received reductions in their actual electricity bills once recent Governments rebates are accounted for.[2]

**Figure 1: Prices were generally lower in 2024**

*Residential customer-weighted average annual prices (by region, all offer types combined)*




Source: ACCC analysis of retailer pricing data. Nominal dollars, including GST.

Note: Residential customers with controlled load are assumed to use between more electricity than customers without controlled load. Controlled load is explained further in Chapter 2.

[2] Australian households with electricity bills will receive a $300 rebate and eligible small businesses $325 from the Australian Government throughout 2024–25. See DCCEEW, Energy Bill Relief Fund, https://www.energy.gov.au/energy-bill-relief-fund, accessed 30 November 2024.

The Queensland Government also applied a $1000 cost of living rebate for 2024–25. See Queensland Government, $1000 off your energy bills, https://www.queenslandsavers.qld.gov.au/tips-to-save/$1000-off-your-energy-bills, accessed 30 November 2024.

# Price outcomes vary by offer type, with demand offers the most expensive

Although most customers remain on flat rate offers, we have observed an increase in the number of customers on time of use and demand offers. This is driven by customers being assigned to cost-reflective network tariffs, and then to retail offers with equivalent pricing structures (often following installation of a smart meter).

In line with declining prices, more customers are now on offers that are priced below the default offers than they were last year. However, a substantial proportion of customers across the National Electricity Market remain on offers with calculated annual prices at or above the default offers. This includes 38% of customers on flat rate offers and 27% of time of use customers.

We found that customers on time of use offers were paying less than customers on flat rate offers. Calculated annual prices for customers on time of use offers had calculated annual prices 3.3% lower than flat rate offers and had larger price declines over the past year.

Conversely, we found customers on flat rate offers with a demand charge had calculated annual prices 13.7% higher than those without a demand charge. For time of use offers with demand charges, calculated annual prices were 7.2% higher than those offers without demand charges.

Although the Default Market Offer does not apply to offers with demand charges, 51% of customers on flat rate offers with a demand charge were on offers with calculated annual prices at or above the Default Market Offer for flat rate offers.

We also see increasing numbers of customers on offers with multiple layers of complex pricing. For example, time of use offers where usage charge rates vary by season or time of use offers that also have a demand charge.

# Customers who do not switch pay more

Our retail pricing analysis indicates that pricing outcomes vary for customers based on how regularly they switch offers. We can observe:

- 2.1 million customers are on flat rate offers that are 2 or more years old
- 1.6 million customers are on flat rate offers that are only 1 or more years old
- 1.2 million customers are on flat rate offers that are less than 1 year old.

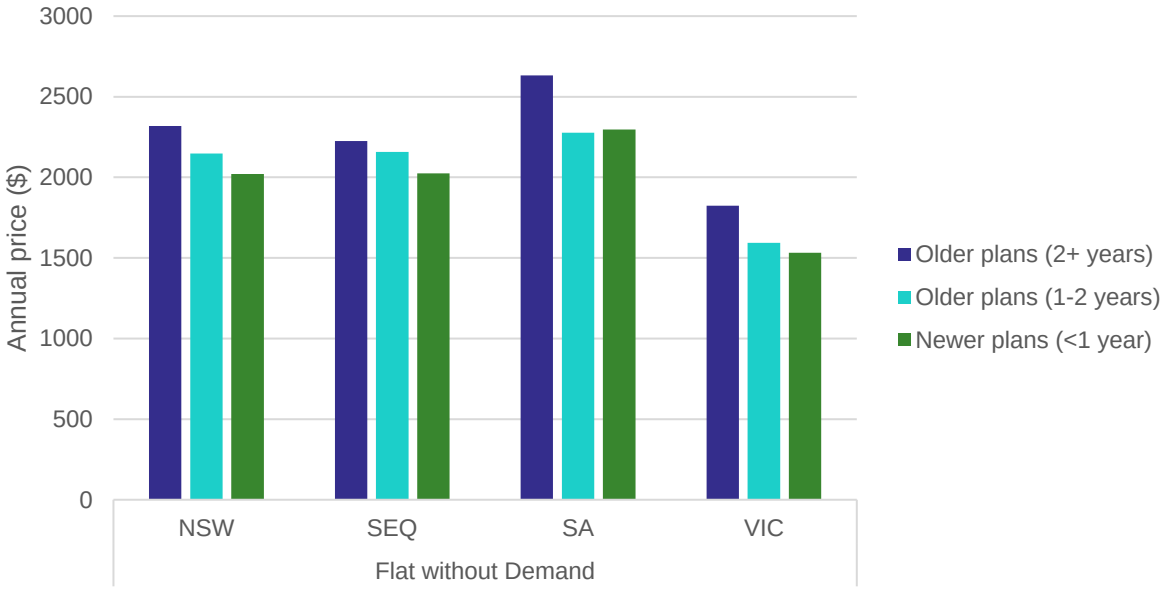
As shown in Figure 2, those who do not switch regularly are paying more than those who do, and this 'loyalty penalty' increases with the age of the offer. Customers on flat rate offers that are 2 or more years old have calculated annual prices on average 16.9% or $317 higher than those on newer offers.

59% of flat rate customers on flat rate offers 2 or more years old were on offers priced at or above the default offers, which is substantially higher than the 10% of customers on newer offers. Rebates and concessions are excluded from these results.

This difference was not limited to flat rate offers. We also observed that customers on older time of use and demand offers also paid more than customers on newer offers (though we were only able to examine offers 1 or more years old for these offer types).

**Figure 2: Calculated annual prices increase with the age of the offer**

*Residential customer weighted average annual prices for newer and older offers by region, 2024*




Source: ACCC analysis of retailer pricing data. Nominal dollars, including GST. Figures represent flat rate offers without demand charges and assumes 100% achievement of conditional discounts.

# There are valuable mechanisms to support customers

The default offers serve a dual purpose to protect customers by capping standing offer prices and acting as a common reference price for the majority of customers on market offers, enabling comparison of offer prices against a common benchmark.

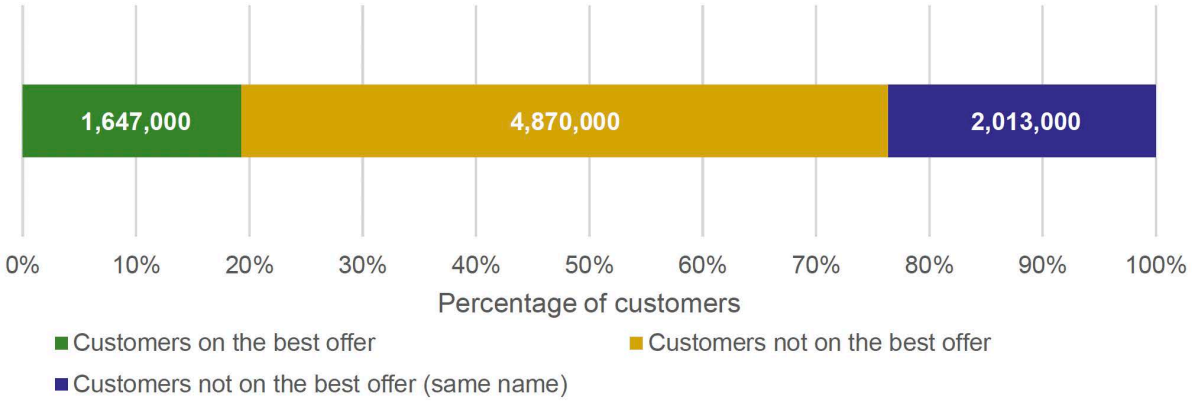
Using these benchmarks, Government run, independent energy price comparison services, Energy Made Easy and Victorian Energy Compare, help customers identify more competitive prices offered by retailers. They are a useful tool to inform customers of which available offers are likely to best suit their needs. Although, neither Energy Made Easy nor Victorian Energy Compare include demand charges when comparing the estimated annual bills of available offers. Energy Made Easy also does not include solar feed-in-tariffs.

Measures such as 'Best Offer' and Better Offer' messages support greater customer switching and prompt customers to access and achieve more competitive prices with their existing retailer, informed by their historical energy usage.

We suggest that the positive impact of these measures is visible in increased customer switching and fewer customers being on offers with prices above the default offers in our most recent analysis. Although, Figure 3 shows only 19% of customers were on their retailer's best offer across all regions from 1 January to 10 August 2024. It also shows that almost a quarter of customers were prompted to switch to an offer with lower prices which had the same name as the offer they were currently on.

**Figure 3: Number of customers receiving better offer messages**

*Proportion of residential customers receiving 'Better / Best Offer' messages, all regions combined, from 1 January 2024 to 10 August 2024*




Source: ACCC analysis of retailer data.

While the Better Offer requirements have only been in place since September 2023, the Best Offer requirements in Victoria have been in place since 2019. Victoria provides a mature example of the level of impact that switching prompts on bills can have for customers who are willing and able to respond to them.[3] A higher proportion of customers in Victoria were on their retailer's best offer than other regions combined.[4]

# These mechanisms can be improved

Our retail pricing analysis provides data to support policy makers who are in the process of considering the regulatory settings to support customers in the retail electricity market. We encourage policy makers to consider whether there are gaps in the regulatory framework, which if addressed, could support customers who:

- are using independent comparison services to assist them to compare offers with demand charges and solar feed-in tariffs
- are currently receiving a Better Offer message that refers to a plan with the same name but with difference prices, which may be confusing for customers
- moved to a market offer some time ago and don't frequently switch offers. Our analysis finds that customers on older market offers pay higher calculated annual prices than customers who switch offers regularly

[3] In Victoria around 22% of customers in all distribution regions were on their retailer's best offer compared with New South Wales and Queensland where between 14–17% of customers were on their retailer's best offer. In South Australia 28% of customers were on their retailer's best offer. See: Data Appendix: Figure C2.16 Proportion of residential customers receiving 'Better/Best Offer' messages by distribution region.

[4] See: Data Appendix: Figure C2.16 Proportion of residential customers receiving 'Better/Best Offer' messages by distribution region.

- are on offers with demand charges as around half of these customers are on prices above the default offers, and outside of Victoria, are not covered under the current regulatory settings.[5]

The Australian Government is scheduled to commence a review of the Electricity Retail code.[6] Relevantly, the Australian Energy Market Commission (AEMC) is conducting a future pricing review[7] and has introduced new consumer safeguards to protect customers and require explicit informed consent before customers are placed on a new tariff structure by their retailer. This requirement applies for a 2-year period following the installation of a smart meter.[8]

## Costs of supply and retail margins have increased overall, but varied greatly between retailers

Finally, the report presents information on electricity retailers' costs of supply and margins in the 2023–24 financial year. This analysis of financial performance is backward looking and covers the previous financial year.

This contrasts with the retail pricing results discussed above, which are focused on prices as at 1 August 2024.[9] These prices are more reflective of retailers' forward looking expectations on costs and other market conditions for 2024–25.

We have observed that costs of supplying retail electricity generally increased for retailers in most regions and across most parts of the supply chain in 2023–24. Total retailer costs increased by an average of $348 (23%) for residential customers and $904 (25%) for small business customers, year on year, across all NEM regions combined.

The biggest driver of this increase was higher wholesale costs reflecting the delayed impact of the volatile energy market events in 2022. The impact of the 2022 events took time to flow through to the cost of supplying electricity to customers because retailers enter contracts to purchase most of their electricity well in advance of when it is needed.

Specifically, spot market volatility in mid-2022 led to extremely high contract prices in the second half of 2022, aligning with the time when retailers likely purchased a significant portion of contracts for the 2023–24 financial year. However, not all retailers were equally affected by high wholesale costs, as retailers with favourable hedge positions were likely shielded from some of the wholesale cost increases.

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5 The Victorian Default Offer price determination covers all types of standing offers including those based on time-of-use, demand and flexible tariff structures.

6 Australian Government Department of Climate Change, Energy, Environment and Water, *Review outcomes – Post-implementation review of Competition and Consumer (Industry Code – Electricity Retail) Regulations 2019*, Australian Government, p 9.

7 The AEMC has initiated a review to examine the future of electricity products and services, and the prices consumers pay for these. *Electricity pricing for a consumer-driven future* will consider the important role that electricity pricing, products, and services will play in supporting the diverse needs of customers, including delivering the consumer energy resources (CER) necessary for the energy transition.

8 AEMC, *AEMC finalises landmark reform to accelerate smart meter rollout*, Media Release, 28 November 2024.

9 The reduction in customer prices presented in this report is likely driven by decreasing wholesale costs between 2022 and 2023, which have taken time to flow through to customers because retailers purchase contracts for electricity well in advance of when it is needed.

There were also increases in retail margins across all regions, with more prominent increases in in South Australia and South East Queensland. While margins were higher overall, outcomes varied greatly across retailers and regions.

For example, the big 3 retailers collectively had higher margins than the other (non-big 3) retailers, but not all retailers in the big 3 group achieved high margins in all regions. Further, some smaller retailers were able to achieve high margins in some regions. We also found high overall margin results were driven by a subset of retailers, with outliers being a significant driver in some regions. A possible reason for this is that most retailers increased retail prices to recover high wholesale costs. This could have allowed retailers that avoided high wholesale costs to set consumer prices with high margins. Other one-off factors may have also contributed to high margins. It is therefore unclear whether high margins will persist in the future.

Although we observed a sharp increase in margins of the big 3 retailers in 2023–24, it is important to note this increase followed several years of low margins for the big 3 retailers. Conversely, the non-big 3 retailers experienced a moderate fall in margins in 2023–24. However, their margins have remained much more stable over time compared to the big 3 retailers. By looking at the 3 year rolling average for retail margins, which provides an indication of medium term profitability, we see that retail margins for the big 3 retailer appear to be returning to pre-energy crisis levels, although their margins remain well below the 3 year rolling average margins for non-big 3 retailers.

# Contents

# 1. Introduction

In 2018, the Australian Government directed the Australian Competition and Consumer Commission (ACCC) to hold an inquiry into prices, profits, and margins in the supply of electricity in the National Electricity Market.

Under the terms of reference for the inquiry, the ACCC has a broad-ranging remit to monitor matters in the National Electricity Market, including electricity prices faced by customers, contract market liquidity, and the effects of policy changes. Where appropriate, the ACCC will make recommendations to government on proportional and targeted actions necessary to deliver competitive and efficient electricity prices for consumers.[10]

The ACCC must report to the Treasurer at least every 6 months until the conclusion of the inquiry on 31 August 2025.

In recent years, we have adopted a cycle of reporting on billing outcomes for households and small business customers in the first half of each year, and retailers' costs in supplying electricity to customers (or 'cost stack') information in the latter half of each year. For the first time in the December 2023 report, we also undertook new analysis of retail competition and retail prices.[11] We have continued and extended this analysis into retail prices in this report, by including prices for a wider range of offer types.

## 1.1. Our role in electricity markets

Regulators and governments all have a role to play in ensuring safe, reliable, and affordable energy for Australian energy customers.

The ACCC's role in energy markets is in the context of the *Competition and Consumer Act 2010,* which aims to enhance the welfare of Australians through the promotion of competition and fair trading and the provision of consumer protections.[12]

The Competition and Consumer Act establishes the frameworks under which the ACCC conducts price inquiries, including this inquiry, and monitors and enforces compliance with industry codes, including the Electricity Retail Code.[13] The ACCC also enforces compliance with the Australian Consumer Law under the Competition and Consumer Act.

The Competition and Consumer Act includes general prohibitions on anti-competitive conduct and specific provisions designed to prevent misconduct in energy markets[14], including a requirement on retailers to make reasonable adjustments to their prices to reflect cost reductions.[15] The ACCC is also empowered to monitor and protect competition in markets and to take action to ensure consumers are treated fairly.

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10 See Appendix A: Terms of reference.

11 Australian Competition and Consumer Commission (ACCC), *Inquiry into the National Electricity Market report – December 2023*, ACCC, Australian Government, 15 December 2023, accessed 25 October 2024.

12 *Competition and Consumer Act 2010* (Cth) s 2.

13 Competition and Consumer (Industry Code – Electricity Retail) Regulations 2019 (Cth) pt 2.

14 *Competition and Consumer Act 2010* (Cth) pt XICA.

15 *Competition and Consumer Act 2010* (Cth) s 153E.

## 1.2. About this report

This report examines the prices that customers are paying in the retail electricity market, the state of competition as well as the financial performance of electricity retailers.

Our **retail pricing** chapter examines calculated annual prices for customers using model usage assumptions from the default offers, excluding the impact of rebates and concession. The chapter focuses on prices as at 1 August 2024, revealing customer outcomes for 2024–25.

We examine how calculated annual prices have changed over time, as well as how prices compare to default offers for flat rate and, for the first time, time of use and demand offers. Our dataset covers over 6.7 million residential customers and 400,000 small business customers on flat rate, time of use and demand market offers. This represents 78% of the total number of residential customers in the National Electricity Market.

We have also gathered information from retailers on their price setting strategies for different customer groups, including how they consider the default offers when making decisions. We also obtained information about the policies and processes retailers have in place to manage their obligations with the Prohibiting Energy Market Misconduct prohibitions.

We have also analysed electricity retailer **costs and margins** in the 2023–24 financial year**.** This accounting data reflects the financial performance of electricity retailers over time. We have been collecting information on and analysing retailers' 'cost stack' since the beginning of the inquiry in 2018.[16] We examine a sample of retailers that cover approximately 85% of the residential customer base in the National Electricity Market.

This year we also collected information on retailers' transfer pricing policies. This complements our longstanding reporting of retailers' cost stacks and has enabled us to better understand the cost drivers and profitability of vertically-integrated retailers.

### 1.2.1. The data we collect

We collected two datasets from electricity retailers to prepare this report:

- **retail pricing** — we collected information and documents on prices and pricing practices of retailers. This included offer-level data on the individual charges making up customer prices, and the number of customers on each offer. We collected this information for flat rate, time of use and demand offers, as at 1 August 2022 (for flat rate offers only), and 1 August 2023 and 2024 (for all offer types).

  We also collected information on different types of 'better offer' messages on customers' bills. These inform customers if there is a better offer available to them from their existing retailer. The pricing notice also sought information on retailers' price change processes, and pricing strategies, including how they consider the default offers when making pricing decisions, and how they consider their compliance obligations with Prohibiting Energy Market Misconduct prohibitions.
- **costs and margins —** we collected information on the components that make up retailers' costs to supply electricity for the period of 1 July 2023 to 31 June 2024. This includes information on wholesale, network, environmental and retail costs, and margins,

[16] Our collection of cost stack information under this Inquiry continued the timeseries we began collecting under our Retail Electricity Pricing Inquiry. This means we have data on retailers' costs and profits dating back most years to 2007–08.

as well as revenues, customer electricity usage, customer numbers and other financial information. We also collected qualitative information on retailers' transfer pricing policies and documents relating to transfer pricing and depreciation of retailers' generation assets.

The methodology appendix (**Appendix B**) provides more detail on our data collection and analysis techniques for the cost stack and retail price datasets. The data appendix (**Appendix C**) includes tables with the data underpinning figures in the report. It also includes other additional or more detailed tables and figures not presented in the body of the report, including, for example, more disaggregated (regional) breakdowns, longer time series and the numbers of customers within each data point (for charts in Chapter 2).

### 1.2.2. The geographic scope of our analysis

The National Electricity Market comprises Victoria, New South Wales, South Australia, Queensland, the Australian Capital Territory and Tasmania. For our retail price analysis, we have collected data on the regions with retail competition, namely, Victoria, New South Wales, South Australia, and South East Queensland.

For our cost stack analysis, we combine both the Australian Capital Territory and New South Wales into one region. We separately report on Tasmania in our regional cost stack analysis, with some minor modifications to the reporting basis to protect individual retailer data in this state. We do not collect data from Ergon Energy, which operates in regional Queensland.

### 1.2.3. The time period for our analysis

The two data sets we have collected for this report relate to different periods of time. Our **pricing** data has been collected as at several points in time, most recently for 1 August 2024. Meanwhile the **costs and margins** data reflects the financial performance of retailers in the financial year commencing 1 July 2023 and ending 30 June 2024.

It is important to bear this in mind when reading this report, as changes in costs and retailer margins that occurred in the previous financial year (covered in Chapter 3) do not necessarily reflect the market conditions that are determining retailer pricing as at 1 August 2024. In particular, wholesale costs for the 2023–24 financial year were higher than we expect them to be for the 2024–25 financial year. This is also explained in more detail in the body of the report.

## 1.3. Structure of this report

The body of the report is structured into two main sections of analysis, as follows:

- Chapter 2 focuses on **retail pricing.**
- Chapter 3 focuses on **electricity retail market competition, costs and margins.**

# 2. Retail pricing

## Key points

- This chapter expands on the analysis in the December 2023 report (which focused on prices of flat rate offers) by presenting new information on time of use and demand offers. We examine price outcomes relative to default offers as well as whether customers on older offers pay more than those on newer offers as at 1 August 2024.
- We present customer-weighted calculated annual prices for flat rate, time of use and demand offers as at several points in time. Our analysis uses model usage assumptions from the default offers rather than reflecting actual bills paid and does not include the impact of rebates or concessions.
- We find that calculated annual prices generally decreased from 2023 to 2024 (in nominal terms), with more customers on offers priced below the default offers. Although, there are still a substantial number of customers on flat rate, time of use and demand offers paying prices equal to or above the default offers.
- Calculated annual prices for customers on time of use offers are slightly lower than those on flat rate offers. Prices for offers with a demand charge are higher than those without, and around half of demand offer customers are on prices above the Default Market Offer. Though, the Default Market Offer does not apply to demand offers.
- There are more customers on these offers, and also increasing numbers on offers with multiple complex pricing elements. Many customers are likely finding it challenging to respond to the complex pricing signals of these offers.
- Our analysis shows there are loyalty penalties for customers who do not regularly switch the offer they are on. Assuming conditional discounts are achieved, 59% of customers on flat rate offers over 2 years old are on prices at or above the default offers, compared to only 10% of customers on flat rate offers less than 1 year old. 43% of customers on flat rate offers are on offers 2 or more years old.
- Retailer pricing strategies likely contribute to this divergence, with a majority treating acquisition and existing customers differently when setting prices.
- We consider it likely that customer switching has contributed to the reduction in calculated annual prices decreasing from 2023 to 2024. The Better and Best Offer messages could be contributing to customers switching to lower priced offers, either with their existing retailer or another retailer. While they are already having an impact, we consider adjustments to current tools could better support customer switching.
- Following media coverage of customer confusion surrounding energy plan names, we found 24% of customers receiving 'Better Offer' and 'Best Offer' messages were quoted better offers with the same name as their current offer but with different prices. This suggests retailers are regularly re-using offer names which may be confusing for customers and undermining the effectiveness of these messages.
- There are a number of current processes in which policy makers are considering the regulatory settings needed to support consumers in the retail electricity market through the energy transition. We encourage policy makers to consider addressing gaps in the regulatory framework for demand offer customers and opportunities to improve mechanisms to support customer switching, as set out in section 2.7.

This chapter aims to provide insight into the range of customer pricing outcomes to inform work underway by policy makers. It focuses on prices for customers as at 1 August 2024, giving an indication into customer outcomes for 2024–25.

In this chapter, we examine:

- the changes in offer prices between 1 August 2023 and 1 August 2024 (flat rate, time of use and demand offers)
- the impact of the Prohibiting Energy Market Misconduct (PEMM) provisions on retailer pricing strategies
- the dispersion of offer prices relative to the Default Market Offer and Victorian Default Offer prices (default offers)
- the range of offer price outcomes that may arise from variations in customer usage patterns
- the 'loyalty penalty' (differences in prices for customers on new and old offers).

## 2.1.1. We collected pricing information for a range of offer types

We have collected information from 8 retailers on their retail prices, price change process, and pricing strategies. This report expands on the analysis in the December 2023 report (which focused on flat rate offers) by collecting and analysing new information on time of use and demand offers.

Specifically, we collected prices as at 1 August for:

- flat rate offers in 2022, 2023 and 2024
- time of use offers in 2023 and 2024
- demand offers in 2023 and 2024.

This expanded dataset captures the prices of 6.7 million residential customers as at 1 August 2024, representing approximately 78% of the total number of residential customers. We collected this information to understand the pricing outcomes for customers on a range of offer types given the increasing prevalence of complex pricing structures stemming from network tariff reassignments (see section 2.2.1 and Box 2.1).

To support our understanding of retail pricing practices, we asked retailers to provide information about their price changes. We separately asked them to describe the strategies they use for pricing their offers and complying with the PEMM prohibitions (see section 2.3).

We requested new information about the number of customers receiving 'Better Offer' and 'Best Offer' messages on bills. We collected this to understand the proportion of customers who could benefit by switching. It also allows us to address due to concerns about the prevalence of duplicate offer names that resulted in customers receiving messages that recommended an offer with the same name as the customer's current offer, including as raised by Choice.[17]. This is discussed further at section 2.6.5 and Box 2.6.

More information about our data collection is in Appendix B.

[17] Andy Kollmorgen, 'Are you paying more than other customers for the same energy plan?', *Choice,* 19 June 2024, accessed 20 November 2024.

### 2.1.2. We produced calculated annual prices based on default offer usage assumptions

Our results in this chapter do not represent actual bills paid by customers but the prices they are on at a particular point-in-time.[18] We calculate annual prices for each offer by applying a set of annual usage assumptions to our offer level data but do not include the impact of rebates or concessions. This allows us to compare prices on a like-for-like basis. We explore the differences between these prices and the results on customers' actual bills from our June 2024 report in section 2.2.4.

Our usage assumptions are derived from the Default Market Offer and Victorian Default Offer in addition to customer usage data from the Australian Energy Market Operator. See Appendix B for more information about our usage assumptions.

Our calculated annual prices are weighted by the number of customers on each offer. This means each offer will have an impact on our results in a way that is proportionate to the number of customers on that offer.

Our calculated annual prices do not account for feed-in tariffs or other benefits that may be included with offers. These were excluded to enable comparisons to default offer prices, which exclude feed in tariffs and other benefits, and because it is difficult to identify a representative level of solar export. This approach is consistent with our December 2023 report.[19] We discuss the impact of solar further in Appendix B.

Unless otherwise stated, our results in this chapter are presented with conditional discounts applied, meaning we assume customers achieve their conditional discounts 100% of the time.[20] We explore the impact conditional discounts can have on calculated annual prices in section 2.4.3. We present results without conditional discounts in Appendix C.

We use nominal values when presenting results on calculated annual prices.

In this chapter, we present the results for residential customers on the most common offer types. This means we do not present results for offers with the most complex pricing structures, such as those with layers of complex pricing structures (see section 2.5.3).

Small business customer results are in Appendix C.

## 2.2. Prices were generally lower in 2024 but varied by region and offer type

Our results in this report present an improvement from those in December 2023. We observe slightly lower calculated annual prices, with a greater proportion of customers on prices below the default offers. However, outcomes vary between regions and offers with different pricing structures.

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18 We show prices as at 1 August of each year, as retailers have typically completed their repricing process on or prior to this date following changes to the default offers.

19 ACCC, *Inquiry into the National Electricity Market: December 2023 report*, ACCC, Australian Government, 15 December 2023, pp 57–60.

20 In our June 2024 report, we found only 10% of residential customers and 14% of small business customers failed to achieve their conditional discounts as at 1 July 2023.

### 2.2.1. Flat rate offers are most common, but offers with complex pricing structures are increasingly common

We observe an increasing number of customers on more complex pricing structures although most customers remain on flat rate offers. As of 2024 our data shows:

- 73% of customers were on a flat rate offer
- 21% of customers were on a time of use offer
- 5.6% of customers were on offers with a demand charge (either flat or time of use).

However, from 2023 to 2024, there was an:

- 18% increase in the number of customers on time of use offers
- 12% increase in the number of customers on offers with a demand charge.

Energy Consumers Australia found in its Consumer Energy Report Card December 2024 that 51% of customers on time of use or demand offers had been put on an offer with this pricing structure by their retailer (while 18% did not know if they were).[21] This occurs as a flow on from network tariff reforms (see below).

## Box 2.1: Understanding common pricing elements

**Flat rate offers**

Flat rate or single rate offers charge customers the same rate per unit of electricity at all times of the day. Some offers will have different rates for different blocks of usage in a period, such that the more electricity a customer uses in a period the higher or lower the usage rate they are charged.

**Time of use offers**

Time of use offers apply different rates to electricity used at different times of the day. Typically, this is divided into the following periods:

- peak (when electricity costs the most, typically in the evenings of weekdays)
- off-peak (when electricity costs the least, typically overnight and on weekends)
- shoulder (remaining times).

The times of day or week defining these periods can vary.

**Demand offers**

Demand offers include a demand charge in addition to the charges from other pricing structures, such that they may take the form of either a flat rate offer with a demand charge or a time of use offer with a demand charge.

They apply a rate to the average or highest maximum demand for electricity during a specified time window in a defined period (such as a month, quarter, or season). This demand is commonly measured in kilowatts (kW) or kilovolt-amperes (kVA).[22]

Demand charge rates may differ depending on the season or time of year.

Both time of use and demand offers are designed to price electricity more efficiently, by more closely aligning retail prices with network costs which are driven by the need to have

[21] Energy Consumers Australia, Consumer Energy Report Card, 3 December 2024.

[22] kW measures the amount of electricity consumed while kVA measures the total amount of electricity drawn from the grid. The difference between the two measures being the efficiency of electricity use relative to supply.

sufficient network capacity available to supply electricity during times of maximum demand. Both types of offers aim to incentivise customers to shift their usage out of peak times.

**Additional pricing elements**

The above offer structures can also contain additional pricing elements such as:

- **Controlled-load charges**, which are used for dedicated appliances such as hot water systems, pool pumps or underfloor heating that can be run overnight or at off-peak times to take advantage of lower prices. The default offers assume customers on offers with a controlled load have higher usage than other customers.
- Usage charges which change seasonally referred to as **seasonal offers**. For example, different rates per unit of electricity will be charged in each season. A higher rate might be charged in winter to reflect seasonal peak periods on the grid.
- Usage charges with a **block structure**, referred to as block offers. For example, for the first 10 kWh used each day, a certain rate per unit of electricity will be charged. For usage over 10 kWh, a different rate will be charged.
- **Conditional discounts**, which reduce customers' bills if they meet specific conditions. The most common conditional discounts are for paying on time or through a direct debit.
- **Guaranteed (or unconditional) discounts**, which reduce customers' bills without the customer being required to do anything.

## Network tariff reform has led to increased numbers of customers on time of use and demand tariffs

Section 2.8.2 of our June 2024 inquiry report noted the particularly rapid increase in time of use offers in South Australia and demand offers in South East Queensland.[23] This move to time of use and demand offers has been driven by network tariff reforms introduced to the National Electricity Rules in 2014.[24] These reforms require distribution networks to consider and set network tariffs that better reflect the impact of how a customer uses electricity on the cost of network infrastructure.

Electricity distribution businesses in most states have moved customers who have had smart meters installed to demand or time of use network tariffs. Until recently, Ausgrid, Endeavour and Energex have all assigned these customers to demand tariffs by default.[25] Some customers who already had specific meter types were re-assigned to cost-reflective tariffs.[26]

From 1 July 2024, Endeavour changed its default tariff from demand to a seasonal time of use tariff.[27] In September 2024, the Australian Energy Regulator's (AER) draft determination for Ergon Energy and Energex in Queensland noted concerns that customers *'may not be*

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23 ACCC, *Inquiry into the National Electricity Market: June 2024 report*, ACCC, Australian Government, June 2024, pp 56–57.

24 Australian Energy Market Commission, *Distribution Network Pricing Arrangements*, AEMC website, 27 November 2014, accessed 20 November 2024.

25 Typically, a 12 month lag or 12 month transitional tariff applies between smart meter installation and tariff change, and in all cases with an optional time-of-use tariff that a retailer can request the customer be assigned to.

26 SA Power Networks, *Attachment 17 – Tariff Structure Statement – 2020–25 Regulatory Proposal*, SA Power Networks, 31 January 2019, p. 54, accessed 20 November 2024. Energex, Energex Revised Tariff Structure Statement 2020 – 2025, Energex Limited and Energy Queensland Limited, May 2020, p 19, accessed 20 November 2024.

27 Endeavour Energy, *2023–24 Pricing Proposal*, Endeavour Energy, 31 March 2023, p 22, accessed 20 November 2024; Endeavour Energy, *2024–25 Pricing Proposal*, Endeavour Energy, 16 May 2024, p 7, accessed 20 November 2024.

*able to understand demand-based tariff structures or have capacity to mitigate their impact*'.[28] The draft determination would reassign customers on the current default transitional demand tariff to a time of use tariff by 1 July 2025 and introduce a 12 month delay in assigning a customer with a new smart meter to the new default time of use tariff.[29]

The rollout of smart meters enables retail customers access to a range of new retail pricing structures, including both flat rate and more complex cost-reflective pricing structures. However, retailers have indicated that when customers are on network tariffs that do not align with their retail pricing structures, the retailers are exposed to greater financial risks (as the costs they incur from the network may not match what they recover from retail prices). Some retailers are seeking to mitigate these risks by shifting customers onto retail offers with pricing structures that match their underlying network tariff, such as time of use and demand offers.[30] As such, many customers have been switched to time of use and demand offers by their retailer, rather than choosing to be on them.

The rate at which customers are being switched to offers with complex pricing structures by their retailers will likely slow down in future following the Australian Energy Market Commission's (AEMC) 'accelerating smart meter deployment' rule change. The AEMC's final rule determination, released on 28 November 2024, aims to deliver an efficient rollout of smart meters while also increasing the information available to customers, allowing them to better manage their bills and to access better retail service options. The final rule determination would bring in consumer safeguards, including:

- introducing a two-year explicit informed consent period for any retail pricing structure variations following a smart meter upgrade
- requiring retailers to provide their customers at least 30 business days' notice when transitioning them to a different pricing structure as a result of a change in meter type[31]
- requiring designated retailers to offer flat rate prices to customers with smart meters
- limiting circumstances retailers can charge fees for replacing meters.[32]

### 2.2.2. Calculated annual prices are higher for demand offers and slightly lower for time of use offers than for flat rate offers

We found calculated annual prices were generally lower in 2024 than 2023 across the National Electricity Market (NEM) for all offer types combined in nominal terms (see Table 2.1). This is an encouraging result, after we observed substantial price increases in our December 2023 report. Although, decreases were not large enough to offset significant price increases from 2022 to 2023. This means that prices in 2024 are still higher than prices before the energy market volatility events in mid-2022 (see section 3.4.2).

Price changes were generally similar for both offers with and without controlled load. Offers with controlled load have higher calculated annual prices than those without, as the default

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28 AER, *Draft Decision: Ergon Energy and Energex Electricity Distribution Determinations 2025 to 2030 – Attachment 19: Tariff Structure Statement*, Commonwealth of Australia, September 2024, p 18, accessed 20 November 2024.

29 AER, Draft Decision: Ergon Energy and Energex Electricity Distribution Determinations 2025 to 2030 – Attachment 19: Tariff Structure Statement, Australian Government, September 2024, p 19, accessed 20 November 2024.

30 Jo De Silva, *Australian Energy Council submission to the ACCC 'Accelerating Smart Meter Deployment' Directions Paper*, Australian Energy Council, 18 September 2024, p 5, accessed 20 November 2024.

31 Applies during the Legacy Meter Replacement Plan period from 2025 to 2031.

32 Australian Energy Market Commission, *Accelerating smart meter deployment*, AEMC website, 28 November 2024, accessed 28 November 2024.

usage assumptions include an additional usage component for controlled load (Box 2.1 explains controlled load charges).

**Table 2.1: Prices were generally lower in 2024 than 2023**

*Change in customer-weighted average annual prices from 2023 to 2024, all offer types combined, all regions combined, assuming 100% achievement of conditional discounts*

| Customer | Type | Annual price in 2024 ($) | Change in annual price (%) |
|---|---|---|---|
| **Residential** | Without controlled load | $1,817 | -4.0% |
| | Controlled load | $2,502 | -3.7% |
| **Small business** | Without controlled | $4,084 | -1.9% |

Source: ACCC analysis of retailer pricing data. Nominal dollars, including GST.

Note: In the 2024–25 Default Market Offer and Victorian Default Offer determinations, residential customers with controlled load are assumed to use between 1,800 and 2,200 kWh more electricity than customers without controlled load. Controlled load is explained in Box 2.1.

## Connecting results in Chapters 2 and 3

Observed price decreases may appear to conflict with cost increases revealed in Chapter 3. However, it is important to note that the pricing results in Chapter 2 and cost and margins results in Chapter 3 relate to different time periods. Results in this chapter primarily reflect prices as at 1 August 2024, and so reflect customer pricing outcomes for 2024–25. Meanwhile, cost and margin results in Chapter 3 are backward-looking, showing retailer financial results for 2023–24.

Pricing results in this chapter broadly align with changes to default offer prices for 2024–25, which decreased slightly in all regions except South East Queensland. Victorian Default Offer prices declined more than the Default Market Offer in New South Wales and South Australia. Both of these observations are reflected in our retail pricing data (Figure 2.1).

The default offer prices are based on forecast costs for the upcoming year. Several retailers utilise the default offers as an input when setting prices. We also observed that many retailers use forward looking inputs as part of their pricing changes, to some degree (see section 2.3).

## Calculated annual price changes varied by region

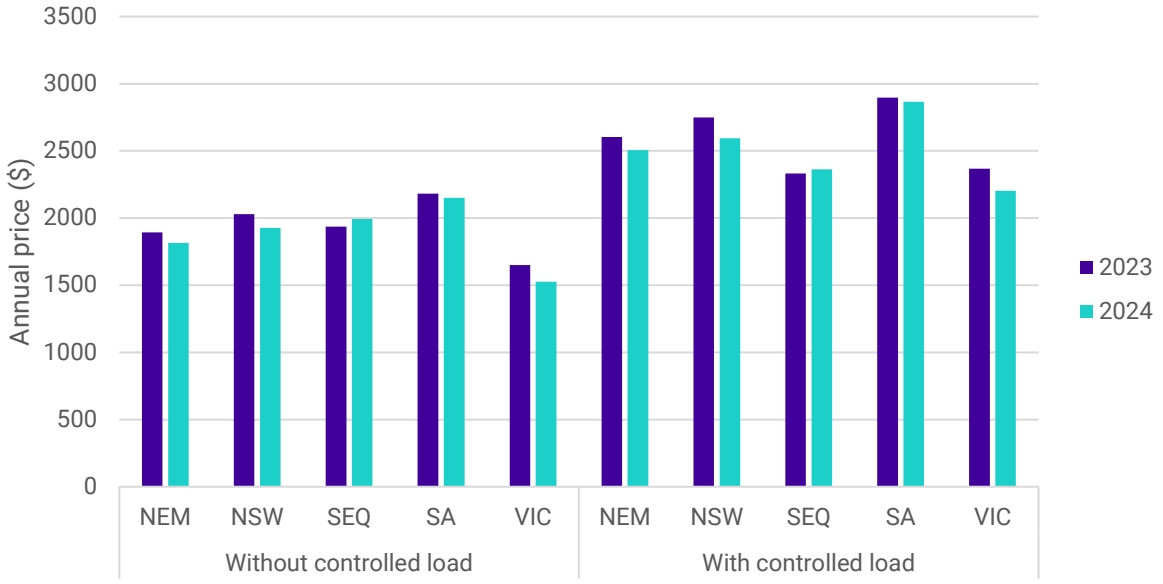
We observed annual price decreases in all regions except for South East Queensland from 2023 to 2024 (see Figure 2.1). Victorian offers had the biggest price decreases at 7.5%, followed by New South Wales offers at 5% (for offers without controlled load).

South Australia had the highest calculated annual prices while Victoria had the lowest, consistent with previous years.

As noted in section 2.1.2, our results do not incorporate government rebates. Many customers in all regions would have received reductions in their actual bills once recent Governments rebates are accounted for.[33]

**Figure 2.1: Prices were generally lower in 2024**

*Residential customer-weighted average annual prices by region and controlled load, all offer types combined, assuming 100% achievement of conditional discounts*




Source: ACCC analysis of retailer pricing data. Nominal dollars, including GST.

Note: In the 2024–25 Default Market Offer and Victorian Default Offer determinations, residential customers with controlled load are assumed to use between 1,800 and 2,200 kWh more electricity than customers without controlled load. Controlled load is explained in Box 2.1.

## Calculated annual price changes varied by offer type

There was also variation in prices and price changes between offer types (Figure 2.2). Calculated annual prices for flat rate offers without controlled load declined by 4.0%.

Meanwhile, calculated annual prices for time of use offers were lower than flat rate offers and had larger declines across the year to 1 August 2024. Calculated annual prices for time of use offers without controlled load were 3.3% lower than flat rate offers, and declined by 5.5%.

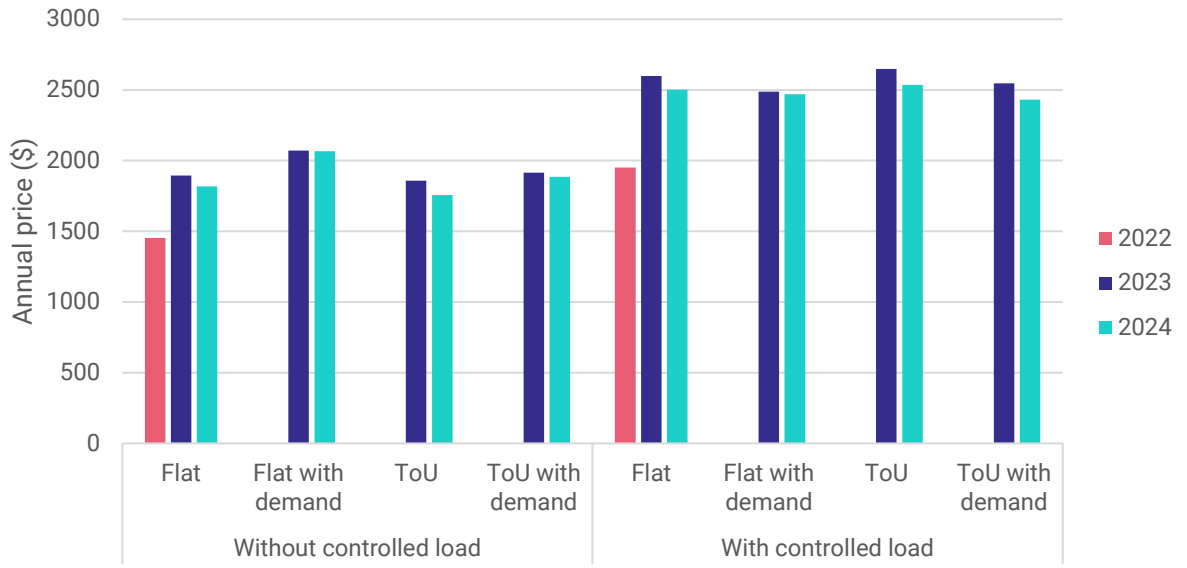
Conversely, offers with a demand charge generally had higher calculated annual prices higher than those without. For flat rate offers without controlled load, this difference was 13.8% in 2024, while the difference was 7.2% for time of use offers without controlled load.

Offers without a demand charge had greater declines in calculated annual prices than those with a demand charge, which stayed nearly stable from 2023 to 2024.

[33] Australian households with electricity bills will receive a $300 rebate and eligible small businesses $325 from the Australian Government throughout 2024–25. See here.

**Figure 2.2: Calculated annual prices are higher for offers with demand charges, but lower for time of use offers than flat rate offers**

*Residential customer-weighted average annual prices by offer type and controlled load, assuming 100% achievement of conditional discounts, all regions combined*




Source: ACCC analysis of retailer pricing data. Nominal dollars, including GST.

Note: In the 2024–25 Default Market Offer and Victorian Default Offer determinations, residential customers with controlled load are assumed to use between 1,800 and 2,200 kWh more electricity than customers without controlled load. Controlled load is explained in Box 2.1.

Our comparisons between offer types are sensitive to usage assumptions. Calculated annual prices for offers with time of use and demand pricing structures may vary depending on whether time a customer uses power during the day (even if their total usage remains the same). We examine how calculated annual prices vary with different usage profiles in section 2.5.

### 2.2.3. Customer switching likely contributed to lower calculated annual prices

The results in Table 2.1 compare prices between 1 August 2023 and 2024 meaning they capture the effect of any price changes retailers implemented for existing customers between those dates. While retailers generally adjust prices annually in line with the default offer price changes (on 1 July in New South Wales, South Australia and South East Queensland, and 1 August in Victoria), we also observe price changes at other times of the year.[34] [35]

As our results are customer weighted, more customers switching to lower priced offers can also drive lower calculated annual prices. Customers can switch offers with the same retailer, or switch to an offer with a new retailer (see section 2.6.4). We consider it likely that

[34] Under the National Energy Retail Rules (r 46.) retailers in New South Wales, South Australia and South East Queensland can change prices for customers on variable market offer offers at any time, provided they give at least 5 business days' notice.

[35] In Victoria, retailers are only able to increase prices once per year but can decrease prices at any time.

some of the downward trend in calculated annual prices is a result of increased customer switching, driven by the factors below.

- Retailers in New South Wales, South Australia and South East Queensland were required to implement the Better Bills Guideline by the end of September 2023. This guideline requires retailers to include Better Offer messages (see Box 2.6) and a link to Energy Made Easy on the front page of customers' bills. Research conducted by the Behavioural Economics Team of the Australian Government, on behalf of the AER, found a significant proportion of Energy Made Easy offer searches were conducted by consumers who saw this information on their bill following its implementation.[36] Our evidence demonstrates that since the introduction of the Better Offer messages, more customers have changed to a better offer, likely contributing to our results showing more customers paying less than the default offers (section 2.4).
- Energy Bill Relief Fund rebates took effect from July 2024 and were covered in the media. Some customers may be contacting their retailer to ask about their rebates or other matters and asking to be switched to a better offer at the same time. Recent AER analysis identified a 9.7% increase in the number of phone calls to retailers in 2023–24.[37]
- Cost of living pressures have increased, and many customers may be looking to reduce their household expenditure by switching offers.
- Retailers increased spending on customer acquisition and retention costs during 2023–24, with non-big 3 retailers substantially increasing their advertising and market costs (Figure 3.21).

### 2.2.4. Results in this report are similar to those in our June 2024 report

Our June 2024 billing report showed customers on time of use and demand offers pay similar prices to those on flat rate offers. Despite methodological differences, the results in the June 2024 report are broadly consistent with results in this December 2024 report. This section outlines the differences between the datasets, analysis methodologies and results in this report and the June 2024 report.

Our December 2024 report uses retailer offer-level data to create annual prices (see sections 2.1.1 and 2.1.2). This offer-level data includes the underlying supply and per unit usage rates customers pay but does not include actual usage. We apply default offer usage assumptions to this data to derive a calculated annual price for the comparison of offers.

In contrast, our June 2024 report uses customer billing data to derive a representative median bill. This data contains customer usage but does not contain the underlying supply and usage rates of customers who can help us to compare customer outcomes irrespective of usage. We therefore derive an 'effective price' for such comparisons, which is calculated by dividing the total charges on a customer's bill ($) by their usage (kWh).

The customer billing data we use in our June 2024 report also contains information beyond what we collect in our retailer offer data. In particular, it contains more detailed information on additional customer charges, discounts and concessions, which can have an impact on the end bill outcome achieved by a given customer. It also contains information on individual customer characteristics, such as whether they purchase gas from the same retailer that supplies their electricity.

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[36] Behavioural Economics Team of the Australian Government, forthcoming Better Bills research report, Date TBC.

[37] AER, *Annual Retail Market Report 2023–24*, Australian Government, p.113, 30 November 2024

Our June 2024 report found effective prices for all offer types were similar though we showed that a wide variety of price outcomes are possible for customers, regardless of their offer pricing structure.[38] This is also reflected in results for this report, as shown by the broad range of calculated annual prices relative to the default offers for all offer types (section 2.4).

Customers may experience different outcomes from those in this report depending on their usage patterns and other factors. We have examined the sensitivity of our results to different customer usage profiles in section 2.5.

## 2.3. Retailers price setting processes and PEMM compliance strategies vary

### 2.3.1. Retailers distinguish between existing and acquisition consumers when setting prices

In addition to retail pricing data, we requested qualitative information on retailers' pricing strategies and methodologies used to determine and set acquisition and existing customer prices, including the extent the default offer determinations or cost inputs from those determinations are relied upon when making price decisions for small customers.

We found that, while many retailers use an approach based on cost inputs in the development of their pricing proposals, differences emerge in the methodologies and variables used in individual calculation. Cost inputs could include network and metering costs, wholesale costs or transfer prices, environmental costs, market charges, overheads, retail operating costs, competitiveness, or churn estimates. We observed that many retailers use forward looking inputs as part of their pricing changes, to some degree.

We also observed that some vertically integrated retailers seek to reflect a prudent standalone retailer (a non-vertically integrated retailer) when considering their cost stack.

Retailers also varied in the way they consider and use the Default Market Offer and Victorian Default Offer determinations as part of their price setting process. Approaches included using the default offers:

- to calculate input costs
- to understand competitors' pricing positions
- to ensure compliance with regulatory obligations
- as a reference point when determining their own price changes.

We noted that most retailers' price setting policies or processes intentionally treated the setting and adjustment of acquisition and existing offer prices differently. The implications of these treatments is demonstrated in our calculated annual price results and the loyalty penalty paid by customers on older offers (see sections 2.6.1 and 2.6.2).

All retailers appeared to consider their competitive position relative to other retailers when setting acquisition prices however differences were observed in regard to the emphasis placed on short-term margins and the value of acquired customers.

[38] ACCC, *Inquiry into the National Electricity Market: June 2024 report*, ACCC, Australian Government, 28 June 2024, pp 58–60.

Changes to existing customers' prices are driven to some extent by retailers' costs to supply. Some retailers also reported using existing customer price change processes to revise prices for customer groups on unsustainable margins.

Despite the differences between pricing methodologies, approaches and variables, most retailers appear to use an approvals process or governance framework for pricing proposals. This may include an overarching committee or strategy or pricing teams. We observed that more entrenched processes are generally reserved for price-change events to align with default offer determinations while the development and approval of market offers (acquisition prices) are more ad-hoc and nimble from an operational perspective.

### 2.3.2. Retailers take different approaches to comply with PEMM

The Australian Government is currently conducting a Review into the effectiveness of the *Prohibiting Energy Market Misconduct Act 2019*.[39] The ACCC has been responsible for monitoring and enforcing the Prohibiting Energy Market Misconduct (PEMM) prohibitions since their introduction in mid-2020.

For the first time in this inquiry, we sought qualitative responses from retailers on their policies and processes in relation to the PEMM prohibitions.

We requested this information from retailers to better understand what practices and procedures they had in place to manage their obligations under the PEMM prohibitions. These prohibitions seek to address specific anti-competitive misconduct in the electricity spot and contract markets along with ensuring underlying cost savings are passed through to retail prices for residential and small businesses customers (see Box 2.2 for further information).

[39] Australian Government Department of Climate Change, Energy, the Environment and Water, *Review into the effectiveness of the Prohibited Energy Market Misconduct Act 2019 (PEMM Act)*, DCCEEW website, accessed 2 December 2024.

## Box 2.2: PEMM prohibitions commenced on 10 June 2020

On 23 October 2018, the Australian Government announced its 'A fair deal on energy' package, which followed the Final Report of the ACCC's Retail Electricity Pricing Inquiry – June 2018. Measures from this package included ensuring energy retailers passed on savings in wholesale prices to customers and increased the ACCC's powers to address anti-competitive practices in the electricity sector.

As a result, the *Treasury Laws Amendment (Prohibiting Energy Market Misconduct) Act 2019* (the PEMM Act) came into effect on 10 June 2020. It inserted the provisions of the PEMM Act as Part XICA of the *Competition and Consumer Act 2010* (Cth) (CCA).

Part XICA was designed and implemented to address inefficient competition in the electricity market that was leading to increased prices and other adverse outcomes for consumers. It did this by introducing three new prohibitions:

- Retail pricing prohibition – ensure that underlying cost savings are passed through to retail prices for residential and small business customers (Section 153E)
- Electricity financial contract liquidity prohibition – prevent specific anti-competitive conduct in key supporting financial markets to the wholesale electricity market (Section 153F)
- Electricity spot market prohibition - prevent specific anti-competitive conduct in key wholesale markets (Sections 153G (basic case) and 153H (aggravated case)).

Part XICA provides a range of remedies to the ACCC for any contraventions of the PEMM prohibitions. Remedies range from public warning and infringement notices through to court proceedings. Section 76 of the CCA also provides pecuniary penalties against senior management for ancillary conduct.

Part XICA also includes remedies for more serious contraventions arising under the spot market and financial contract liquidity prohibitions. It gives the Treasurer, on the recommendation of the ACCC, the ability to make an order to an electricity company to:

- offer electricity financial contracts to third parties (for financial contract liquidity or spot market prohibitions), or
- apply to the Federal Court for a divestiture order that requires a party divest specific interests and assets that are part of its electricity business (spot market prohibition only).

Our analysis of the responses provided by retailers around how they consider their PEMM obligations as part of their policies and processes shows that the PEMM prohibitions have had an impact on the way retailers operate their businesses.

Most sampled retailers sought to manage their PEMM obligations through training packages, and compliance and pricing policies.

The retail pricing prohibition requires retailers to make reasonable adjustments to the price of electricity market offers for small consumers (residential and small business) when they experience a sustained and substantial reduction in their underlying cost of procuring electricity. Currently PEMM allows for reasonable differences in price adjustments across offers, and the ACCC's approach as reflected in its guidelines[40] is that differentiation in the level of price adjustments for different retail offers should reflect genuine differences in products.

[40] ACCC, *Guidelines on Part XICA— Prohibited conduct in the energy market*, ACCC, Australian Government, May 2020.

However, we noted that the spot market and financial contract liquidity prohibitions were largely unaddressed in retailers' policies and processes. Retailers indicated that conduct and behaviours that may be considered a breach of the prohibitions are instead addressed through Codes of Conduct and other corporate documents where expectations around staff behaviour are set.

### Spot market prohibition training is a focus

We observed that a majority of retailers had training packages with a focus on the spot market and financial contract liquidity prohibitions. This training was provided on a regular basis to existing staff and through induction programs for new staff. Many retailers tailored their spot market training to traders and other staff identified as being involved in this area of the business.

For comparison, retail pricing prohibition training was generally included in competition and regulatory awareness training.

## 2.4. Many customers remain on calculated annual prices at or above the default offers

There are two types of customer retail contracts under the National Energy Retail Law and Victorian Energy Retail Code of Practice:

- standard retail contracts (**standing offers**)
- market retail contracts (**market offers**).

Standing offers must contain prescribed terms and conditions, which require customers to be given a higher level of consumer protections than under a market offer. They provide a safety net for consumers who have not or cannot switch retailer. Retailers are obliged to offer a standing offer to customers. These differ to market offers, which are determined by retailers in the competitive market and have relatively fewer conditions and restrictions than a standing offer.

The Default Market Offer and the Victorian Default Offer cap prices for standing offers (see Box 2.3). Retailers are also required to advertise their electricity prices with reference to default offers. This requirement makes it easier for consumers to compare electricity offers. As such, while market offers can be priced above the default offer price caps, the default offers can have an indirect impact on the distribution of market offer prices (see section 2.4.1 for further discussion).

The proportion of residential customers on market offers has increased substantially over time. For example, from 2013–14, the proportion of residential customers on market offers has grown from 64% to 92% in New South Wales and 84% to 93% in South Australia.[41] Meanwhile, in Victoria the proportion has remained at approximately 90% or above each year since 2020–21.[42] [43]

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41 Based on quarter 3 results in schedule 2. AER, *Retail energy market performance update*, AER website, 2013–14 to 2023–24, accessed 20 November 2024. Queensland data is not comparable to the other states as it includes Ergon which is not covered by the Default Market Offer.

42 Essential Services Commission, *Victorian Energy Market Dashboard – Residential NMIs by Contract Type [dataset]*, ESC, accessed 21 November 2024.

43 Note, our June 2024 report found that approximately 90% of residential and 81% of small business customers across all regions combined in our sample of 8 retailers are on market offers as of quarter 3 of 2023. ACCC, *Inquiry into the National Electricity Market: June 2024 report*, ACCC, Australian Government, 28 June 2024, pp 53–54.

## Box 2.3: Differences between the Default Market Offer and Victorian Default Offer

Although broadly similar, the Default Market Offer and Victorian Default Offer operate differently, are set by different regulators, and have different guiding principles and objectives.

**The Default Market Offer**

The Default Market Offer is a maximum annual price ($/year) that a retailer can charge to standing offer customers, which is based on an annual usage estimate (kWh/year) known as the model annual usage. Retailers are able to set their own supply and usage charges, so long as the total annual cost does not exceed the reference price at the model annual usage.[44]

It applies to residential flat rate and time of use customers with or without a controlled load, and small business flat rate customers without a controlled load. However, residential customers on a demand offer, and small business customers on time of use, demand and controlled load offers are not covered by the Default Market Offer.

The Default Market Offer was not intended to be the lowest price, or close to the lowest price in the market. It was intended to be set above the price for competitive acquisition offers to maintain an incentive for customers to switch offers, and would ideally be used by only a small number of consumers.[45]

The Australian Energy Regulator (AER) implemented a methodological change to the Default Market Offer for 2024–25. The AER adjusted the approach used to calculate the retail allowance, deciding not to apply an additional competition allowance. The final determination included margins of 6% for residential customers and 11% for small business customers, which were lower than those for 2023–24. This resulted in a lower Default Market Offer price for 2024–25 than would have resulted without the methodology change.

**The Victorian Default Offer**

The Victorian Default Offer, on the other hand, specifies the underlying daily supply ($/day) and usage ($/kWh) prices to be charged to customers for flat rate and simple time of use tariffs. For tariff types that are not either flat rate or simple time of use structures, the Essential Services Commission of Victoria sets a maximum annual bill amount and usage assumption to be complied with for other tariff types (which includes demand and other time of use and flexible structures).

### 2.4.1. More customers are paying prices below the default offers

As in our December 2023 report, we have compared the calculated annual prices of offers in our dataset to the Default Market Offer and Victorian Default Offer prices to see how many customers are on prices higher or lower than the regulated default offer prices.

Our comparisons to the default offers assume that customers achieve their conditional discounts 100% of the time.[46] We consider the impact of conditional discounts on in section 2.4.3 and present comparisons without conditional discounts in Appendix C.

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44 Competition and Consumer (Industry Code – Electricity Retail) Regulations 2019 (Cth) s 10.

45 ACCC, *Restoring electricity affordability and Australia's competitive advantage: Retail Electricity Pricing Inquiry Final Report*, ACCC, Australian Government, 2018, p 249.

46 ACCC, *Inquiry into the National Electricity Market: June 2024 report*, ACCC, Australian Government, 28 June 2024, p 65.

Figure 2.3 shows there has been improvement in the distribution of offer prices, with the proportion of customers on offers with calculated annual prices at or above the default offers decreasing from:

- 47% in 2023 to 38% in 2024 for flat rate offer customers
- 38% in 2023 to 27% in 2024 for time of use offer customers.

Although, we note that flat rate offer customers have a higher proportion of customers at or above the default offers than in 2022 (28%).[47]

Together these results indicate there is a cohort of 2.6 million customers with prices at or above the default offers who may benefit from engaging in the market (by either switching retailers or switching offers with their current retailer). This is possibly the result of retailers' price setting policies or processes, which treat the setting and adjustment of acquisition and existing offer prices differently (section 2.3.1).

These results also indicate there is a cohort of customers with prices newly below the default offers that may have either recently switched offers or received price decreases. We discuss customer switching further in section 2.6.4, and how customers have been further supported to switch with the introduction of 'Best Offer' messages in section 2.6.5.

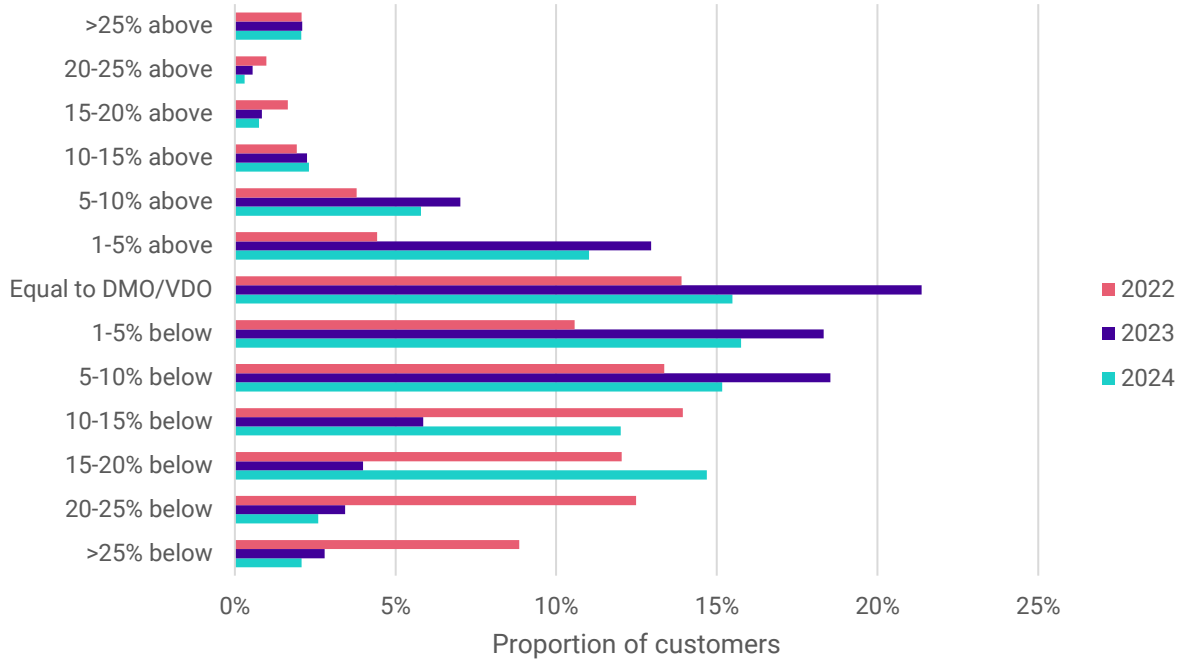
As we highlight in Appendix B, solar customers on high priced offers receive negotiated feed-in tariffs that are slightly higher on average than solar customers on low priced offers. While this may have some effect on bringing actual bill outcomes of customers on high priced offers more into line with customers on lower priced offers, this is not likely to have a substantial impact on aggregated results presented in Figure 2.3. Solar customers make up approximately 26% of all residential customers as at 1 July 2023.[48]

47 ACCC, *Inquiry into the National Electricity Market: December 2023 report*, ACCC, Australian Government, 15 December 2023.

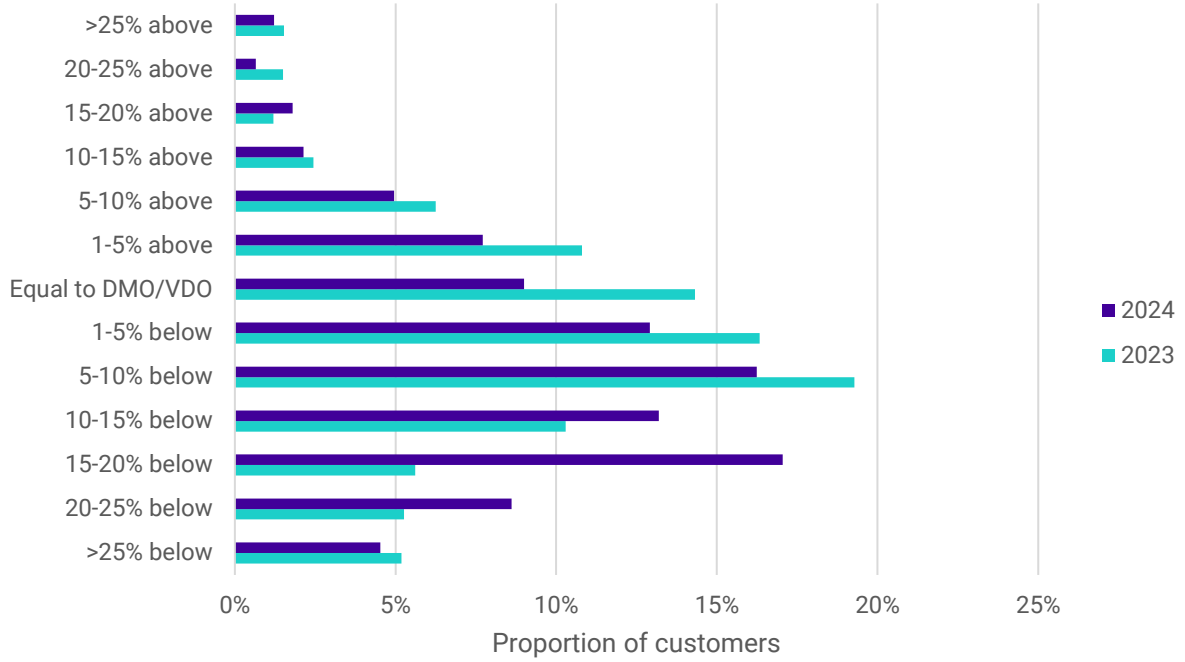
48 ACCC, *Inquiry into the National Electricity Market: June 2024 report*, ACCC, Australian Government, 28 June 2024. See figure A6.1 in the data appendix.

**Figure 2.3: More customers are paying prices below the default offers**

*Proportion of residential flat rate offer customers without demand paying more, equal to, or less than the default offers, assuming 100% achievement of conditional discounts, all regions combined*




*Proportion of residential time of use offer customers without demand paying more, equal to, or less than the default offers, assuming 100% achievement of conditional discounts, all regions combined*




Source: ACCC analysis of retailer pricing data.

From Figure 2.3, we also observe that a large proportion of customers across both offer types have calculated annual prices within 5% of the default offers, consistent with the results in our December 2023 report.[49] This clustering of prices around the default offers suggests they continue to impact how retailers price market offers across the NEM. Retailers indicated they use default offer price determinations as cost inputs for benchmarking and price setting purposes (see section 2.3.1).

### 2.4.2. Demand charges bring customer prices above the Default Market Offer

As mentioned in section 2.4.1, we have compared the price outcomes of customers with demand charges to the default offers. Although, in regions which are covered by the Default Market Offer, there is no regulated price that applies to demand offers. We have therefore compared calculated annual prices of offers in these regions to the Default Market Offer price for flat rate offers.[50]

We have focused our analysis in this section on the Ausgrid, Endeavour and Energex distribution regions, as demand offer customers in our dataset predominantly exist in these regions (Ausgrid, Endeavour and Energex). We observed few demand offer customers observed in South Australia or Victoria. Customers are more likely to be on demand offers in Ausgrid, Endeavour and Energex as demand tariffs have been approved as the default assignments for customers. Many customers are likely to have been switched to demand offers by their retailer, rather than choosing to be on them (section 2.2.1).[51]

As with our analysis in previous sections, we assume demand charges are calculated based on the medium peak demand outlined in Table 2.2. We explore the sensitivity of our results to different maximum demand assumptions in section 2.5.1.

Comparing Figure 2.3 and Figure 2.4, we can see customers on offers with demand charges are more likely to pay higher calculated annual prices than customers on offers without them. Approximately 51% of customers with demand charges are paying prices at or above the Default Market Offer in 2024. This represents 196,000 customers across our dataset. While this is a decrease from 2023, the proportion of demand offer customers on calculated annual prices at or above the Default Market Offer in 2024 is greater than flat rate (38%) and time of use (27%) offers.

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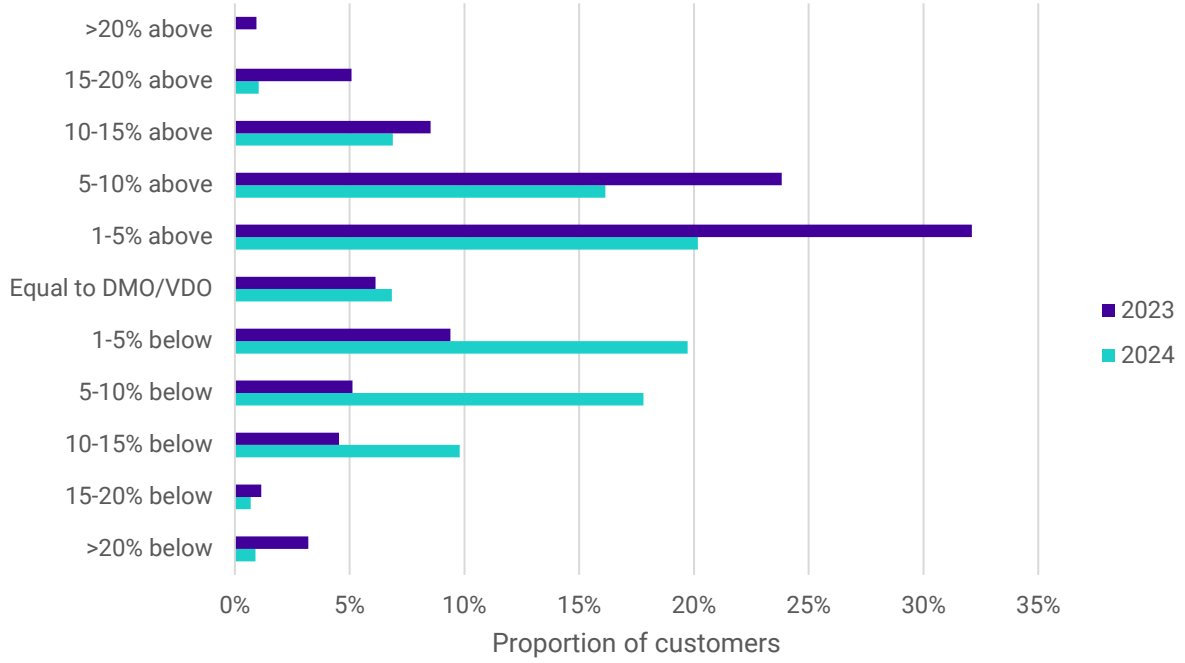
49 ACCC, *Inquiry into the National Electricity Market: December 2023 report*, ACCC, Australian Government, 15 December 2023, pp 47–48.

50 The Victorian Default Offer regulates all standing offers (including demand offers) through a compliant maximum annual bill calculated on the two-period time of use offers. Essential Services Commission, *Victorian Default Offer final determination 2024–25*, ESC, 20 May 2024, p 43.

51 Energex, *Tariff Structure Statement 2020–25*, p 28.
Ausgrid, *Tariff Structure Statement 2024–29*, pp 30–32.

**Figure 2.4: The majority of customers with demand charges are paying prices at or above the Default Market Offer, despite declines from 2023**

*Proportion of residential flat rate and time of use offer customers with demand charges paying more, equal to, or less than the default offers, assuming 100% achievement of conditional discounts, AusGrid, Endeavour and Energex combined*



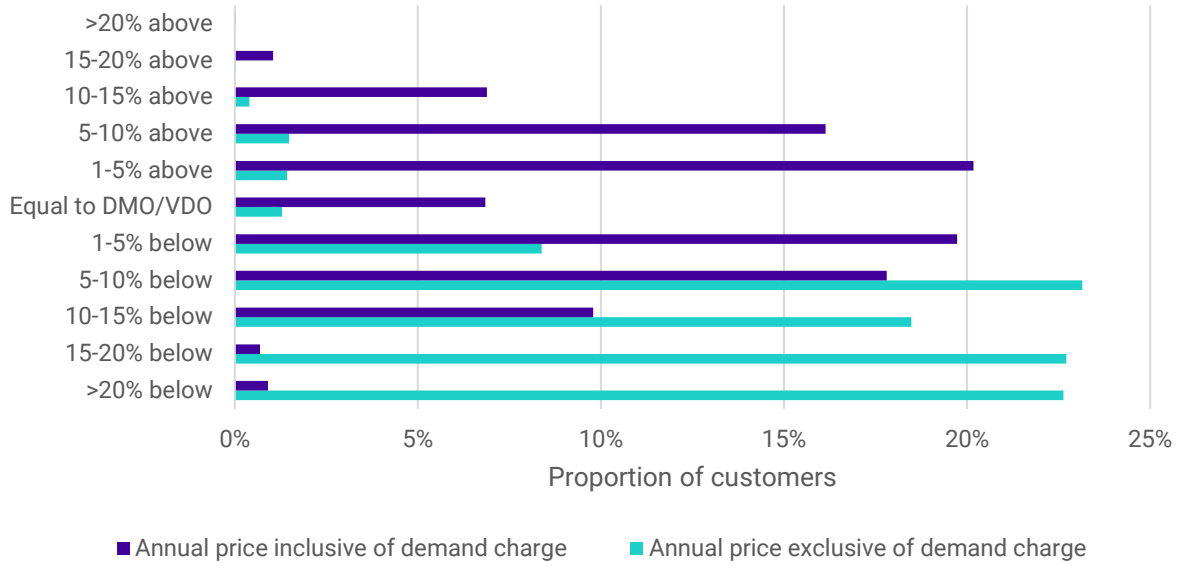

Source: ACCC analysis of retailer pricing data.

Demand charges represent on average 13% of a customer's total annual calculated price. To highlight the impact of demand charges, we compare calculated annual prices for demand offers inclusive and exclusive of the demand charge component to the Default Market Offer in Figure 2.5. Although, we note that customers on demand offers cannot avoid incurring demand charges which means that our 'exclusive' results here are only illustrative.

Our analysis suggests demand charges play a substantial role in determining customer annual price outcomes. When demand charges were excluded from total calculated annual prices, 5% of customers had prices equal to or above the default offers (18,000 customers) compared to 51% of customers when demand charges were included (196,000 customers).

**Figure 2.5: Demand charges have a substantial impact on customer prices**

*Proportion of residential flat rate and time of use offer customers with demand charges, paying more, equal to, or less than the default offers, inclusive and exclusive of demand charges, assuming 100% achievement of conditional discounts, AusGrid, Endeavour and Energex combined, 2024*




Source: ACCC analysis of retailer pricing data.

Our analysis suggests retailers are setting supply and usage charges on offers with a demand charges lower than those on other offers to make room for demand charges. When demand charges are excluded from the total annual price, the proportion of demand offer customers with prices equal to or above the default offers is substantially lower than the proportion of flat rate and time of use customers on offers without demand charges. Customers with calculated annual prices more than 10% above the default offers even when demand charges are excluded are on very high prices, and do not benefit from the consumer protections of the default offers.

## 2.4.3. Customers who do not achieve their conditional discounts face higher calculated annual prices

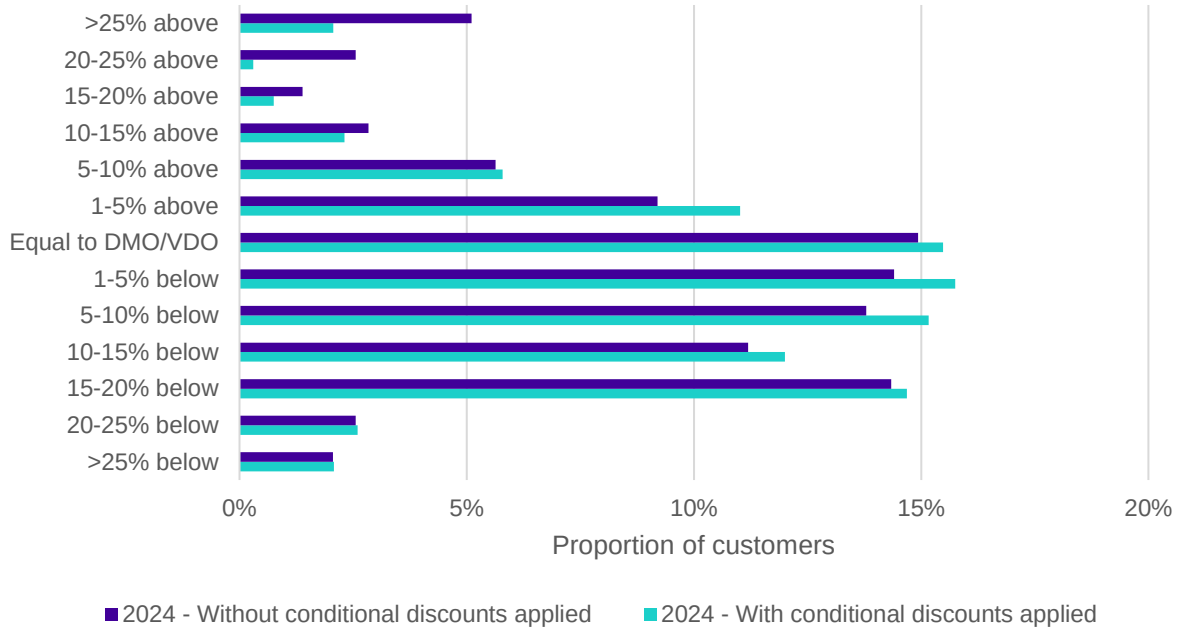
Conditional discounts reduce customers' bills if they meet specific conditions. The most common conditional discounts are for paying on time or through a direct debit. In our June 2024 report, we found approximately 90% of residential customers achieve the conditional discounts attached to their offers as at 1 July 2023.[52]

Our analysis in this chapter generally presents calculated annual prices on a conditional basis – that is, assuming 100% of customers are able to achieve their conditional discounts. As such, we assume conditional discounts are achieved to provide a more realistic representation of where customers' actual outcomes may sit relative to the default offers. However, customers who do not meet the conditions of their discounts will likely experience significantly higher annual prices. This section presents calculated annual prices with and without conditional discounts being achieved compared to the default offers (Figure 2.6).

[52] ACCC, *Inquiry into the National Electricity Market: June 2024 report*, ACCC, Australian Government, 28 June 2024, p 63.

**Figure 2.6 Applying conditional discounts reduces the number of customers paying at or above the default offers**

*Proportion of residential flat rate offer customers without demand charges paying more, equal to, or less than the default offers by achievement of conditional discounts, all regions combined, 2024*




*Proportion of residential time of use offer customers without demand charges paying more, equal to, or less than the default offers by achievement of conditional discounts, all regions combined, 2024*


Source: ACCC analysis of retailer pricing data.

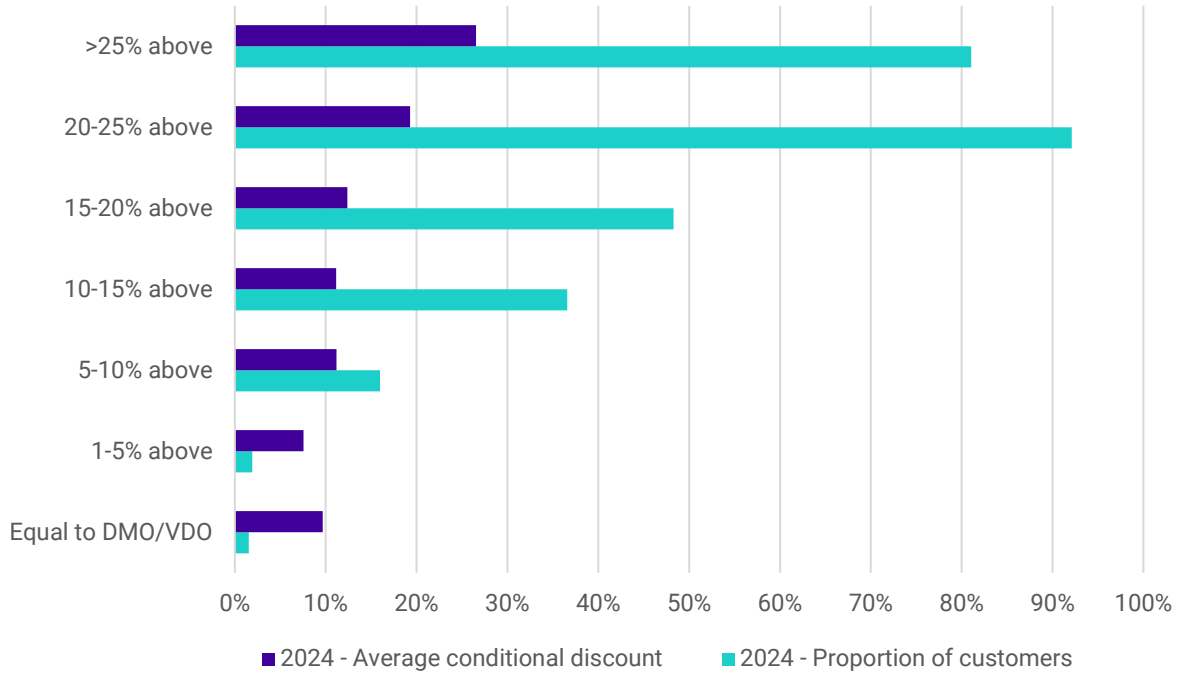
Figure 2.6 shows that, when conditional discounts are not achieved, the proportion of customers with calculated annual prices at or above the default offers increases. Approximately 42% of flat rate customers and 32% of time of use customers are on prices at or above the default offers when conditional discounts are not applied. This corresponds to 2.1 million and 466,000 customers in our dataset, respectively. The proportion of customers on offers priced more than 15% above the default offers increases substantially, from 3% when achieved to 9% when not achieved for flat rate customers and from 4% to 8% for time of use customers.

This finding is consistent with our analysis in Figure 2.7, which shows the majority of customers with unconditional prices significantly above the default offers have conditional discounts. In 2024, 81% of customers with unconditional calculated annual prices 25% or more above the default offers were on offers with conditional discounts. This represents approximately 265,000 customers in our dataset. We found a higher proportion of customers with these high prices and conditional discounts in our December 2023 report.[53]

Figure 2.7 also shows the average conditional discount on offers that are priced well above the default offers is still large. In 2024, customers on offers with calculated annual prices 25% or more above the default offers had an average conditional discount of 27%. This compares to an average conditional discount of 29% in our December 2023 report.[54]

**Figure 2.7: Higher priced offers are more likely to have conditional discounts**

*Proportion of residential customers on offers with conditional discounts and customer-weighted average conditional discount by percentage above the default offers, assuming conditional discounts are not achieved, all regions combined, 2024*




Source: ACCC analysis of retailer pricing data.

[53] ACCC, *Inquiry into the National Electricity Market: December 2023 report*, ACCC, Australian Government, 15 December 2023, p 60.

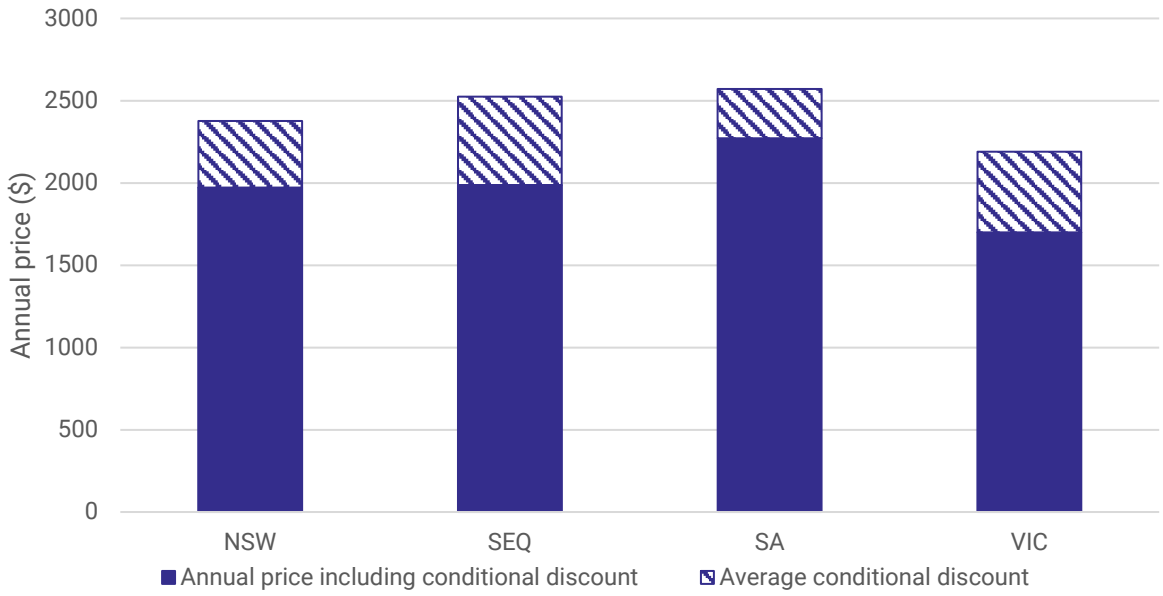
[54] ACCC, *Inquiry into the National Electricity Market: December 2023 report*, ACCC, Australian Government, 15 December 2023, p 61.

The ACCC remains concerned about offers with large conditional discounts due to the significant penalties customers may incur when they do not meet their discount conditions, as expressed in our December 2023 and June 2024 reports.[55]

Figure 2.8 shows that failing to achieve conditional discounts will, on average, increase a customer's calculated annual price by 13% to 29% depending on the region. This equates to an increase of between $299 and $537 on their total annual price.

**Figure 2.8: Conditional discounts can make up a significant proportion of a customer's bill**

*Residential customer-weighted prices by region, offers with conditional discounts, all offer types combined, assuming 100% achievement of conditional discounts, 2024*




Source: ACCC analysis of retailer pricing data. Nominal prices, including GST.

The AEMC introduced regulations to restrict the size of conditional discounts to all new contracts entered into from 1 July 2020.[56] This means the large conditional discounts we observe likely reflect those attached to legacy offers which existed prior to this date.

In our December 2023 report, we recommended policy makers investigate how best to reduce the number of customers on legacy offers with large conditional discounts. The AEMC and ESCV are both currently considering whether to extend existing conditional discount regulations to offers that existed prior to 1 July 2020 (see section 2.7).[57] [58]

[55] ACCC, *Inquiry into the National Electricity Market: December 2023 report*, ACCC, Australian Government, 15 December 2023; ACCC, *Inquiry into the National Electricity Market: June 2024 report*, ACCC, Australian Government, June 2024.

[56] AEMC, *Regulating conditional discounting*, AEMC website, 27 February 2020, accessed 20 November 2024.

[57] AEMC, *Removing unreasonable conditional discounting*, AEMC website, 28 August 2024, accessed 20 November 2024.

[58] As part of the Energy Retail Code of Practice review, the Essential Services Commission of Victoria are considering extending the protections related to the size of conditional discounts for customers on legacy offers. See ESC, *Energy Consumer Reforms: Discussion paper*, ESC, 24 October 2024, pp 23–26.

## 2.5. Some customers are navigating complex pricing

In order to get the most out of their electricity offer, customers need to understand and respond to their offer pricing structures. However, those on cost-reflective offers may find it difficult to do so due to the complexity of their pricing structures. As noted in section 2.2.1, customers are increasingly on offers with time of use or demand pricing structures.

Retailers provide price signals to incentivise customers to shift their usage away from peak periods (see Box 2.1). Customers' bills will be influenced by their awareness of the need to, their ability to and their willingness to shift their usage patterns in response to price signals.

In this section, we explore the impacts of differing usage patterns on pricing outcomes, with a particular focus on demand charges and time of use prices (see sections 2.5.1 and 2.5.2). We also examine the impacts of differing usage patterns for customers who must navigate layers of complexity by virtue of being on offers with multiple complex pricing structures (section 2.5.3). In both instances, we keep total usage constant and shift the time of electricity use or the level of maximum demand.

### 2.5.1. Maximum demand has a large impact on customer outcomes with demand charges

Customers on offers with demand charges are incentivised to change the pattern of their electricity usage through the rates they are charged for their maximum demand within designated periods (see Box 2.1). Customers with high maximum demand will be able to save by reducing their electricity demand in peak times.

To explore how much customers could benefit from altering their maximum demand, we have analysed the calculated annual prices customers may experience with changes in their maximum demand. We analyse these outcomes for customers on flat rate pricing structures with demand charges. We discuss the price outcomes for customers with both time of use and demand pricing in section 2.5.3.

Table 2.2 shows the peak usage profiles we used to calculate customers' annual prices. To derive these, we calculated a 'Medium peak' profile from retailer data on peak customer demand and adjusted this by 30% to create a high and low maximum demand profile. We provide more detail around our methodological approach in Appendix B.

**Table 2.2: Our maximum demand profile assumptions**

*Residential customer maximum demand per 30-minute interval, all regions combined*

| Demand profile | Maximum demand (kW) |
|---|---|
| Low peak (-30% median maximum demand) | 2.7 |
| Medium peak (median maximum demand) | 3.9 |
| High peak (+30% median maximum demand) | 5.1 |

Source: ACCC analysis of retailer pricing data.

Note: Unless otherwise stated, we have used the 'Medium peak' profile as the maximum demand assumption to calculate the annual prices for residential demand offer customers throughout this chapter.

Our approach assumes that customers' maximum electricity demand does not vary over the course of a year, and that total annual usage is constant. In reality, customers with higher or lower maximum demand would likely have corresponding higher or lower total annual usage. We have kept total usage constant to demonstrate how changes in maximum demand impact comparisons with default offers even when customers are using the same amount of electricity assumed under the default offers.

We explore how much a customer's total annual price may change when they reduce their maximum demand in Box 2.4.

## Box 2.4: How are demand offer charges calculated?

Our example customer is on an offer with a monthly demand charge. The demand charge rate is $0.30 per kW per day and is calculated based on their highest usage in a 30-minute window during a designated peak period (a time determined by their local electricity distributor).

On the first day of a particular month, the customer uses their:

- washing machine (1 kW)
- clothes dryer (1.5 kW)
- air conditioner (1.5 kW).

This leads to their total usage within a 30-minute window being 4 kW in a peak period, which is their highest maximum demand over the month.

On every other day of the month, however, our customer uses at most 2 of these appliances at any one time. On these days, our customer's maximum demand does not exceed 3 kW.

The below table shows our example customer's monthly demand charge:

- based off their usage on the first day (**Case 1**)
- based off their usage on any other day (**Case 2**).

For simplicity, we assume our customer is on a flat rate offer with a demand charge that does not have any seasonal price variations.

| | Supply Charge | Usage Charge | Demand Charge | Monthly Bill |
|---|---|---|---|---|
| **Case 1** | $1.4 / day<br>x 30 days = $42 | $0.33 / kWh<br>x 400 kWh = $132 | $0.3 x 4 kW<br>x 30 days = $36 | $210.0 |
| **Case 2** | $1.4 / day<br>x 30 days = $42 | $0.33 / kWh<br>x 400 kWh = $132 | $0.3 x 2.5 kW<br>x 30 days = $22.5 | $196.5 |

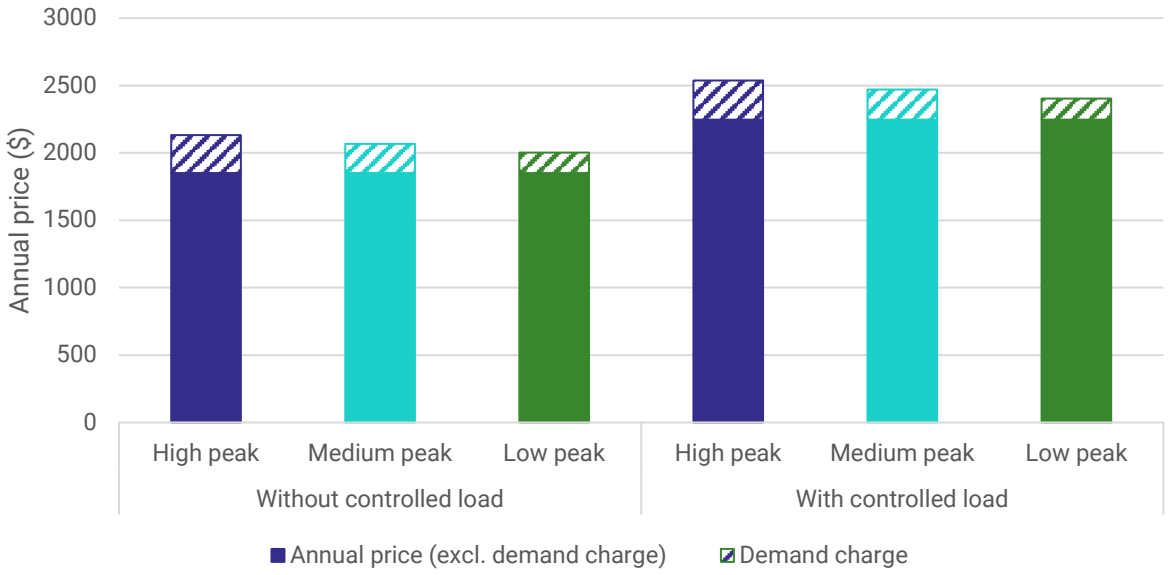
While our customer typically has a lower demand peak, their relatively high demand one a particular day has had a moderate impact on the relative price they pay for electricity, with their monthly bill being 7% or 13.5 dollars higher as a result.

Our analysis shows there are modest changes to customers' total annual prices with changes in their peak demand usage. Figure 2.9 shows our low and high peak profiles varied from our medium profile by around 3% across offers with and without a controlled load. This corresponds to a change in calculated annual prices of approximately:

- $65 for customers without a controlled load
- $67 for customers with a controlled load.

**Figure 2.9: Increasing maximum demand has a modest impact on customer prices**

*Residential customer-weighted prices by controlled load and maximum demand profile, flat rate offers with demand charges, assuming 100% achievement of conditional discounts, AusGrid, Endeavour and Energex combined, 2024*




Source: ACCC analysis of retailer pricing data. Nominal prices, including GST.

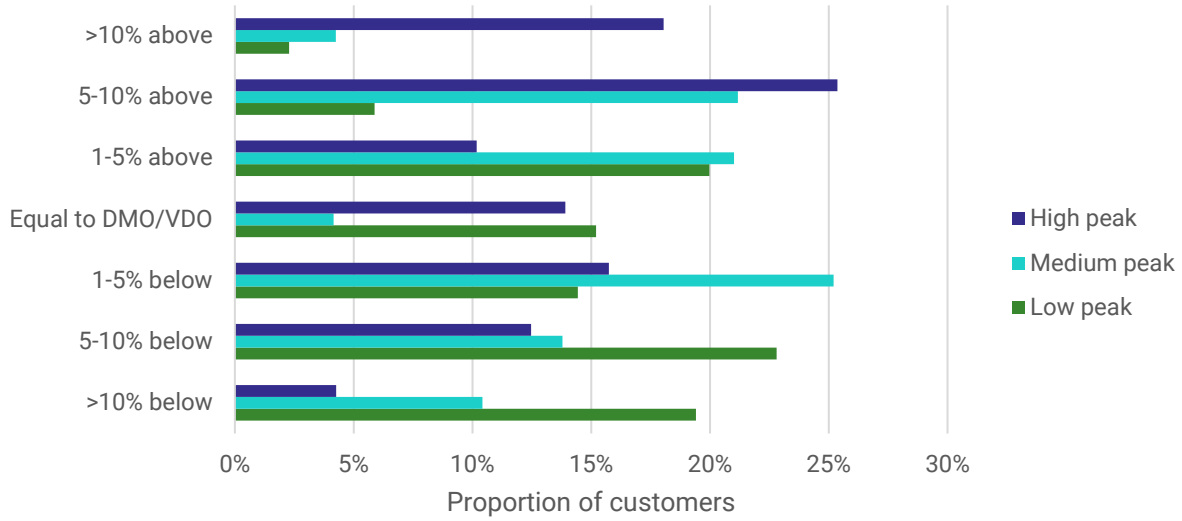
Note: In the 2024–25 Default Market Offer and Victorian Default Offer determinations, residential customers with controlled load are assumed to use between 1,800 and 2,200 kWh more electricity than customers without controlled load. Controlled load is explained in Box 2.1.

Figure 2.10 shows how varying maximum demand impacts the distribution of calculated annual prices for demand offers relative the default offers. The proportion of customers on prices at or above the default offers increases from 51% for the medium peak profile to 68% for the high peak profile.

While varying maximum demand has a relatively modest impact on total calculated annual prices and the proportion of customers priced at or above the default offers, the impact is pronounced for customers on high priced offers. The proportion of customers on offers that are on offers priced more than 10% above the default offers quadruples when we change from the medium to the high maximum demand profile. This reveals that customers who are unable to amend their usage to avoid high maximum demand are much more likely to experience high prices.

**Figure 2.10: Increasing maximum demand leads to more customers paying prices above the default offers**

*Residential flat rate offer customers with demand charges paying more, equal to, or less than the default offers by maximum demand profile, assuming 100% achievement of conditional discounts, AusGrid, Endeavour and Energex combined, 2024*




Source: ACCC analysis of retailer pricing data.

## 2.5.2. Timing of electricity use can have varying outcomes for customers on time of use offers

Customers on time of use offers are incentivised to shift their electricity usage away from peak periods in response to higher prices during these times (see Box 2.1). The greater the price differential between peak and other periods, the more customer could save on their total annual price and the greater incentive they face.

To explore how much customers could benefit from shifting their usage, we have analysed the per unit usage charge rates they face when consuming electricity in different time periods and the total annual prices they experience when shifting their overall daily usage. This section focuses on customers on time of use offers that do not have demand charges. We discuss cases where customers have both time of use and demand charges in section 2.5.3.

### Customer weighted prices for different times of day

We present usage charge rates irrespective of season.[59] To do this, we have weighted the value of season specific charges by the number of days in that season over the course of a year. This ensures we do not incorrectly estimate the average price differential on any given day in the year.

Our analysis of usage charge rates finds there are moderate savings available to customers who are able shift their usage. Figure 2.11 shows that, as at 1 August 2024, an average

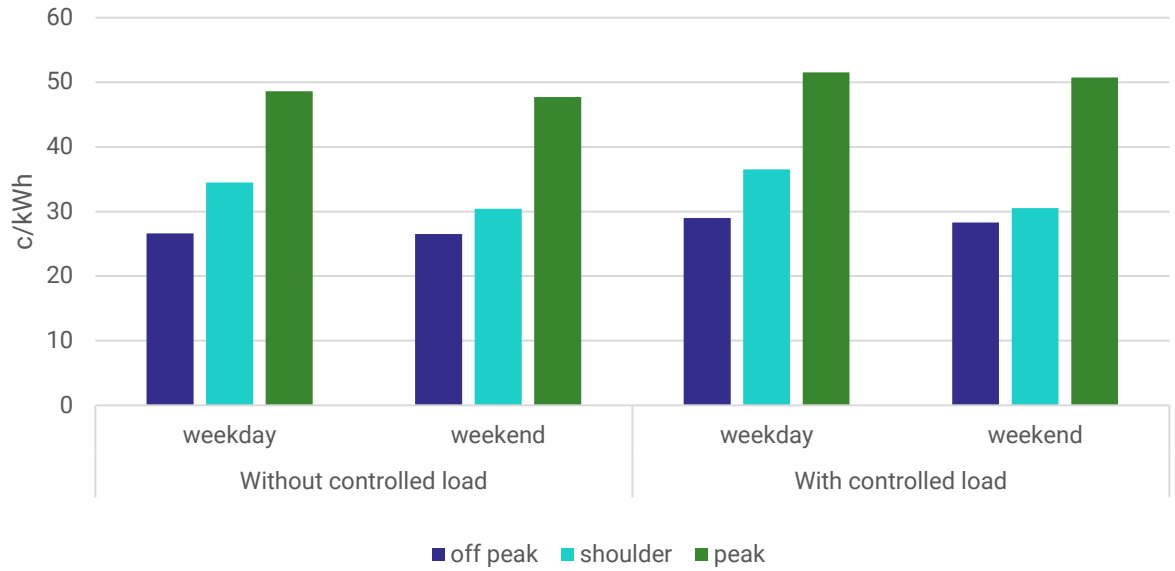
[59] Season in this sense does not necessarily correspond to a calendar season (summer, winter, spring, autumn) but can mean any period within the year that charges apply.

customer who shifted their usage away from peak periods could have reduced cost for electricity by:

- 14 to 20 cents per kWh if they shifted their usage to a shoulder period
- 21 to 22 cents per kWh if they shifted their usage to an off-peak period.

**Figure 2.11: Differences between peak and off-peak usage charge rates are greater on weekdays than weekends**

*Residential customer-weighted usage charges by controlled load and time period, time of use offers without demand charges, 2024*




Source: ACCC analysis of retailer pricing data. Nominal prices, including GST.

Note: In the 2024–25 Default Market Offer and Victorian Default Offer determinations, residential customers with controlled load are assumed to use between 1,800 and 2,200 kWh more electricity than customers without controlled load. Controlled load is explained in Box 2.1.

We explore how a customer's total annual price may change when they shift their usage between peak and off-peak periods using a worked example in Box 2.5.

## Box 2.5: How are time of use offer charges calculated?

Our example customer is on a time of use offer. They are charged 3 different per unit usage rates for different periods in the day (known as peak, off-peak and shoulder periods) and a consistent supply rate per day. Their total annual usage is 4,000 kWh.

On any day across a year, our customer would typically distribute their total daily usage as follows:

- 50% in peak periods
- 20% in shoulder periods
- 30% in off-peak periods.

However, our customer decides to shift their daily usage away from peak periods by scheduling several of their appliances to run in off-peak periods. This sees our customer's peak usage change from 50% to 40% of their total daily usage.

In the below table, we show our example customer's annual bill using:

- their daily usage profile before they shifted their usage (**Case 1**)
- after they shifted their daily usage (**Case 2**).

For simplicity, we assume our customer is on an offer that does not also have a demand charge, and they are charged the same usage rates across weekdays and weekends.

| | Supply charge | Peak usage charge | Shoulder usage charge | Off-peak usage charge | Annual bill |
|---|---|---|---|---|---|
| **Case 1** | $1.40 / day x 365 days = $511 | $0.55 / kWh x 2,000 kWh = $1,100 | $0.45 / kWh x 800 kWh = $360 | $0.30 / kWh x 1,200 kWh = $360 | $2,331 |
| **Case 2** | $1.40 / day x 365 days = $511 | $0.55 / kWh x 1,600 kWh = $880 | $0.45 / kWh x 800 kWh = $360 | $0.30 / kWh x 1,600 kWh = $480 | $2,231 |

Our customer's efforts to shift their peak usage has had a relatively modest impact on their annual bill, reducing it by 100 dollars or 4.3%.

While Figure 2.11 shows there are moderate cost reductions for each unit of electricity shifted out of peak usage times, customers may not be fully able to achieve these savings.

Many customers may only be able to shift a small portion of their peak usage away from peak periods. Further, any amount they do shift may not fall directly into off-peak periods but similarly priced shoulder periods or other peak periods, which would see them achieve only modest savings.

For customers seeking to reduce their electricity bill, a comparison of usage rates that does not consider the time and volume of their daily electricity usage will provide a limited view on the savings they could reasonably make by shifting their usage.

### Customer-weighted calculated annual prices

Our analysis in this section does not seek to minimise calculated annual prices for each offer based on an 'optimal' usage profile for each offer. There is significant diversity in the time windows and usage charge rates for peak, off peak and shoulder periods and price

differences. Rather we have developed several daily usage profiles by our standard profile for each distribution region, which are applied across all relevant offers in a region.

Using Ausgrid as an example, Figure 2.12 illustrates the usage profiles we use in our analysis. We refer to these as:

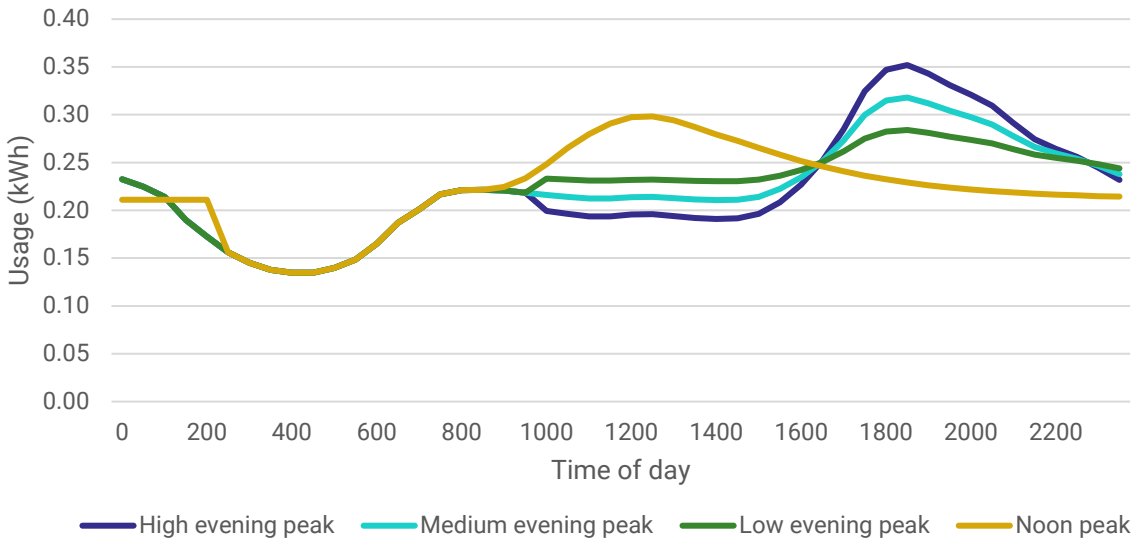
- high evening peak (+50% medium evening usage) – representing a 'peakier' profile
- medium evening peak (using default offer usage profiles)
- low evening peak (-50% medium evening usage) – representing a 'smoother' profile
- noon peak (peak usage shifted 7 hours earlier).

To construct our low, medium and high evening peak usage profiles, we applied a percentage factor adjustment to the peak evening usage of our daily usage profile for each distribution region. We then redistributed any excess or reduced usage over the hours of 10:00am to 12:00am, such that customers' daily usage is constant. We developed our 'noon peak' profile by shifting evening peak usage that fell above a threshold value earlier by 7 hours.

We provide more detail around our methodological approach in Appendix B.

**Figure 2.12: Our daily usage profile assumptions**

*Residential customer average daily usage by 30-minute interval, Ausgrid, 2024*




Source: ACCC analysis of Australian Energy Regulator usage data.

Note: Unless otherwise stated, we have used the 'medium evening peak' profile for each distribution region as the daily usage profiles to calculate the annual prices for residential time of use offer customers throughout this chapter.

Our analysis finds that there are minimal changes to customers' total annual prices under the low and high evening peak profiles. Figure 2.13 shows switching from one of these 2 profiles to the medium evening peak profile changes calculated annual prices by 1%.

The relatively small impact here reflects the impact of shifting usage lower or higher in the peak window that is offset by changes to electricity usage at other times. The 'smoother' low evening peak profile results in higher usage during the morning peak and shoulder windows,

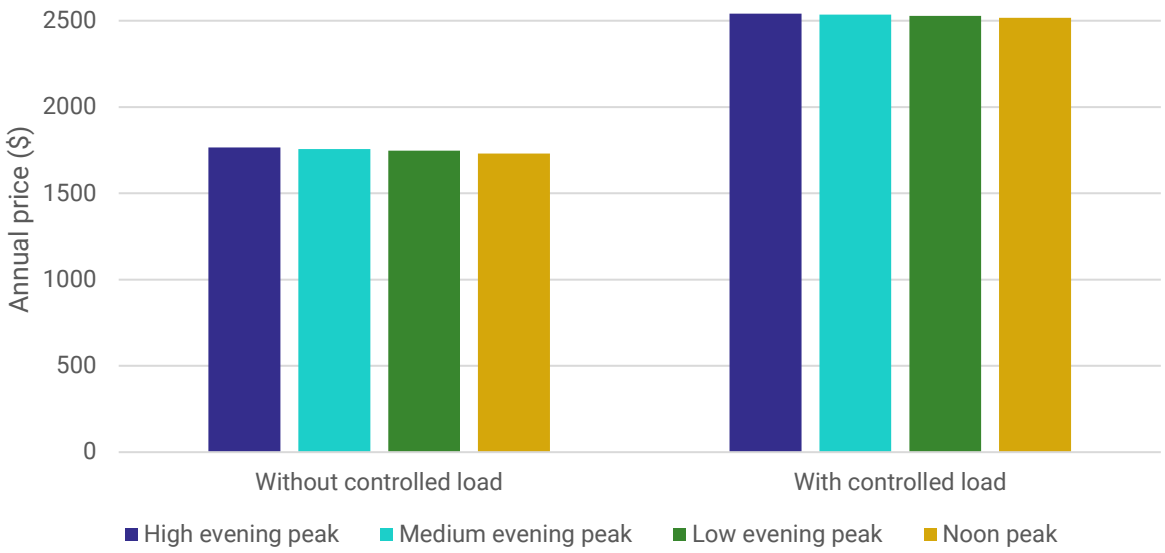
rather than completely shifting usage to the off-peak windows. The 'peakier' high evening peak profile achieves the inverse.

Meanwhile, our analysis also finds there are slightly larger, but still limited changes to customers' calculated annual prices under the noon peak profile. Figure 2.13 shows that it reduces calculated annual prices by 2% from the medium evening peak profile. This result largely reflects the amount of usage shifted into lower priced periods as a 1% change in usage does not equate to a 1% decline in price.

We note that time of use offers are generally cheaper than flat rate offers, even without a customer shifting the timing of their electricity use (see section 2.2.2).

**Figure 2.13: Different changes in the time of daily electricity use have different impacts on calculated annual prices**

*Residential customer-weighted prices by controlled load and usage demand profile, time of use offers without demand charges, assuming 100% achievement of conditional discounts, all regions combined, 2024*




Source: ACCC analysis of retailer pricing data. Nominal prices, including GST.

Note: In the 2024–25 Default Market Offer and Victorian Default Offer determinations, residential customers with controlled load are assumed to use between 1,800 and 2,200 kWh more electricity than customers without controlled load. Controlled load is explained in Box 2.1.

These results demonstrate that merely 'shifting usage out of peak times' is not sufficient to substantially lower calculated annual prices. Rather, the way in which a customer uses electricity over the entire day will impact their bills. Our findings emphasise how important it is for customers to:

- understand the pricing structure of their electricity offer
- be equipped with the right tools to manage their usage
- be on the right electricity offer for their needs.

## 2.5.3. More customers are on offers with multiple complex pricing elements

We examined the potential impact of demand and time of use pricing structures on customer prices separately in sections 2.5.1 and 2.5.2. In this section, we look at price outcomes for customers on offers with several complex pricing components. These customers' actual bills will rely on their ability to navigate multiple layers of complexity.

From our analysis of retailer offers, we found customers on offers with combinations of:

- time of use pricing
- seasonal pricing
- multiple usage blocks
- demand charges.

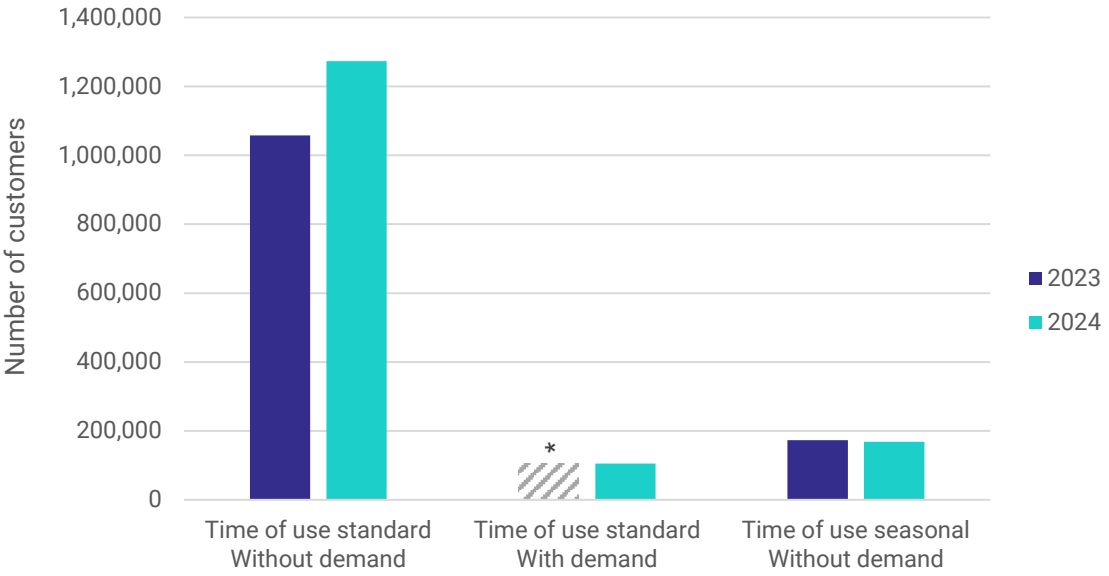
Box 2.1 explains these different pricing elements.

Figure 2.14 shows the number of customers on offers with combinations of these pricing elements has increased over the year to 1 August 2024. Approximately 30,000 more customers are now on offers with multiple complex pricing structures in 2024 than in 2023 (specifically time of use and demand). Although there remains fewer customers on offers with these pricing structures compared to standalone flat rate or time of use offers (see section 2.2.1).

As noted in section 2.2.2, many customers on these offers with complex pricing structures were likely assigned to them by their retailer rather than choosing to be on them.

**Figure 2.14: The number of customers on offers with multiple complex pricing elements is increasing**

*Residential customer counts by offer type and demand charge, time of use offers, all regions combined, 2023 and 2024*




Source: ACCC analysis of retailer pricing data.

Note: For confidentiality reasons, we have not included time of use block offers, time of use seasonal offers with demand charges and 2023 time of use standard offers with demand charges in the above figure.

We examine the price outcomes of customers on offers with multiple complex pricing elements using the usage profiles from both our time of use and demand offer analyses (sections 2.5.1 and 2.5.2). In particular, we examine the price outcomes of customers on offers with time of use and demand charges using:

- high maximum demand and high evening peak
- low maximum demand and low evening peak.

As in our previous analyses, we assume that total usage is constant.

Figure 2.15 shows calculated annual prices derived using our high maximum demand and high evening peak profile were 4.9% higher than the medium peak and medium evening peak profile for time of use standard offers without controlled loads. Calculated annual prices were 6.4% higher than the medium peak and medium evening peak profile for time of use seasonal offers without controlled loads.

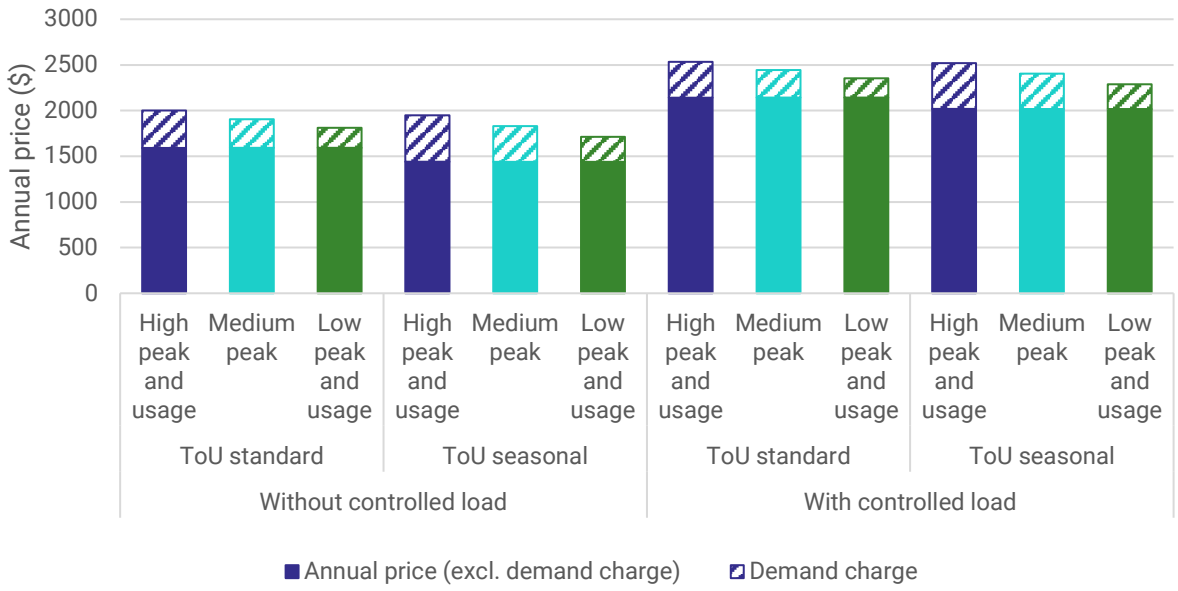
This result largely reflects higher demand charges rather than large differentials in usage charges for different time s of the day. We observe the differences between peak, shoulder and off-peak prices are less than 1% across offers with and without controlled load.

Customers on offers with multiple complex pricing structures need to pay greater attention to managing their usage patterns than customers on simpler pricing structures as they incur a higher penalty for not doing so. Meanwhile, the highly complex nature of these pricing structures likely makes it harder for customers to effectively respond to these signals.

Not all customers may be able to respond to the price signals contained within these offers, as they may not be able to understand when or how to shift their electricity usage, and in some cases may not be able to shift their usage at all.

**Figure 2.15: Changes in usage patterns have a greater impact on customers whose offers have layers of complex pricing**

*Residential customer-weighted prices by controlled load and maximum demand profile, time of use offers with demand charges, assuming 100% achievement of conditional discounts, Ausgrid, Endeavour and Energex combined, 2024*




Source: ACCC analysis of retailer pricing data. Nominal prices, including GST.

Note: In the 2024–25 Default Market Offer and Victorian Default Offer determinations, residential customers with controlled load are assumed to use between 1,800 and 2,200 kWh more electricity than customers without controlled load. Controlled load is explained in Box 2.1.

## 2.6. Customers are penalised for not switching regularly

We have previously emphasised the importance to customers of shopping around to ensure they are on the right electricity offer for their circumstances. We observe a spectrum of customers ranging from those that switch electricity offers regularly to those who do not or cannot switch. This section examines how outcomes vary for customers based on how regularly they switch.

There are many reasons that customers may not regularly switch electricity offers. Many customers face barriers to switching retail offers (for instance, literacy or language barriers).

The retail electricity market is complex and becoming increasingly so. Customers are faced with a wide variety of offers in the market with different prices, fees, charges, and benefits. This includes offers with a variety of time of use windows and charges aimed at getting customers to shift their usage into off-peak periods. There are also many different retailers to choose from, with 54 active electricity retailers across the NEM (although not all retailers are active in all jurisdictions).[60]

[60] AER, *Retail Market Report 2022–23*, Australian Government, AER, accessed 25 Oct 2024

Research undertaken by Energy Consumers Australia undertook research which included asking households '*Thinking about the last time you considered changing energy companies/switching to a better offer, but did not end up doing so, what were the reasons you didn't switch?*'. Surveyed households indicated:

- 25% said it was too complicated
- 27% said it was too confusing
- 25% said it was too time consuming.

Additionally, Energy Consumers Australia found customers who were under financial pressure were more likely to have considered switching energy retailer but not done so, and more likely to say it was too complicated confusing, and time consuming. Further, these consumers were less likely to say they felt confident about their ability to make choices about energy products and services or feel that they had the information they needed.[61]

Customers faced with a vast array of choice may find it difficult to switch offers. High numbers of potential offer types may make it difficult for customers to compare offers, increasing the time and effort to switch. Under the concept of bounded rationality[62], customers faced with overwhelming choice may ultimately settle on an option that is 'good enough' rather than the optimal one.[63]

For some customers, 'good enough' may be that their electricity supply continues, even if it is at a higher cost. These customers are effectively choosing not to switch offers at all. They may choose to remain or be placed on a standing offer provided by their chosen retailer or remain on the same market offer over time.

Alternatively, if customers do choose to switch offers, they may choose the first available offer that seems approximately suitable, over the best. They may choose the offer their retailer recommends, or an offer found on comparator websites that would not best suit their needs.

Mechanisms to support customer switching, such as government comparison websites and Better or Best Offer messages are valuable initiatives. With the increasing degree of pricing and market complexity customers must navigate, we consider that adjustments to these mechanisms could further support customers (section 2.7).

### 2.6.1. Customers on newer offers are paying less than customers on older offers

As discussed in section 2.3.1, most retailers' price setting policies or processes intentionally treat the setting and adjustment of acquisition and existing offer prices differently. This type of price differentiation is likely contributing to long term customers paying a premium when they remain on the same offer (the 'loyalty penalty').

To estimate this loyalty penalty, we compare the prices customers pay on older and newer offers. We categorise an offer as being 'newer' if it only had prices in our dataset at

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61 Energy Consumers Australia, *Energy Consumer Sentiment Survey June 2024*, p 10, accessed 1 December 2024.

62 "The term 'bounded rationality' is used to designate rational choice that takes into account the cognitive limitations of the decision-maker – limitations of both knowledge and computational capacity. Bounded rationality is a central theme in the behavioural approach to economics, which is deeply concerned with the ways in which the actual decision-making process influences the decisions that are reached." Simon, H.A. (1990), "Bounded Rationality" in Eatwell, J., Milgate, M., Newman, P. (eds) *Utility and Probability*, The New Palgrave, Palgrave Macmillan, London.

63 Simon, H.A. (1979), 'Rational Decision Making in Business Organizations', *American Economic Review*, Vol.69, No.4 (Sept 1979), pp 493–513, at p 498.

1 August 2024, and an offer as being 'older' if it existed at 1 August 2023. This approach is consistent with our December 2023 report approach and is limited by the fact that that the age of an offer may not always correspond with customer tenure.[64] These results here and in section 2.6.2 do not include rebates or concessions.

As elsewhere in the chapter, we present our findings in this section inclusive of conditional discounts. We would expect older offers to be more likely to have large conditional discounts attached, as they are not subject to regulations that limit the size of their conditional discounts. These regulations limit the size of conditional discounts to a reasonable estimate of costs incurred for contracts entered into from 1 July 2020. The AEMC is currently considering whether to extend these regulations to offers that existed prior to 1 July 2020 (see section 2.7).

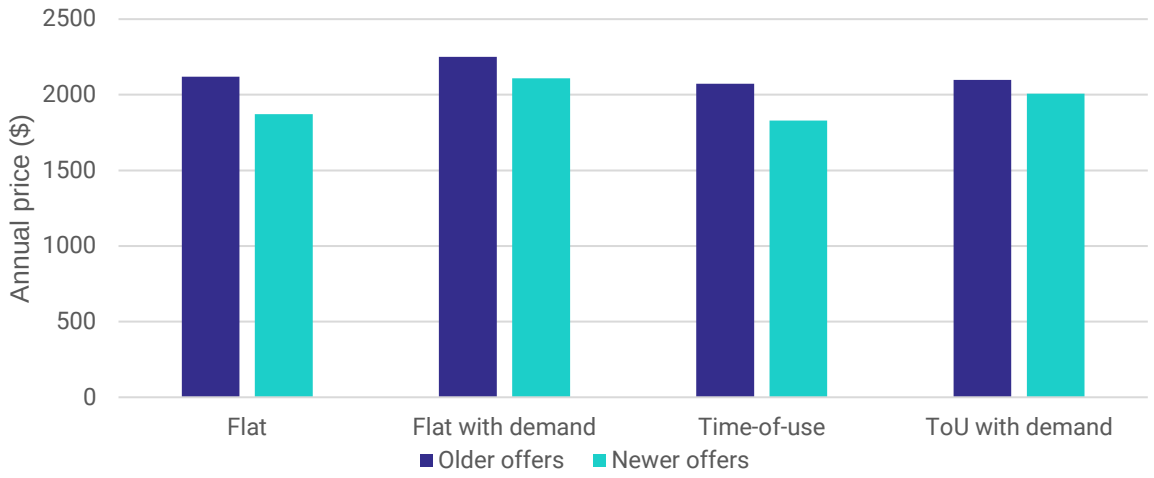
Figure 2.16 shows customers on older offers are paying more than those on newer offers across all offer types. For all regions combined, customers on older offers were paying prices that were:

- 11.7% higher on flat rate offers (up from 11% in 2023)
- 11.8% higher on time of use offers
- 6.3% higher on flat rate offers with a demand charge
- 4.3% higher on time of use offers with a demand charge.

Our results suggest customers should regularly switch offers to ensure they achieve the best price outcome.

**Figure 2.16: Customers on older offers pay more**

*Residential customer weighted average annual prices for newer and older offers by offer type, all regions combined, assuming 100% achievement of conditional discounts, 2024*




Source: ACCC analysis of retailer pricing data. Nominal dollars, including GST.

We also found around 1.9 million more customers on older offers are paying prices above the default offers than those on newer offers. 47% of customers on older flat rate offers and 36% of customers on older time of use offers are paying prices at or above the default offers. This contrasts with only 10% of customers on newer flat rate and 11% of newer time

[64] ACCC, *Inquiry into the National Electricity Market: December 2023 report*, ACCC, Australian Government, 15 December 2023, p 66.

of use offers paying prices at or above the default offers. We present results across regions in Appendix C.

### 2.6.2. Customer loyalty penalties increase over time

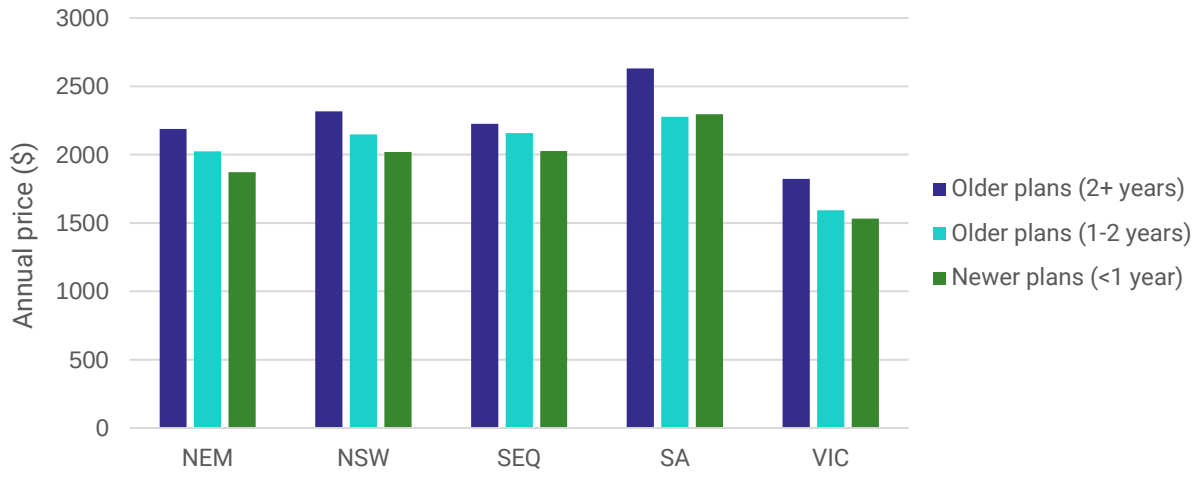
Our flat rate offer data extends back to 1 August 2022, allowing us to look at the loyalty penalty over a longer time period than for other offer types. For flat rate offers, we compared the prices customers pay on:

- newer offers (<1 years) which only existed as at 1 August 2024
- older offers (1 – 2 years) which only existed as at 1 August 2023 and 2024
- older offers (2+ years) which existed from 1 August 2022 onwards.

Figure 2.17 shows calculated annual prices increase with the age of the offer. Although, differences in prices for newer offers compared to those 1+ year old indicates customers will start incurring a loyalty penalty after less than 1 year of not engaging in the market. It also implies customers will face an increasing loyalty penalty the longer they do not switch offers. This means that the regularity with which customers switch offers will have a significant impact on their pricing outcomes.

**Figure 2.17: Calculated annual prices increase with the age of the offer**

*Residential customer weighted average annual prices for newer and older offers by region, flat rate offers without demand charges, assuming 100% achievement of conditional discounts, 2024*




Source: ACCC analysis of retailer pricing data. Nominal dollars, including GST.

We can observe that when compared to newer offers, older offers (2+ years) have calculated annual prices:

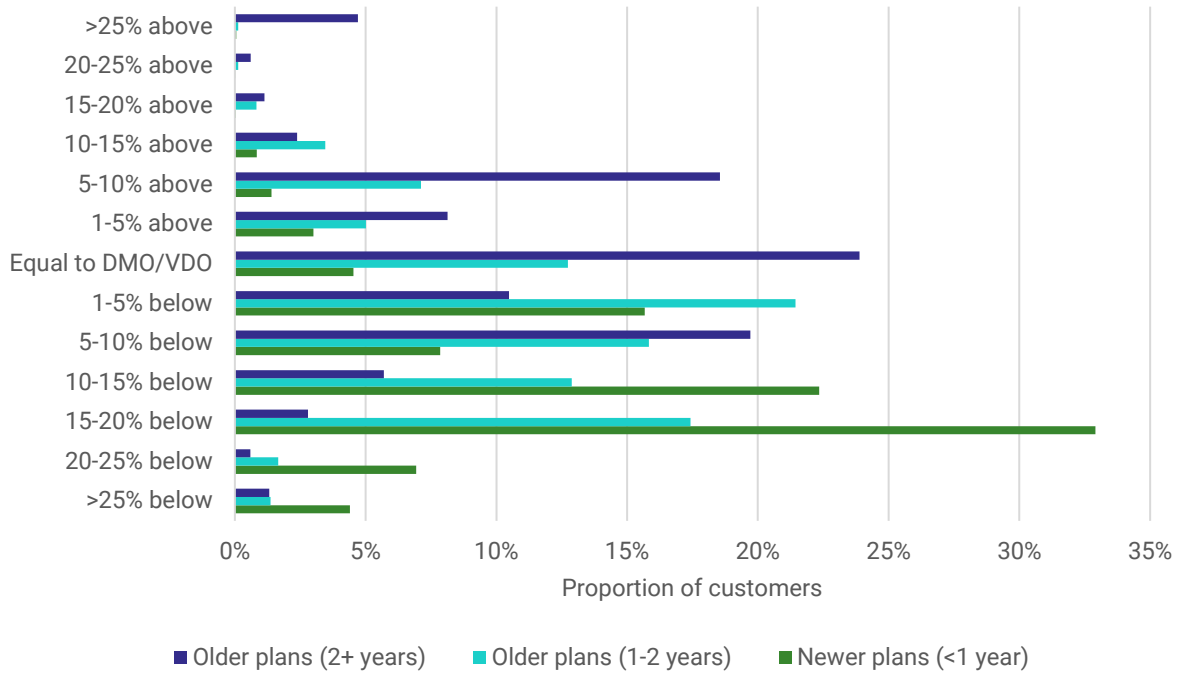
- 16.9% or $317 higher in all regions combined
- 14.7% or $297 higher in New South Wales
- 9.8% or $199 higher in South-East Queensland
- 14.5% or $334 higher in South Australia
- 19.0% or $291 higher in Victoria.

While some level of benefit for being on a newer offer is necessary to incentivise consumers to switch offers, it appears some customers are incurring potentially disproportionate penalties for not regularly engaging. This is concerning as we found 43% of customers in our dataset (or 2.1 million customers) are on offers that are 2 or more years old and 33% of customers (or 1.6 million customers) are on flat rate offers that are 1–2 years old.

Figure 2.18 emphasises this point with significantly more customers on older offers paying prices above the default offers than customers on newer offers. 59% of customers on older offers (2+ years) and 29% of customers on older offers (1–2 years) are paying prices at or above the default offers, compared to only 10% of newer offers (<1 years). Notably, almost all of the customers in our dataset on flat rate offers priced more than 25% above the default offers are on older offers (2+ years). We are concerned that the default offers are not effectively protecting customers who are on market offers, but not regularly engaging in the market.

**Figure 2.18: Customers on older offers increasingly pay more**

*Residential flat rate offer customers without demand charges on newer and older offers paying more, equal to, or less than the default offers, all regions combined, assuming 100% achievement of conditional discounts, 2024*




Source: ACCC analysis of retailer pricing data.

## 2.6.3. Electricity retailers are competing for new customers

Acquisition offers are those retailers use to acquire new customers. To examine how retailers are setting prices for their acquisition offers, we compare the calculated annual prices of offers gathered from government comparison websites to the default offers.

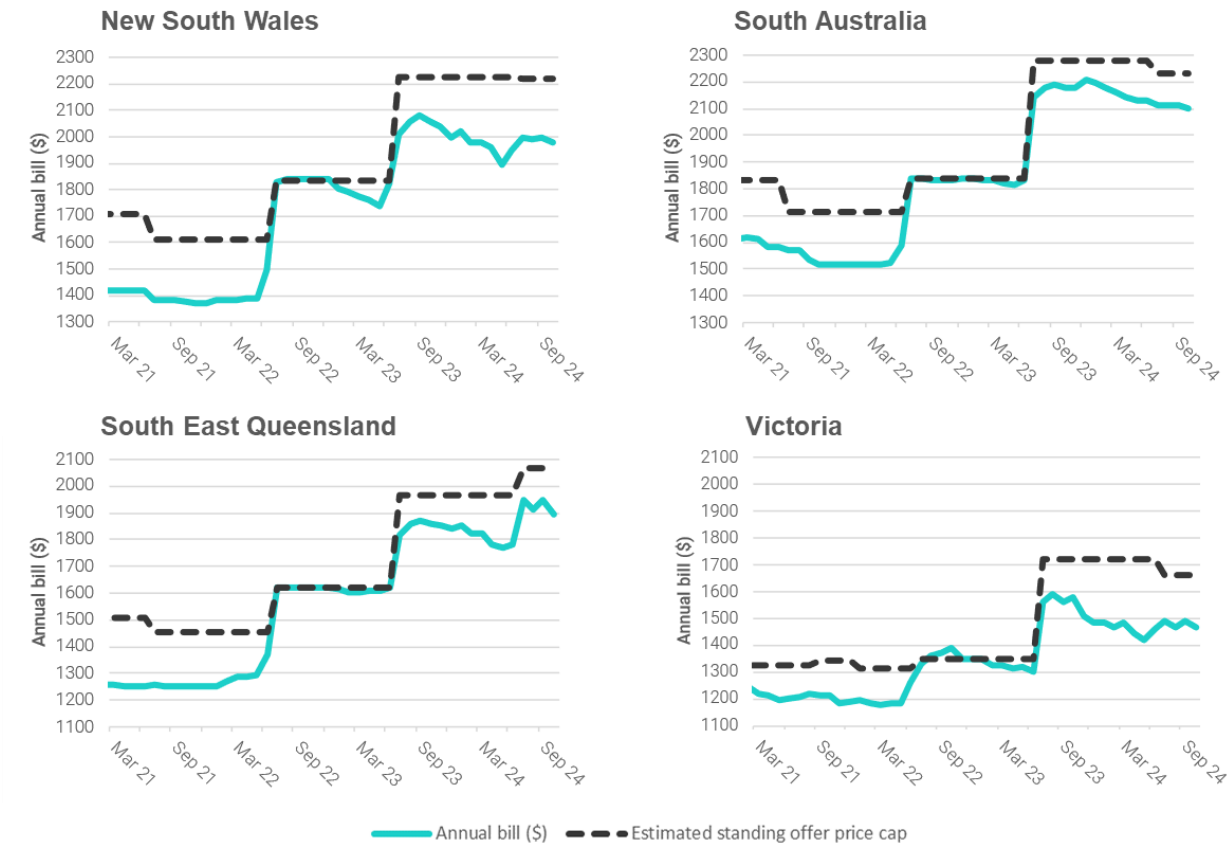
To do so, this section analyses offers that were available to new or switching customers on Energy Made Easy and Victorian Energy Compare between March 2021 and October 2024. This is a different dataset to the retail pricing dataset which feeds into most other charts in this chapter.

Figure 2.19 shows retailers are setting acquisition offer prices at a discount to the default offer. We can observe the gap between acquisition offer and default offer prices has increased since mid-2022. This suggests retailers are competing on price for customers.

Figure 2.19 also illustrates the potential benefits available to customers who switch offers, as customers on the default offer could switch to a market offer that is similarly priced to the median and save. Meanwhile, those customers in our dataset on prices above the default offers would be able to save even more. Appendix C demonstrates that 40% of customers of flat rate offers across all regions combined could save by switching to the median offer on Energy Made Easy or Victorian Energy Compare.

**Figure 2.19: Acquisition prices are further below the price cap of standing offers**

*Residential estimated median calculated annual price for acquisition offers by region, flat rate market offers, March 2021 to October 2024*




Source: ACCC analysis of Energy Made Easy and Victorian Energy Compare market offers. Nominal dollars, including GST.

Note: Assumed annual usage in Ausgrid is 3,900 kWh, in Endeavour is 4,900 kWh, in Essential is 4,600 kWh, in Energex is 4,600 kWh, in South Australian Power Network is 4,000 kWh, in all Victorian distribution zones is 4,000 kWh. For states containing multiple distribution regions, the median annual bill is the median of relevant offers in the state, while the standing offer displayed is the median of the default offer prices from the relevant distribution regions.

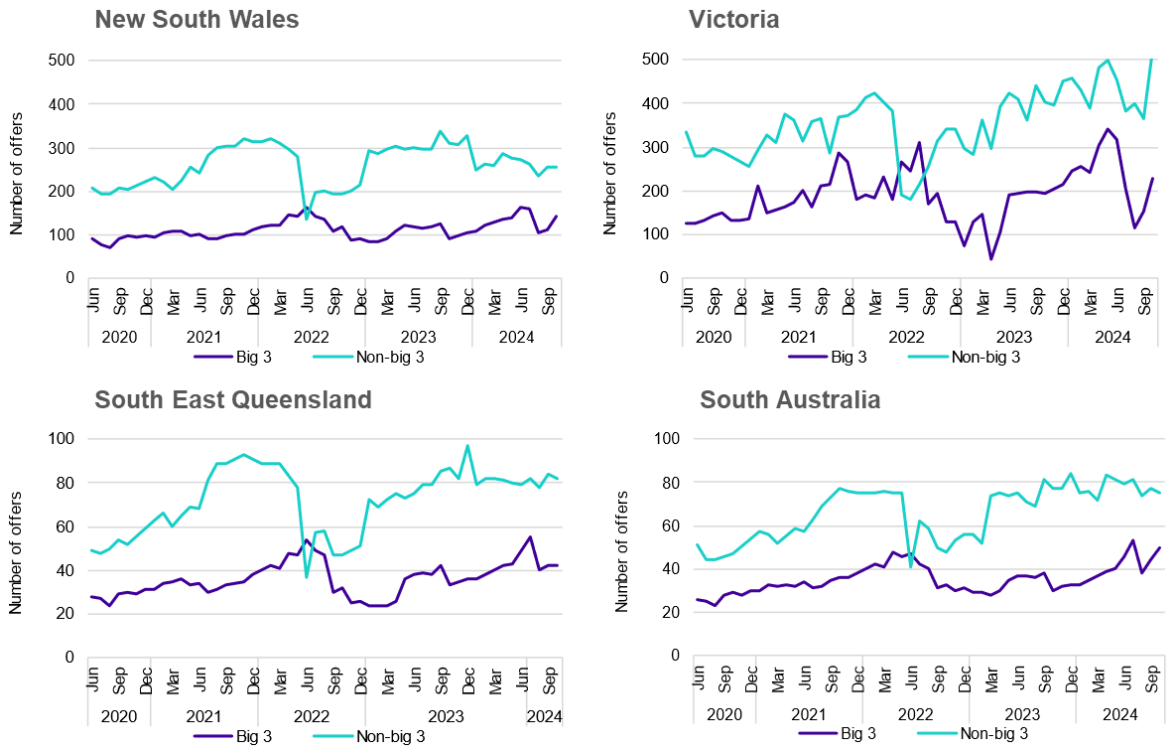
Figure 2.20 shows that the number of market offers available to new and switching residential customers on Energy Made Easy and Victorian Energy Compare has risen substantially from the second half of 2022. Our November 2022 report highlighted the significant decline in this, and other measures of consumer choice immediately following the energy market volatility of mid-2022. Notably, the number of acquisition offers from non-big 3 retailers (which were most impacted in mid-2022) has rebounded most substantially.

Figures 2.19 and 2.20 indicate a positive sign that consumers have been able to access a greater number of lower priced acquisition offers (relative to the default offers) from mid-2023 than they were in the year prior. These factors, coupled with those in section 2.2.3 (such as the introduction of the 'Better Offer' messages) and forecasts for stable or declining wholesale costs in 2024–25 (reflected in small changes to default offer prices), are leading to more customers being on lower priced offers.

We consider this to be a positive sign that our pricing results are a sign of a competitive response following the turbulence of the energy market volatility of mid-2022. Although, we will continue to monitor the competitive dynamics in the NEM in our next Electricity Inquiry report to ensure it is working well for consumers. Sections 3.1 to 3.3 further discuss measures of competition in the market.

**Figure 2.20: The number of acquisition offers from non-big 3 retailers has rebounded**

*Number of acquisition offers by region, flat rate market offers, March 2021 to October 2024*




Source: ACCC analysis of Energy Made Easy and Victorian Energy Compare market offers.

## 2.6.4. Some customers are switching more regularly than others

As we have demonstrated in our analysis, a substantial proportion of customers could benefit from switching offers (see sections 2.6.1 to 2.6.3). We see from Australian Energy Market Operator that approximately 20% of customers across the NEM switch retailers in any given year (Figure 2.21**)**. Figure 2.21 shows that the rate of customers switching to a new retailer has generally remained stable, despite some one-off spikes, regular peaks in July and August each year when retailers' implement their annual price changes and a slight uptick in some states over the last 12 months.[65]

[65] Several spikes in switching have occurred since 2019, including the energy market volatility events in mid—2022 and when Click Energy customers transferred to AGL in April 2021 see ACCC, *Inquiry into the National Electricity Market: December 2023 report*, ACCC, Australian Government, 15 December 2023, pp 24-25).

We observe a spectrum of customers ranging from those that switch offers regularly to those who do not or cannot switch. This is reflected in our finding that:

- 2.1 million customers are on flat rate offers that are 2 or more years old
- 1.6 million customers are on flat rate offers that are 1 to 2 years old
- 1.2 million customers are on flat rate offers that are less than 1 year old.

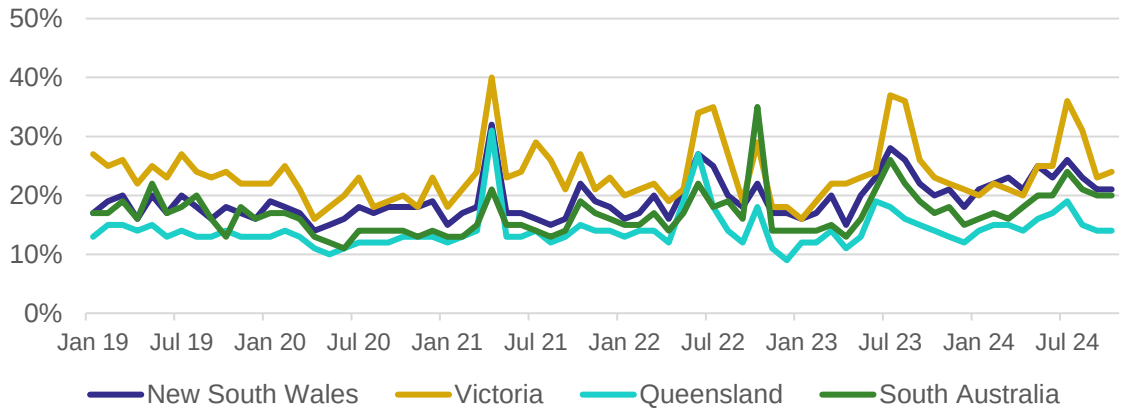
These findings are also borne out by results in Energy Consumers Australia's *Consumer Energy Report Card* from December 2024. This found that 58% of surveyed customers review their electricity offer and investigate whether there are better options at least once per year (though this does not necessarily mean they have switched offers). Meanwhile, 18% review once every couple of years, while 12% review no more often than every 3 years, and 12% have never reviewed.[66]

Those that do not switch offers regularly are likely to be paying more for electricity, and are more likely to be on prices at or above the default offers (sections 2.6.1 and 2.6.2). As noted in section 2.6, customers may not switch for a variety of reasons.

Figure 2.21 does not show the proportion of customers who switch offers with the same retailer. The ACCC would expect that the introduction of the 'Better Offer' and 'Best offer' messaging would increase in this type of switching.

**Figure 2.21: Customer switching rates have increased in response to market events and price changes**

*Annualised transfer rate, residential and small business customers combined, monthly, January 2019 — October 2024*




Source: ACCC analysis of Australian Energy Market Operator customer switching data.

Note: The 1-month annualised transfer rates in the above figure are calculated by projecting the previous months transfer volumes over the full year, and calculating the percentage churn that would occur if the transfer rate was maintained over the year, rounded to the nearest percentage.

## 2.6.5. 'Best Offer' and 'Better Offer' Messages support customer switching

Retailers are now required to inform customers whether there is a better offer available through messages on their bills. These messages are known as 'Best Offer' messages in

[66] Energy Consumers Australia, Consumer Energy Report Card, 3 December 2024.

Victoria or 'Better Offer' messages in New South Wales, South Australia and South East Queensland (see Box 2.6).

We examine the number of residential customers receiving different types of 'Better Offer' and 'Best Offer' messages between 1 January 2024 to 10 August 2024. In particular, we examine the number of customers who received:

- messages indicating customers were on their retailer's best offer
- messages indicating customers were not on their retailer's best offer
- messages indicating customers were not on their retailer's best offer and they could save money by switching to an offer that has the same name as their current offer.[67]

We provide more detail around our data and methodological approach in Appendix B.

## Box 2.6: How do 'Best Offer' and 'Better Offer' messages support customers?

'Best Offer' and 'Better Offer' messages are designed to empower customers with the information they need to switch offers within their retailer. This information includes:

- the name of their retailer's best offer
- how much they could save by switching to that offer
- other relevant details as required.

Customers who are then seeking a better offer need only to call their retailer and ask to be switched to the quoted better offer. This is instead of spending large amounts of time actively searching for their retailer's best available offer to ensure they are not paying more than necessary for electricity.

Customers will receive slightly different messages depending on the region they live in. This is because 'Best Offer' and 'Better Offer' messages are set by different bodies under different regulatory frameworks.

**Customers who live in Victoria will receive 'Best Offer' messages.**

- These will appear on their bills at least once every three months and follow a prescribed wording, although retailers can provide more information to aid the messages' objectives. 'Best Offer' messages were established by the Essential Service Commission under their Energy Retail Code of Practice and have been a required inclusion on most customer bills since 2019.[68]

**Customers who live in New South Wales, Queensland and South Australia will receive 'Better Offer' messages.**

- These will appear on their bills every 100 days and follow a prescribed wording. 'Better Offer' messages were established by the Australian Energy Regulator under their Better Bills Guideline in September 2023. Where a customer is already on their retailer's better offer, bills must provide clear and simple instructions on how to compare other plans on Energy Made Easy. [69]

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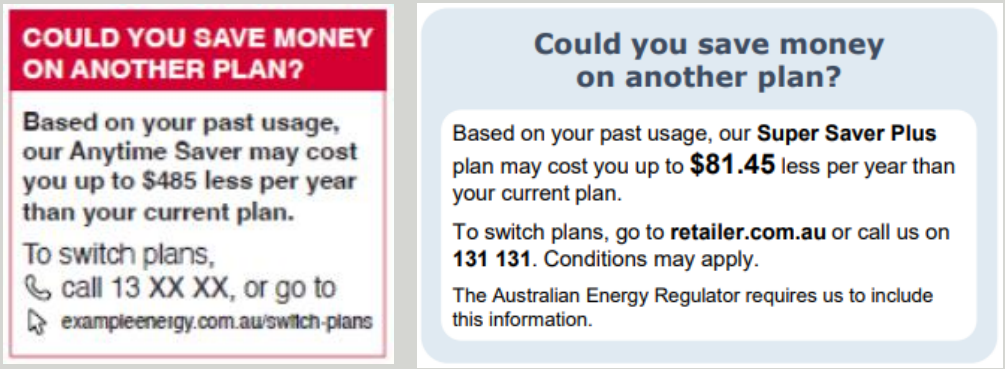
67 Note, we did not collect information on positive messages (rather we calculate this field by taking total number of customers receiving a message less the number of customers receiving a negative message). This analysis does not account for customers who may have recently switched retailers, and received a message from both their current and former electricity retailer, nor customers who may have received multiple messages over the period where only one of them was 'negative'.

68 ESC, *Energy Retail Code of Practice (Version 3)*, ESC, 1 October 2024.

69 AER, *Better Bills Guideline (Version 2)*, Australian Government, 30 January 2023.

**Example of a 'Best Offer' and 'Better Offer' message**




Source: Victorian Essential Services Commission and Australian Energy Regulator.

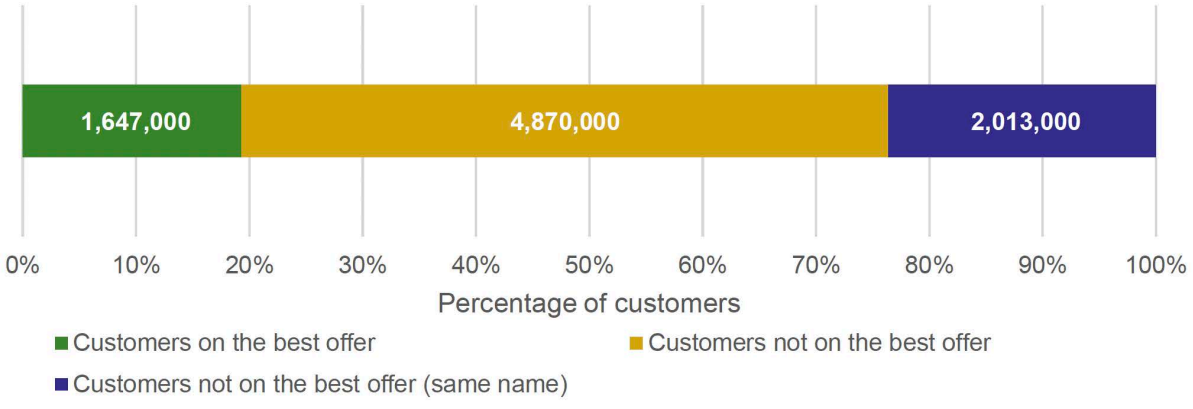
Our analysis of 'Best Offer' and 'Better Offer' messages indicates that 81% of customers could have benefited from switching offers at some point between 1 January and 10 August 2024 (see Figure 2.22). These results emphasise the need for customers to regularly contact their retailer (or look at offers from other retailers), as prices change and new offers become available. Customers who do not engage after annual price changes (which usually occur in July or August) may find themselves on offers with higher prices than others depending on the price setting strategies of their retailer (see section 2.3.1).

This means it is especially important for customers to have access to information to support them switching to a lower priced offer. 'Best Offer' and 'Better Offer' messages calculate the quoted better offer based on a customer's actual usage, which reduces some uncertainty associated with choosing an offer. They are already likely contributing to customer switching, and lower calculated annual prices across our dataset (section 2.2.3).

Although, we are concerned that the retailer practice of re-using offer names may be undermining the support customers otherwise receive to contact their retailer through 'Best Offer' and 'Better Offer' messages. Figure 2.21 shows almost a quarter of customers (or 2 million customers) were quoted better offers with the same name as their current offer.

**Figure 2.22: Retailer naming practices may mean consumers are confused by better offer messages**

*Proportion of residential customers receiving 'Better / Best Offer' messages, all regions combined, from 1 January 2024 to 10 August 2024*




Source: ACCC analysis of retailer data.

Customers will generally receive such messages in circumstances where retailers retain the same name for an offer after adjusting its prices. For example, this would occur if a customer signs up to an offer in January, which remains publicly available at the same price until July. At that point the retailer either:

- increases the prices for the offer the customer is on, or
- lowers the price of the offer available to new and switching customers.

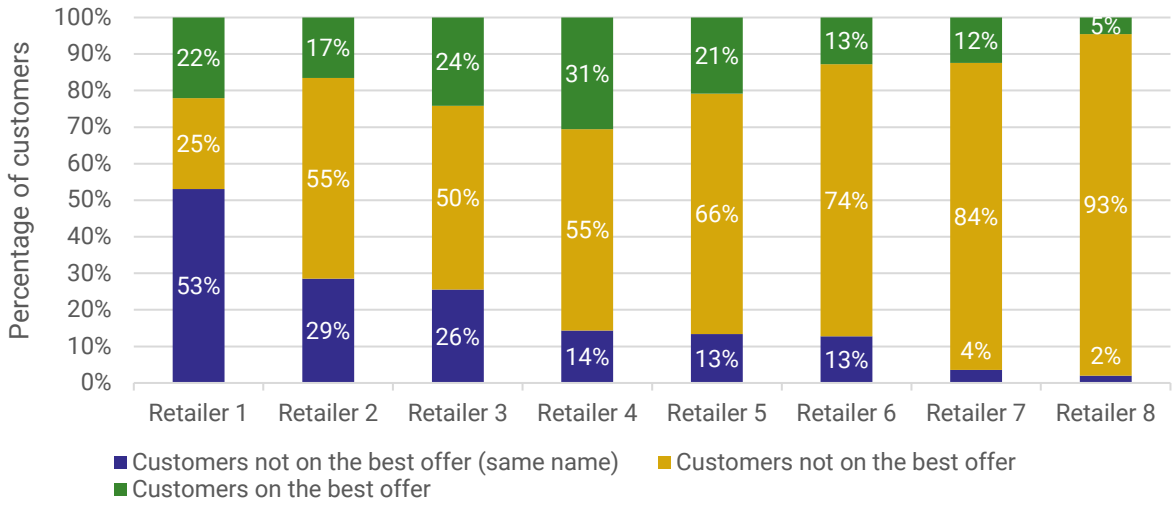
This would create two versions of the same offer; the one for the existing customer (with higher prices), and one for any customers who sign up to the offer from July onwards (with lower prices).

Customers may find it difficult to differentiate between their current offer and the quoted better offer if they have the same offer name. This may cause confusion for customers and lead some to not act to on the 'Best Offer' or 'Better Offer' message thinking they are already on their retailer's best offer. Choice has reported instances of this type of customer confusion.[70] The ACCC has also received complaints on this issue through our Infocentre.

Figure 2.23 suggests that, while this practice may be more prevalent among some retailers, all retailers in our sample had some customers who received 'same name' messages.

**Figure 2.23: Customers are receiving potentially ineffective Better/Best Offer Messages**

*Proportion of residential customers receiving 'Better / Best Offer' messages by retailer (anonymised), all regions combined, from 1 January 2024 to 10 August 2024*




Source: ACCC analysis of retailer data.

As noted in section 2.2.3, the Better Offer requirements have only been in place in New South Wales, South East Queensland and South Australia since September 2023. Meanwhile, the Best Offer requirements in Victoria have been in place since 2019 and offer a mature example of the impact switching prompts on bills can have for customers who are willing and able to respond to them.

We observe that the number of customers on their retailer's best offer is higher in Victoria with around 22% of customers on their retailer's best offer. This compares to 16% in

[70] Andy Kollmorgen, 'Are you paying more than other customers for the same energy plan?', *Choice*, 19 June 2024, accessed 20 November 2024.

New South Wales and 17% in South East Queensland. In South Australia, where electricity prices are highest, 28% of customers were on their retailer's best offer.[71]

## 2.7. Existing mechanisms to support switching and protect consumers can be improved

Our retail pricing analysis provides data to support policy makers who are in the process of considering the regulatory settings to support customers in the retail electricity market. We encourage policy makers to consider whether there are gaps in the regulatory framework, which if addressed, could support customers that:

- are using independent comparison services to assist them to compare offers with demand charges and solar feed-in tariffs
- are currently receiving a Better Offer message that refers to a plan with the same name but with difference prices, which may be confusing for customers
- moved to a market offer some time ago and don't frequently switch offers. Our analysis finds that customers on older market offers pay higher calculated annual prices than customers that do switch offers regularly
- are on offers with demand charges as around half of these customers are on prices above the default offers, and outside of Victoria, are not covered under the current regulatory settings.[72]

The Australian Government is scheduled to commence a review of the Electricity Retail Code.[73] Relevantly the AEMC is conducting a future pricing review[74] and has introduced new consumer safeguards to protect customers and require explicit informed consent before customers are placed on a new offer pricing structure by their retailer. This requirement applies for a 2 year period following the installation of a smart meter.[75]

Retail pricing is currently a key focus of policy makers in electricity. As set out in Box 2.7, work is underway to refine policy settings to support consumers in the market currently (the AEMC and Essential Services Commission of Victoria's work in implementing reforms arising in the consumer focused reform package agreed by Energy Ministers in July 2024), as well as focusing on how to support customers going forward as we make the energy transition (the AEMC's accelerating smart meter deployment and electricity pricing for a consumer driven future review).

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71 See: Data Appendix: Figure C2.16 Proportion of residential customers receiving 'Better/Best Offer' messages by region.

72 The Victorian Default Offer price determination covers all types of standing offers including those based on time-of-use, demand and flexible tariff structures.

73 Australian Government Department of Climate Change, Energy, Environment and Water, *Review outcomes – Post-implementation review of Competition and Consumer (Industry Code – Electricity Retail) Regulations 2019*, Australian Government, p. 9.

74 The AEMC has initiated a review to examine the future of electricity products and services, and the prices consumers pay for these. *Electricity pricing for a consumer-driven future* will consider the important role that electricity pricing, products, and services will play in supporting the diverse needs of customers, including delivering the consumer energy resources (CER) necessary for the energy transition.

75 AEMC, *AEMC finalises landmark reform to accelerate smart meter rollout*, Media Release, 28 November 2024.

## Box 2.7: Policy processes underway considering retail pricing and consumer protections

**Consumer focused reform package**

The AEMC is in the process of implementing a package of reforms focused on numerous rule changes that would simplify electricity offers, improve consumer protections or support customer switching. Measures include:

- Removing unreasonable conditional discounts
- Ensuring energy offer benefits last the length of the contract
- Preventing price increases for a fixed period under market retail contracts
- Improving the ability to switch to a better offer
- Assisting hardship customers
- Removing fees and charges
- Improving the application of concessions to bills.

The Essential Services Commission is responsible for much of the policy and regulatory settings in Victoria. It is currently reviewing the Energy Retail Code of Practice to:

- address key actual or potential harms to Victorian consumers in a proportionate manner
- clarify or update obligations identified as unclear or inconsistent
- advance the 'Getting to fair' strategy by further supporting consumers experiencing vulnerability.

This review will consider some of the reforms under the consumer-focused reform package.[76]

**Electricity pricing for a consumer-driven future**

This AEMC market review will examine the future of electricity products and services, and the prices consumers pay for these. It will consider whether the settings are right to ensure the optimal integration of consumer energy resources into the market.[77]

**Accelerating smart meter deployment**

The AEMC's final determination aims to deliver an efficient rollout of smart meters while also benefitting consumers (see section 2.2.1). The final rule change would mean:

- for the first 2 years after smart meter installation, customers can only be moved onto an offer with a new pricing structure with that customer's explicit informed consent.
- designated retailers will be required to offer a flat rate option to customers with a smart meter. [78]

**Real-time data for consumers**

This AEMC proposal aims to provide consumers (and their authorised representatives) with access to their real-time smart meter data. Given the increasing complexity of the retail market, an increasing number of customers may want to engage third parties to third party software to help them make informed choices.[79]

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76 ESC, *Reviewing the Energy Retail Code of Practice*, ESC website, 6 November 2024, accessed 20 November 2024.

77 AEMC, *The pricing review: Electricity pricing for a consumer-driven future*, AEMC website, 7 November 2024, accessed 20 November 2024.

78 AEMC, *Accelerating smart meter deployment*, AEMC website, 28 November April 2024, accessed 28 November 2024.

79 AEMC, *Real-time data for consumers*, AEMC website, 7 November 2024, accessed 20 November 2024.

### 2.7.1. Measures to better support customers

Mechanisms to support customer switching, such as government comparison websites and Better / Best Offer messages are valuable tools for consumers. There is scope to better support customers through adjustments to the operation of these tools to reduce the costs to consumers of engaging in the market and accessing better electricity offers. Other, newer tools (such as the Consumer Data Right) may also offer opportunities for consumers to make informed switching decisions.

#### Government price comparison services

Government run, independent energy price comparison services, Energy Made Easy and Victorian Energy Compare, help customers identify more competitive prices offered by other retailers. These services compare all generally available offers in the market, are free from commercial incentives and allow customers to upload their actual electricity bills to provide their own usage data. This means that they are a powerful tool to inform customers of which available offers are likely to best suit their needs.

However, there are opportunities to improve these independent comparison services to continue to support customers engaging with increasingly complex pricing structures. Neither Energy Made Easy nor Victorian Energy Compare include demand charges when comparing the estimated annual bills of available offers. Energy Made Easy also does not include solar feed-in-tariffs. This makes it challenging for customers to effectively assess the total electricity bill they are likely to incur on an offer with these price elements relative to offers without them.

The NSW Government is advocating for 'urgent improvements to the Energy Made Easy website to include solar export charges and other new types of tariffs that emerge'.[80] Expanding the capability of these tools to account for demand charges and solar feed-in-tariffs will help consumers navigating the market.

#### 'Best Offer' and 'Better Offer' and' messages

'Best Offer' and 'Better Offer' messages are already supporting customers to switch offers with their retailer. However, the presence of offers with the same name but with different prices adds complexity for customers aiming to switch offers, potentially frustrating the impact of these policy measures.

We found 81% of customers across the NEM are not on their retailers' best offer and that 24% of customers receive notifications from their retailer that they could be on an offer with a lower price with the same name as the offer that they are already on. We would encourage regulators and industry to consider the potential for this confusion and to improve the effectiveness of these messages as they are reviewed through regulatory amendments. This would benefit from consumer testing and behavioural insights.

#### Customer protections for demand offer customers

Complex pricing structures are being rolled out to customers as smart meter deployment continues. Around half of customers on demand offers are on prices above the default offers and are not covered by the Default Market Offer.

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[80] New South Wales Department of Climate Change, Energy, the Environment and Water, *NSW Consumer Energy Strategy: Powering our people and communities*, September 2024, p 50.

# 3. Competition, costs and margins in retail electricity markets

## Key points

- There are some signs that competition in retail electricity markets is improving after the energy crisis of 2022.
  - Market concentration in most regions decreased slightly in 2023–24 and the number of retailer entrants has exceeded exits in 2024.
  - Smaller retailers substantially increased their spending related to the acquisition of new customers, which indicates they are making greater efforts to increase market share.
- However, the 'big 3' retailers – AGL, Origin and Energy Australia – remain dominant. Their combined market share across the NEM was 62% in June 2024.
  - The big 3 retailers have a cost advantage over other retailers, with their cost to serve residential customers being 36% lower than for other retailers. However, these costs increased more rapidly for the big 3 than for the non-big 3 retailers, and the gap has narrowed.
- Across all retailers, there was a significant increase in total costs, up by 23% per residential customer across the NEM in 2023–24.
  - The overall cost increase was largely driven by an increase in wholesale costs (up 41%), however, the extent of wholesale cost increases varied greatly between retailers and regions.
- Despite overall cost increases, there was also an increase in margins, which rose to $110 per residential customer and $411 per small business customer in 2023–24. This increase follows a period of relatively low margins in recent years.
  - Margin results varied significantly across NEM regions, with South Australia and South East Queensland experiencing the greatest increases.
- Increased margins were largely driven by the big 3 retailers in 2023–24, which had experienced low margins in the past two years. However, margins in 2023–24 varied greatly between retailers in both the big 3 and non-big 3 retailer groups, with outliers significantly impacting results in some regions.
  - High margins could have been driven by unique circumstances in the 2023–24 financial year, and it is unclear whether high margins will persist.
  - We observed that retailers with lower wholesale costs tended to have higher margins. Wide variation in wholesale costs could have allowed some retailers to set competitive consumer prices with high margins.

This chapter focuses on competition and the costs to retailers of supplying electricity in the National Electricity Market (NEM) in 2023–24.

This chapter:

- analyses trends in market structure metrics, focusing on changes in 2023–24
- analyses aggregated retailer costs, to provide an update on the costs that underlie electricity bills
- explains the role of transfer pricing and how it impacts retailer costs
- provides insight into changes in retail margins in 2023–24, and how they have changed over time.

## 3.1. Retail market concentration decreased slightly in 2023–24

Measures of market concentration can be used to assess how competitive a market is. One commonly used market concentration metric is the Herfindahl-Hirschman Index (HHI). The HHI is calculated by summing the squares of the market share of all firms competing in a market. By squaring market shares, the HHI highlights the impact of large firms on the market and the disparity in size between firms. The higher the HHI, the more concentrated the market is. A decrease over time indicates a decrease in market concentration, which may indicate a more competitive market.

There is no official guidance on what constitutes a 'concentrated' market using the HHI. In Australia, the ACCC's Merger Guidelines state that if a market has a HHI below 2000 it is less likely to have competition concerns.[81]

As shown in Figure 3.1, the HHI for residential customers has declined since 2009 in markets with full retail competition — Victoria, New South Wales, South Australia and South East Queensland, as more retailers have progressively entered these markets. However, there is significant variation across regions.

The HHI is significantly higher in Tasmania and the Australian Capital Territory (ACT), which do not have full retail competition (Figure 3.2).

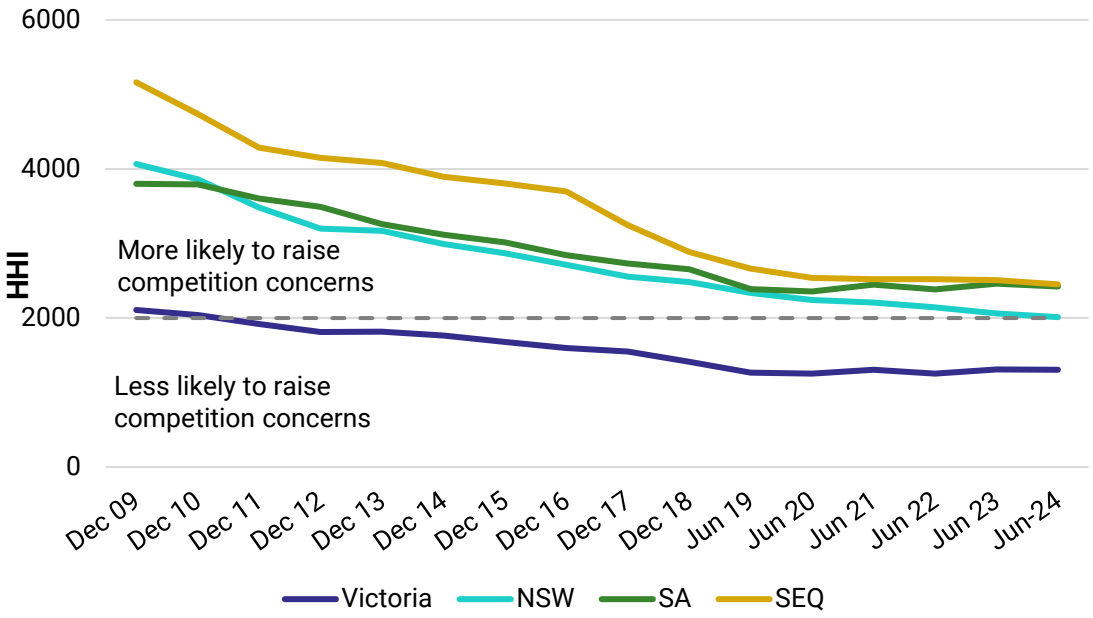
Overall, while in recent years the HHI has remained relatively stable there was also a slight decrease in market concentration in most regions in 2023–24.[82]

[81] The ACCC's Merger Guidelines encourage parties to notify the ACCC if the merged firm will have a post-merger market share of more than 20%, and state that the ACCC is less likely to identify horizontal competition concerns if the post-merger HHI is less than 2,000, or, if it is more than 2,000, if the change in HHI is less than 100. See ACCC 'Merger Guidelines', ACCC, Australian Government, 21 November 2008, accessed 2 December 2024.

[82] The HHI for Victoria was estimated for 2023–24 due to data not being publicly available for Engie from the ESC. The estimate was extrapolated based on differences in the HHI in previous years with and without Engie in the sample.

**Figure 3.1: Market concentration declined slightly in 2023–24 in regions with competition**

*Herfindahl-Herschman Index, Victoria, New South Wales, South Australia and South East Queensland, residential customers, December 2009 – June 2024*

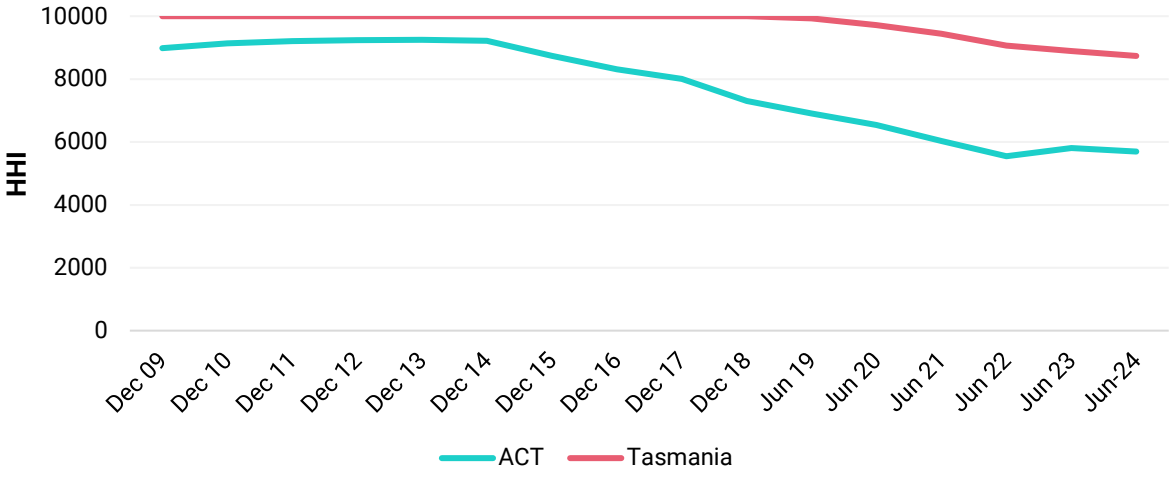



Source: Australian Energy Market Commission, Figure 3.3a: Long-term changes in HHI, 2009 to 2018 (electricity), AEMC website; Australian Energy Regulator, Retail energy market performance update for Quarter 4, 2023–24 [data set], AER website; Essential Services Commission of Victoria, Energy market dashboard [data set], ESC website.

Note: Victorian data for 2023–24 is estimated due to data unavailability for one retailer (Engie).

**Figure 3.2: The ACT and Tasmania have become slightly less concentrated**

*Herfindahl-Herschman Index, ACT and Tasmania, residential customers, December 2009 – June 2024*



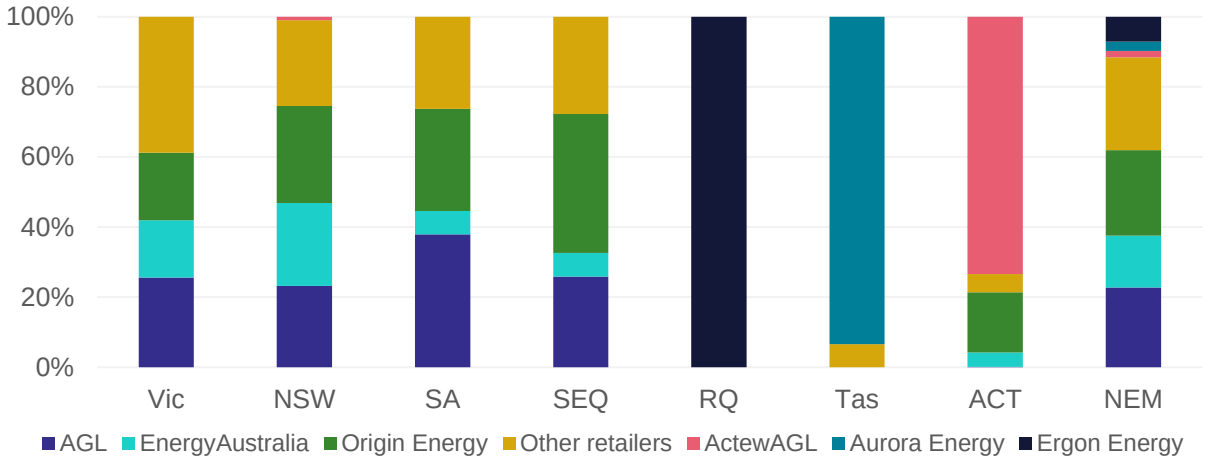

Source: Australian Energy Market Commission, Figure 3.3a: Long-term changes in HHI, 2009 to 2018 (electricity), AEMC website; Australian Energy Regulator, Retail energy market performance update for Quarter 4, 2023–24 [data set], AER website.

Although market concentration improved slightly in 2023–24, the big 3 retailers (AGL, Origin Energy and EnergyAustralia) continue to dominate the market across most NEM regions, with a combined market share of 62% in June 2024 across the NEM (Figure 3.3). Origin Energy was able to maintain its market share across both residential and small business markets in 2023–24.

Furthermore, in the smaller regions — where the big 3 have no, or limited, presence — there is usually only one retailer which dominates the market (Aurora Energy in Tasmania, ActewAGL in the ACT and Ergon Energy in regional Queensland).

**Figure 3.3: Most customers are served by only a few retailers in each NEM region**

*Retail electricity market share, residential and small business customers, by NEM region, 2023–24*




Source: Australian Energy Regulator, Retail energy market performance update for Quarter 4, 2023–24 [data set], Essential Services Commission of Victoria, Energy Market Dashboard [data set].

Note: Vic = Victoria, NSW = New South Wales, SA = South Australia, SEQ = South East Queensland, RQ = Regional Queensland, Tas = Tasmania, ACT = Australian Capital Territory, NEM = National Electricity Market.

## 3.2. Retailer entry and exits are stabilising

New entrants into a market can foster greater competition and improve value for customers (by competing on price, product offering and innovation). It is also normal for businesses to exit in well-functioning markets, due to factors such as changing consumer demands or economic shifts.[83]

In 2022 and 2023, there was a significant increase in the number of retailers that exited the market, which was likely due to some retailers being more exposed to price and volume risk during the wholesale electricity market volatility in 2022.

The number of retailers exiting the market appears to have stabilised in 2024, with the number of retailers entering the electricity retail market exceeding exits for the first time since 2021 (Figure 3.4). The Essential Services Commission similarly reported that they granted three retail licences in Victoria in 2023–24, with one retailer's licence revoked under the Retailer of Last Resort events by the Australian Energy Regulator on 2 August 2024.[84]

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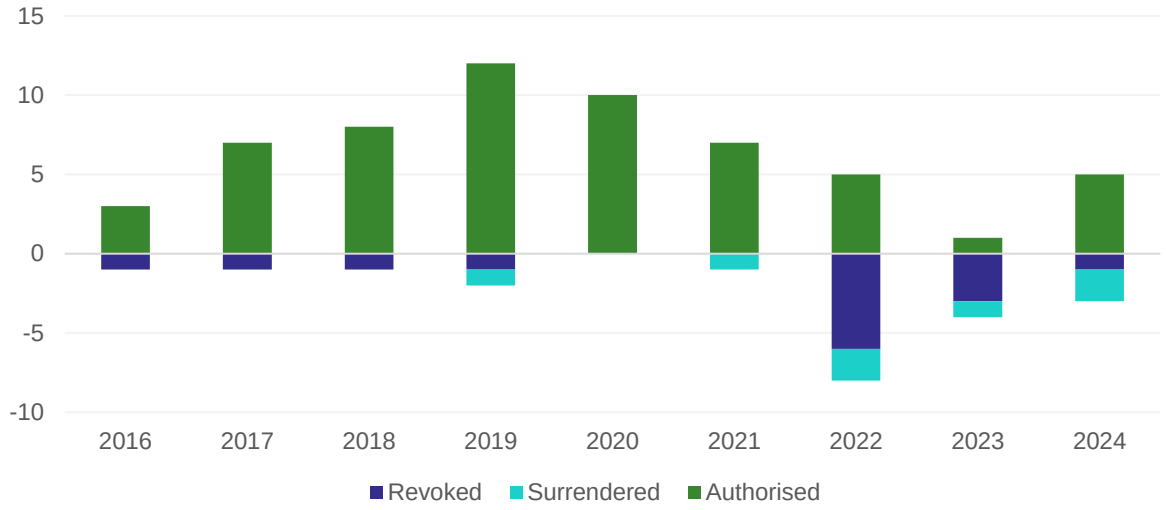
83 ACCC, *Inquiry into the National Electricity Market, December 2023 Report*, 15 December 2023, p 22.

84 Essential Services Commission 2024, *Victorian Energy Market Report: September 2024*, 26 September, p. 19, accessed on 15 October 2024.

**Figure 3.4: The number of retailers entering the market increased in 2024**

*Retailer exits (surrender or revocation of retailer authorisation) and retailer entry (grant of authorisation) by year, National Electricity Market (excluding Victoria)*




Source: ACCC analysis of Australian Energy Regulator, Public register of authorised retailers & authorisation applications, AER website, n.d., accessed 20 October 2024.

Note: Surrenders of retail licences can occur for a variety of reasons, and do not necessarily indicate an active retailer has left the market.

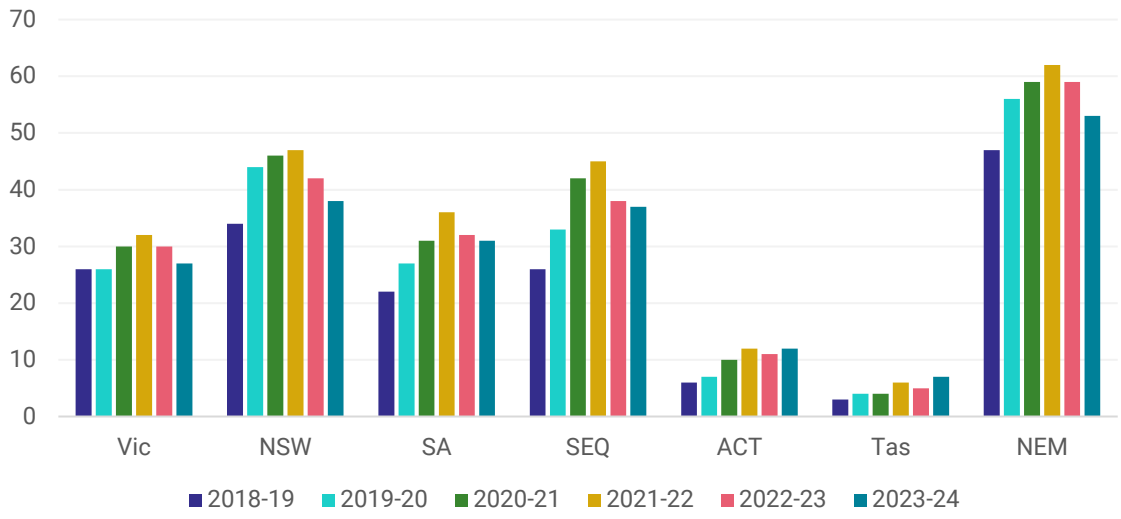
## 3.3. The number of active retailers across the NEM continues to decline

Some authorised retailers take time to establish and start operating in a market, meaning there can be fewer active retailers in a market than there are authorisations. We have examined changes in the number of 'active' retailers below. For our analysis, active retailers are defined to include those retailers with more than 50 customers (as identified through their total number of customer NMIs).

Despite the increase in authorisations in 2024 (Figure 3.4 above), the number of active retailers across the NEM continued to decline in 2023–24 (Figure 3.5). Results varied by region. The number of active retailers in Victoria and New South Wales fell by 3 and 4, respectively in 2023–24. The number of active retailers was more stable in South Australia and South East Queensland (declining by only one retailer in these regions) and the number of active retailers increased slightly in both Tasmania and the ACT.

**Figure 3.5: The number of active retailers in smaller regions increased slightly, in 2023–24 but fell across the NEM**

*Number of active retailers by NEM region, 2018–19 to 2023–24*




Source: ACCC analysis of the AER's retail performance data; ESC, Energy market dashboard, ESC website, n.d).

Notes: An active retailer is defined as a retailer with more than 50 customers. The number of active Victorian electricity retailers from 2018–2020 were attained from the retailer profiles section of previous Victorian energy market reports. The number of active Victorian electricity retailers from 2021–2023 were attained from the energy market dashboard (accessed 31 October 2023) and for 2024 (accessed 16 October 2024).

When combined with the change in the HHI (Section 3.1), we observe that the smaller regions — which have fewer retailers and are much more concentrated than other regions — are gradually becoming more competitive, although progress remains slow.

## 3.4. Retailers' costs and profitability increased in most regions in 2023–24

This section presents retailers costs and profitability results (cost stack) for the 2023–24 financial year, which provides an indication of the drivers of the retail price and billing observations at that time. We analysed prices for that period in our December 2023 and June 2024 reports. In those reports we observed higher consumer prices, which is consistent with the results presented in this chapter showing that costs increased in 2023–24.

Importantly, the drivers and changes in costs presented in this section (for 2023–24) do not align with the period for which price analysis is presented in Chapter 2. Chapter 2 analysis is based more recent data (from 1 August 2024) and shows that consumer prices were lower at 1 August 2024 than at 1 August 2023. These recent consumer prices reflect likely cost reductions that will be incurred in the current (2024–25) financial year, driven mostly by reducing wholesale costs.[85] For example, the 2024–25 Default Market Offer reduced for most customer types in most regions.[86]

[85] AER, *Final determination – Default Market Offer prices 2024–25,* Australian Government, 23 May 2024, p 1.

[86] AER, *Revised final determination – Default Market Offer prices 2024–25*, Australian Government, 3 June 2024, p 6.

We analyse the drivers of retail prices by building a 'cost stack' of the different cost components that retailers incur to supply electricity to their customers. Doing so allows us to calculate a retail margin, which is the amount of revenue left after the retailer has accounted for the cost components of delivering electricity to customers. The higher the margin, the more profitable a retailer is.

We average our cost stack results across retailers to produce an average annual cost to supply electricity per customer. We also calculate a cost per unit of electricity usage (measured in cents per kilowatt hour) by dividing retailer costs by usage (termed the 'effective cost'). Both measures are based on the costs faced by retailers for supplying electricity to customers. There are various ways to measure retail margins. We measure the retail margin using earnings before interest, tax, depreciation, and amortisation (EBITDA), which reflects what a retailer earns after accounting for its costs.

We have collected retailers' cost information up to 30 June 2024, capturing the financial implications for retailers of the June 2022 events in the NEM up to this time, and supporting comparison of retailer costs and margins over time since 2007–08.

The ACCC's cost stack is a bespoke collection of data on retailer costs, collected for the purposes of this inquiry. Importantly, these results may differ to the financial results reported by electricity retailers in their own financial reports for various reasons, as outlined in Box 3.1.

### Box 3.1: Why are the cost stack results different to those reported in retailers' annual reports?

The cost stack results we have collected may differ from those reported in retailers' annual reports. This discrepancy can be attributed to several factors, including:

- reporting timing — the periods covered by our data collection for some retailers do not align with the fiscal year reported by retailers in their annual reports
- reporting methods — different methodologies used in compiling and presenting financial data can lead to variations in reported figures
- categorisation of costs — retailers may categorise costs differently, based on their internal reporting system.

## 3.4.1. Retailers' costs continued to increase in 2023–24

We report on retailers' cost stacks, broken down into the categories of 'network costs', 'wholesale costs', 'environmental costs', 'retail and other costs'. While 'retail margin' is not a cost incurred by retailers, we often present it alongside the cost categories to show all components that feed into a customer's bill. The retail margin is measured as earnings before interest, tax, depreciation, and amortisation (EBITDA). An explanation of what is included in each of the other cost categories is provided in Appendix B.

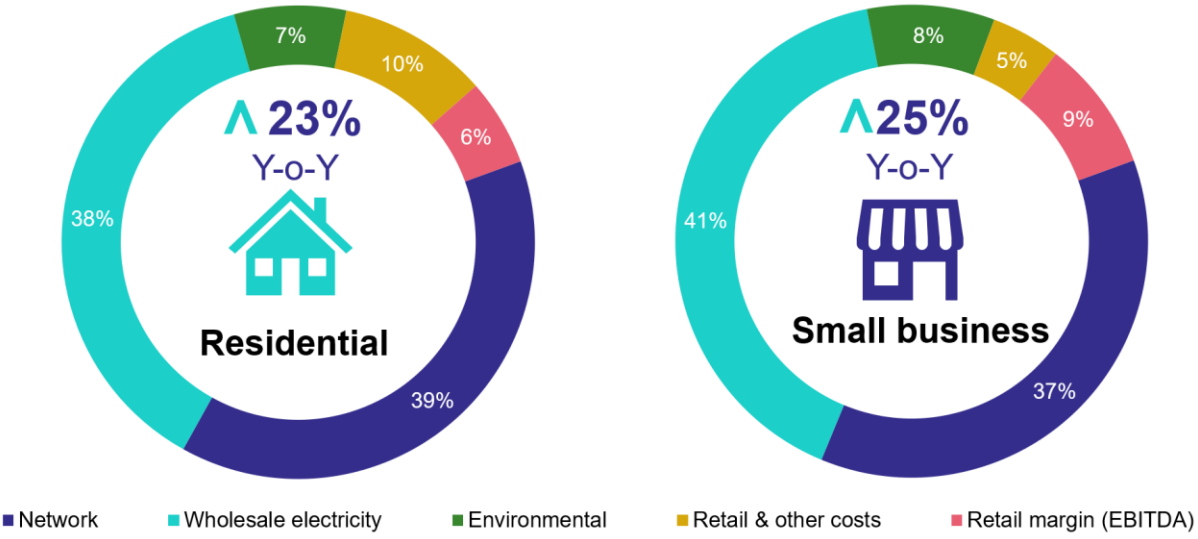
As in previous years, network and wholesale costs form a signification portion of the annual costs to retailers supplying electricity to both residential and small business customers (Figure 3.6). Wholesale costs increased as a share of the average annual costs of supplying electricity to a residential customer in the NEM, from 33% in 2022–23 to 38% in 2023–24. Retail margins also grew during this period, increasing their share from 2% to 6% of customer bills. This rise in wholesale costs and retail margins resulted in a decrease in the

share of network costs, which fell from 45% to 39% for the average residential customer in the NEM.

A similar pattern occurred for the costs of supplying electricity to small business customers, with the share of wholesale costs increasing from 37% to 41% and retail margin shares increasing from 4% to 9%.

**Figure 3.6: Retailer cost stacks for residential and small business increased in 2023–24**

*Cost components for the average residential and small business customer in the National Electricity Market, 2023–24, nominal excluding GST*




Source: ACCC analysis of retailers' data.

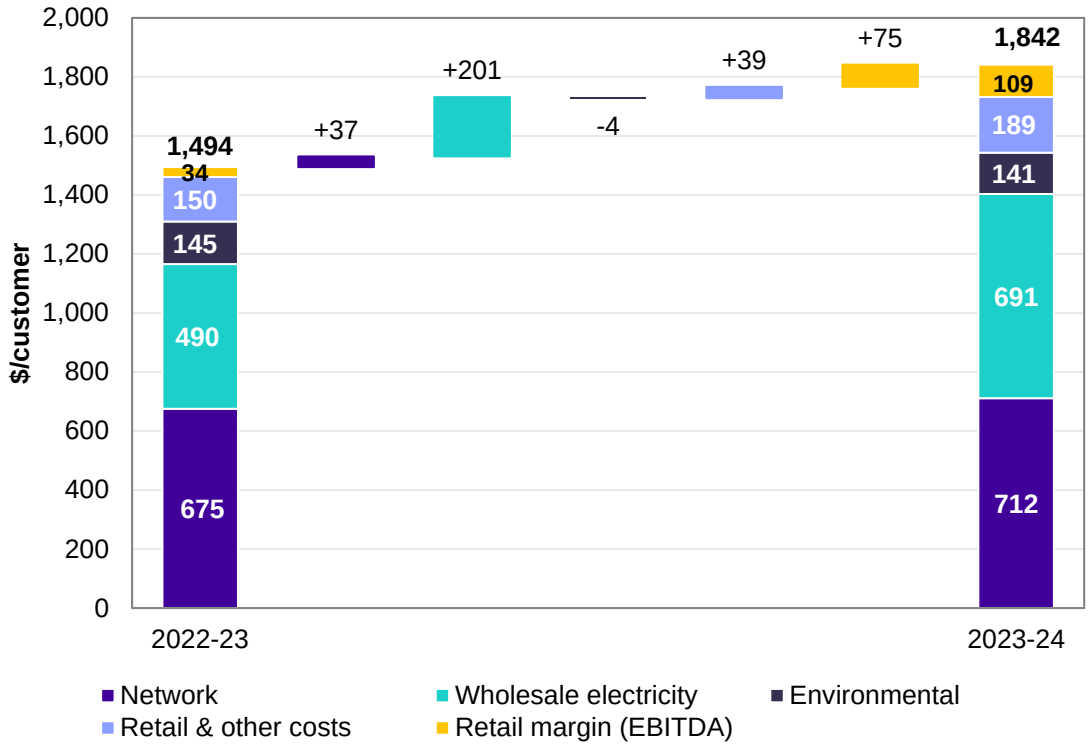
Note: Y-o-Y = Year-on-year percentage change, in nominal dollars.

## 3.4.2. Key drivers of changes in costs in 2023–24

The average total cost stack for retailers supplying residential customers in the NEM rose by 23% in nominal terms from 2022–23 to 2023–24 (19% in real terms) (see Figure 3.7). This increase was mainly due to a 41% increase in wholesale electricity costs per customer (36% in real terms). Retail margins and retail costs also increased significantly, while network and environmental cost shares remained relatively constant.

**Figure 3.7: Retailer wholesale costs for residential customers increased significantly in 2023–24**

*Change in retailer cost component for supplying electricity to the average residential customer across the National Electricity Market from 2022–23 to 2023–24, nominal, excluding GST*



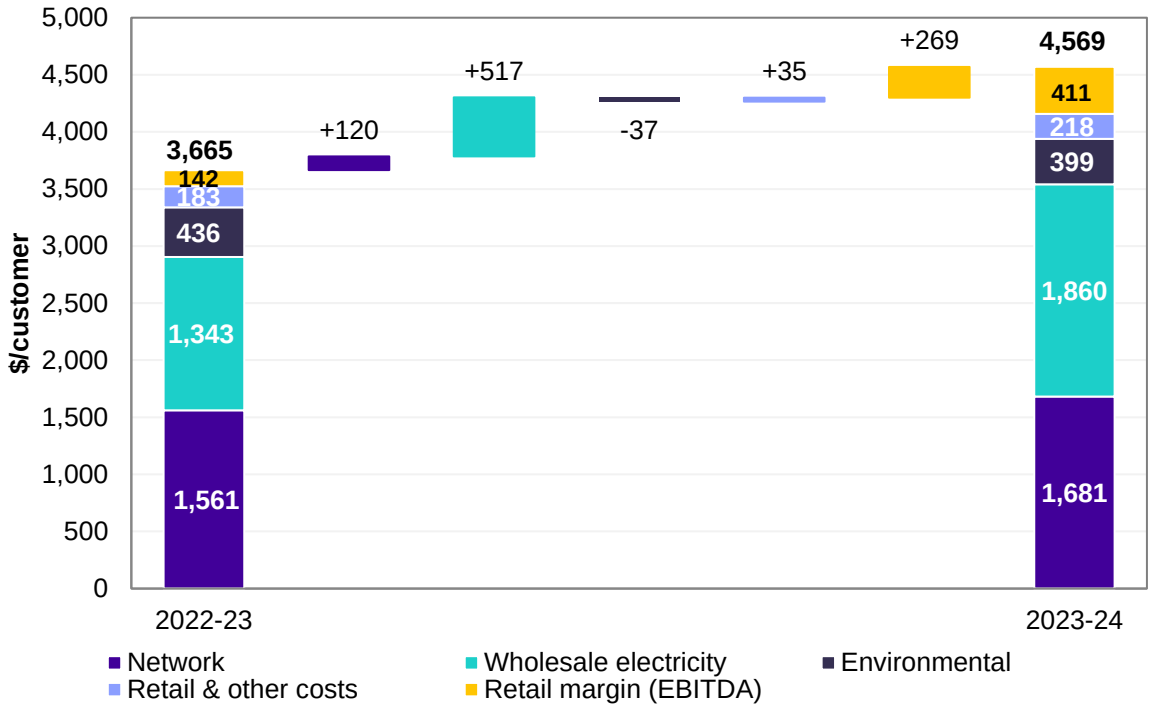

Source: ACCC analysis of retailers' data.

Similarly, the average total cost stack for retailers supplying small business customers in the NEM increased by 25% in nominal terms (20% in real terms). This increase was also largely driven by a 39% (nominal) increase in wholesale electricity costs per customer (33% in real terms), with retail margin and network costs also contributing significantly (see Figure 3.8). While retail costs have also increased, the decrease in environmental costs per customer offset this increase.

All NEM regions saw increases in the cost to supply electricity in 2023–24, especially South-East Queensland, New South Wales, and South Australia. Table 3.1 shows the changes in costs for retailers to supply across the NEM.

**Figure 3.8: Retailer wholesale costs for small business customers increased significantly in 2023–24**

*Change in retailer cost component for supplying electricity to the average small business customer across the National Electricity Market from 2022–23 to 2023–24, nominal, excluding GST*




Source: ACCC analysis of retailers' data.

**Table 3.1: Cost stack increased across all NEM regions in 2023–24**

*Change in costs for retailers supplying electricity to residential and small business customers by NEM region, 2022–23 to 2023–24, nominal, excluding GST*

| NEM region | 2022–23 ($/customer) | 2023–24 ($/customer) | Percentage change |
|---|---|---|---|
| | | **Residential** | |
| **Victoria** | 1,333 | 1,546 | 16% |
| **New South Wales** | 1,587 | 2,013 | 27% |
| **South Australia** | 1,522 | 1,881 | 24% |
| **South East Queensland** | 1,423 | 1,873 | 32% |
| **Tasmania** | 2,167 | 2,240 | 3% |
| | | **Small Business** | |
| **Victoria** | 3,121 | 3,776 | 21% |
| **New South Wales** | 4,497 | 5,681 | 26% |
| **South Australia** | 3,394 | 4,447 | 31% |
| **South East Queensland** | 3,312 | 4,208 | 27% |
| **Tasmania** | 2,539 | 2,644 | 4% |

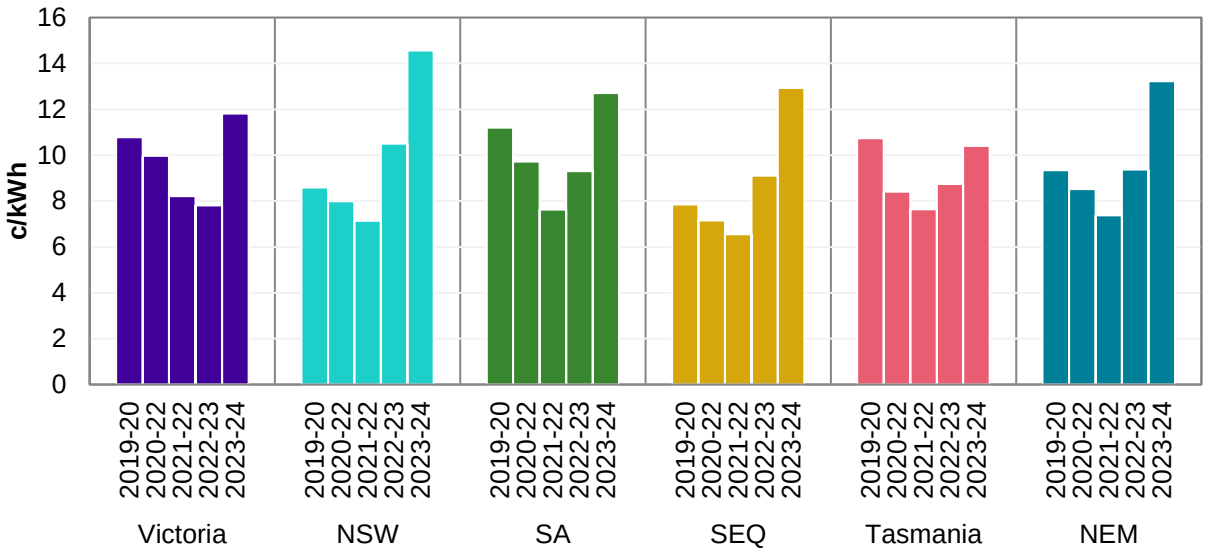
Source: ACCC analysis of retailers' data.

## Wholesale costs increased across the NEM

Wholesale costs are a major driver of retailers' overall costs. They increased substantially in all regions in 2023—24. The average wholesale cost across the NEM was 13c/kWh for residential customers (41% increase) (Figure 3.9) and 14c/kWh for small business customers (39% increase). The increase in wholesale costs reflects rises in spot prices and contract prices following the volatile energy market events of 2022.

**Figure 3.9: Retailer wholesale costs increased in all regions in 2023–24**

*Average retailer wholesale costs (measured in effective cost) for residential customers by National Electricity Market regions, 2019–20 to 2023–24, nominal terms, excluding GST*




Source: ACCC analysis of retailers' data.

In mid-2022, conditions in domestic and international energy markets led to wholesale spot-market prices increasing sharply (see Figure 3.10). Spot-market prices moderated through 2023, before becoming more volatile again in mid-2024. However, this recent volatility is much less significant than the price spikes seen in 2022.

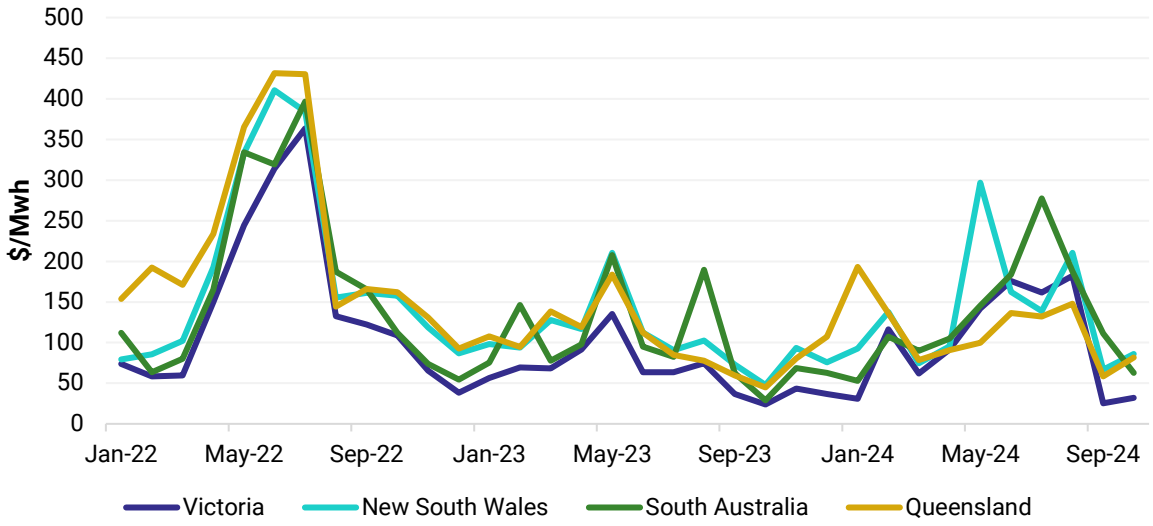
Retailers manage the risk of the volatile wholesale spot market by purchasing 'hedging' contracts.[87] While spot prices can immediately impact a retailer's costs, it is typically the hedging contract market that most strongly influences retailers' wholesale electricity costs.

Figure 3.11 shows that contract market prices increased dramatically in mid-2022 and were very high throughout the second half of 2022. They then went through a period of decline in 2023, but trended up from about April 2024, coinciding with volatile wholesale prices over the same period (see Figure 3.10 and Figure 3.11). Hedging contracts are typically purchased months and years in advance of when they are needed, so there is a significant lag between when changes in wholesale spot prices and contract markets occur, and when retailers' wholesale electricity costs change in our cost stack. As electricity billing is done in arrears, it can take even longer for changes in wholesale costs to flow through to customer bills.

[87] A more detailed explanation on how hedging strategies work is in ACCC, *Inquiry into the National Electricity Market, December 2023 Report*, 15 December 2023, pp 18–19.

**Figure 3.10: Spot prices increased in the latter half of 2023–2024 but have since fallen**

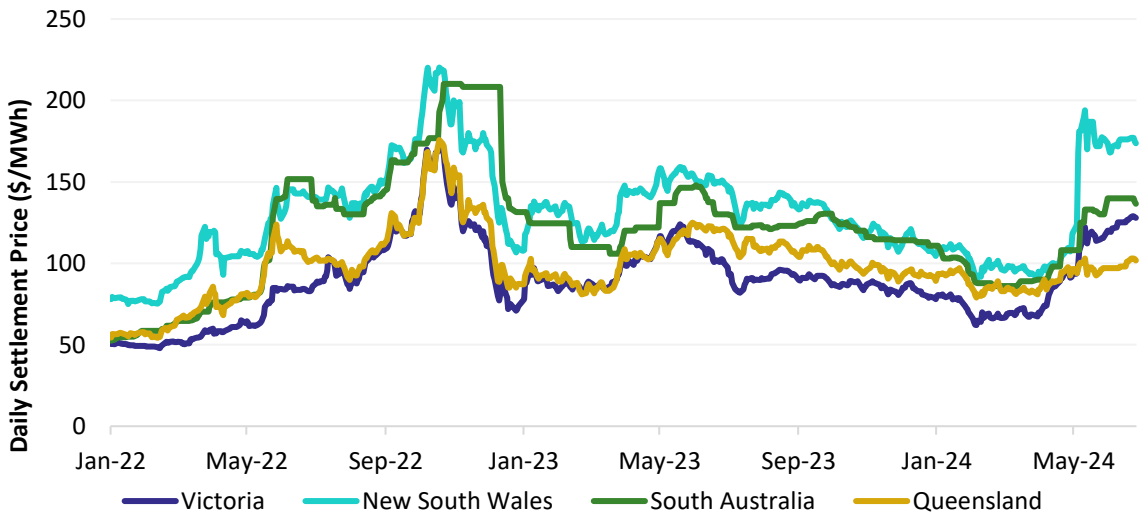
*National Electricity Market volume weighted spot price by NEM region, monthly, January 2022 to October 2024*




Source: Australian Energy Market Operator.

**Figure 3.11: Contract prices have been trending up since April 2024**

*Daily settlement price of ASX Q2 2024 base futures by NEM region, January 2022 to 30 June 2024*




Source: Australian Securities Exchange Energy Data centre [data set], asxenergy.com.au, accessed 13 November 2024. Nominal dollars, excluding GST.

A retailer's hedging strategy may be influenced by whether it is vertically integrated (that is, it owns generation or storage assets). Generation assets can act as a 'natural hedge', such that changes in wholesale prices that increase retail costs are offset by higher generator revenues. In such instances, wholesale costs can be accounted for through a transfer price between the wholesale and retail arms of its business (see Box 3.2 for more information on transfer pricing).

## Box 3.2: What is transfer pricing?

Wholesale costs are a significant driver of overall retail costs and tend to be more volatile than many other cost-stack components. Publicly available contract data provides insight into wholesale cost trends for standalone retailers. However, there is less transparency around the costs of procuring electricity for vertically-integrated retailers. Vertically-integrated retailers typically report at least some of their wholesale electricity costs to us through a 'transfer price'. This represents the retailer's best estimate of the cost to procure electricity from its generation assets or from a wholesale trading division within the company.

For this inquiry report, we asked retailers to provide us with qualitative information regarding their transfer pricing methodologies, to provide greater transparency about what wholesale costs in our data represent. Vertically-integrated retailers calculate their transfer prices in different ways, but they can be split into two broad methods. The first method is to calculate the cost of physically generating the electricity. The second method is to estimate the market value of the electricity used by their retail business. The choice of method may depend on a company's business structure and strategy, the nature of its generation assets, its internal processes for allocating costs, and the types of information stored in its business systems.

Retailers that calculate a transfer price based on the cost of physically generating electricity factor in expenses such as fuel, maintenance, operational costs, and depreciation of generation assets.

In contrast, retailers using a market-based approach must estimate the price they would have paid to purchase electricity for from the wholesale market, or the amount their generators could have sold electricity for in the wholesale market. These estimates are typically informed by prices of the most common contract types, such as swaps and caps. However, wholesale electricity prices are volatile and hedging strategies vary greatly, both in terms of the types and volumes of contracts purchased, and the times at which they're purchased. The transfer price calculation could therefore vary depending on the assumptions the retailer makes.

## Increasing wholesale costs had a large effect on overall costs

Figure 3.9 shows large increases in wholesale costs in most regions. Wholesale costs are one of the largest components of the cost stack and were therefore the main driver of the overall cost increase that occurred in 2023–24.

Most retailers in our sample reported significant wholesale cost increases in most regions. These increases were sometimes very large. Wholesale cost increases are consistent with observations from publicly available sources. For example, the volume-weighted average of ASX base futures was considerably higher for contracts with delivery in 2023–24 than it was for contracts with delivery the previous financial year.

As shown in Figure 3.11, contract prices were extremely high in the second half of 2022. At that time, many retailers would have purchased a significant portion of their contracts for 2023–24 delivery, and the high prices therefore had a significant impact on overall wholesale costs. In contrast, the high wholesale prices in 2022 were not fully reflected in the 2022–23 cost stack, because retailers would have purchased most of their wholesale electricity for that period prior to 2022.

While most retailers reported cost increases in most regions, the extent of this increase varied, and some retailers largely avoided wholesale cost increases in some regions and for

some customer types. Likely reasons for this include favourable hedge positions through contract portfolios and vertical integration. This significant difference in outcomes between retailers contributed to a large variation in retail margins. For some retailers with lower wholesale costs, these retail margins were very high. We discuss this further in Section 3.4.3.

Figure 3.11 shows that contract prices stabilised in 2023. We expect these lower prices to be reflected in retailers' cost stacks in the next financial year. However, any reductions may not be significant or long lasting, as contract prices have been increasing again since April 2024.

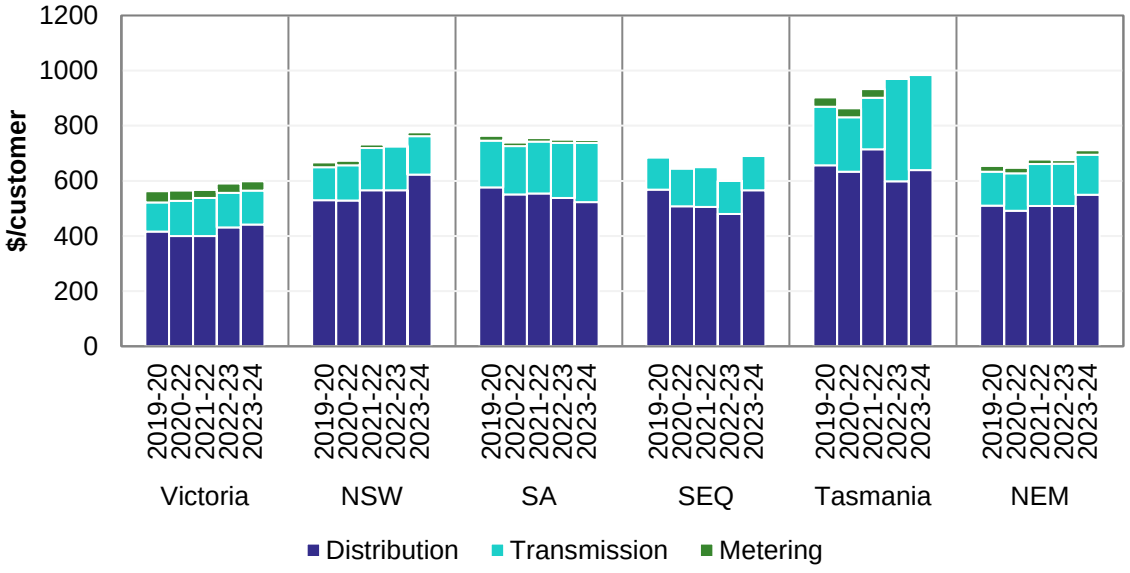
## Network and environmental costs remained steady

Year-on-year changes in network costs were much lower than for other cost categories, but there was an increase in most regions in 2023–24. Network costs across the NEM averaged $712 per residential customer in nominal terms (5% increase).

Figure 3.12 shows a continuing trend of gradually increasing network costs at a NEM-wide level in nominal terms, although they have decreased slightly over time in real terms. With large ongoing investments in transmission to support the energy transition, we expect network prices to continue to rise. Upcoming network cost increases are reflected in the Australian Energy Regulator's Default Market Offer determination for 2024–25.[88]

**Figure 3.12: There were small increases in network costs in 2023–24**

*Average network costs per residential customer by NEM regions, 2019–20 to 2023–24, nominal terms, excluding GST*




Source: ACCC analysis of retailers' data.

The environmental costs within our cost stack have also shown consistent trends, reflecting stable investments on environmental schemes by retailers (environmental costs by region over time are presented in Appendix C). Average environmental costs decreased by $4 (or 3%) per residential customer and by $37 (9% decrease) per small business customer in 2023–24.

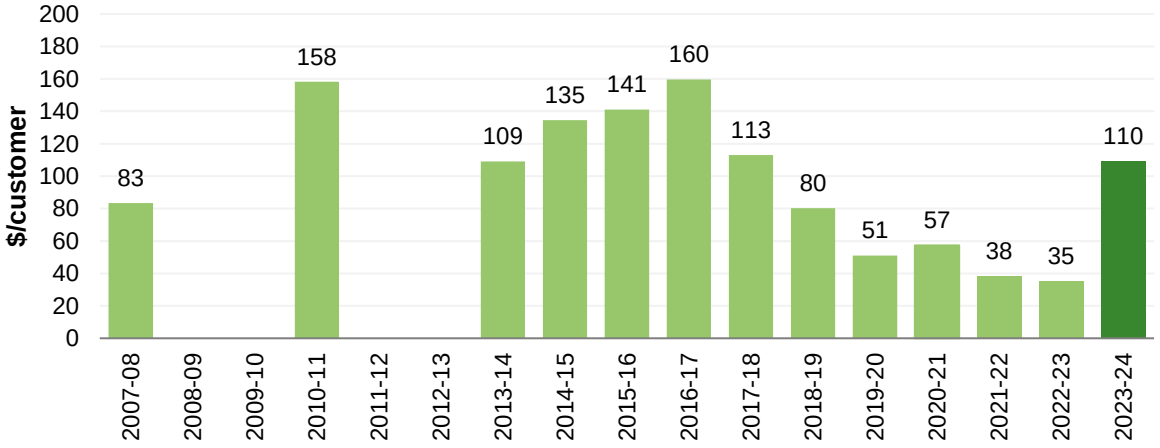
[88] AER, *AER – Final determination – Default Market Offer prices 2024–25 – 23 May 2024*, Australian Government, pp 14–17.

## 3.4.3. Retail margins increased significantly across most regions in 2023–24

The average retail margin across the NEM increased materially in the past year, from $34 to $110 for residential customers (Figure 3.13). While a significant increase, margins have been relatively low in recent years. However, the 2023-24 margin was above the long term average of $92 per residential customer (in real terms) in the 10 years from 2013–14 to 2022–23. Similarly, retail margins increased significantly, from $147 to $411 for small business customers, which led to margins being at levels similar to those observed in the period 2013–14 to 2018–19 (Figure 3.14).

**Figure 3.13: National Electricity Market-wide retail margins in 2023–24 increased materially to their highest level since 2017–18 for residential customers**

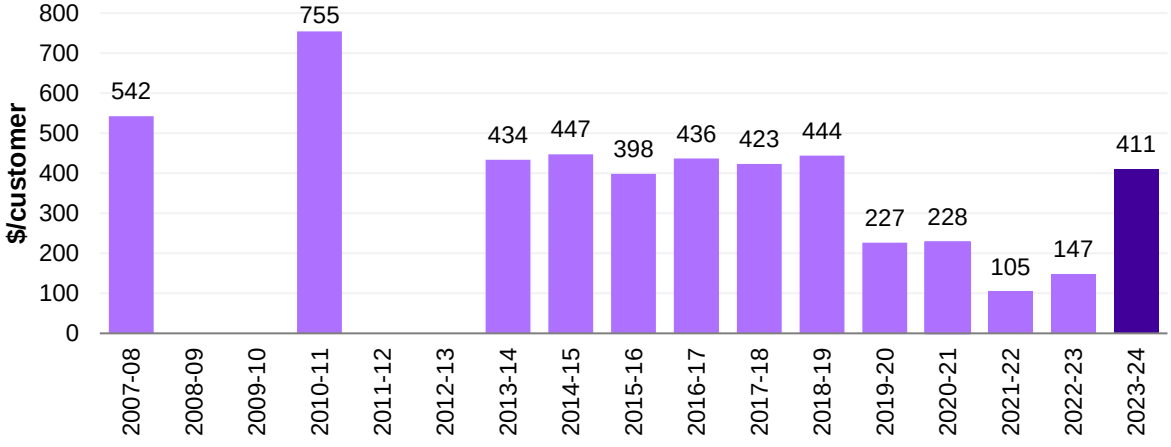
*Average retail margins (earnings before interest, tax, depreciation and amortisation), residential customer across the NEM, 2007–08 to 2023–24, real terms, excluding GST*




Source: ACCC analysis of retailers' data.

**Figure 3.14: National Electricity Market-wide retail margins in 2023–24 increased materially to their highest level since 2018–19 for small business customers**

*Average retail margins (earnings before interest, tax, depreciation and amortisation), small business customer across the NEM, 2007–08 to 2023–24, real terms, excluding GST*



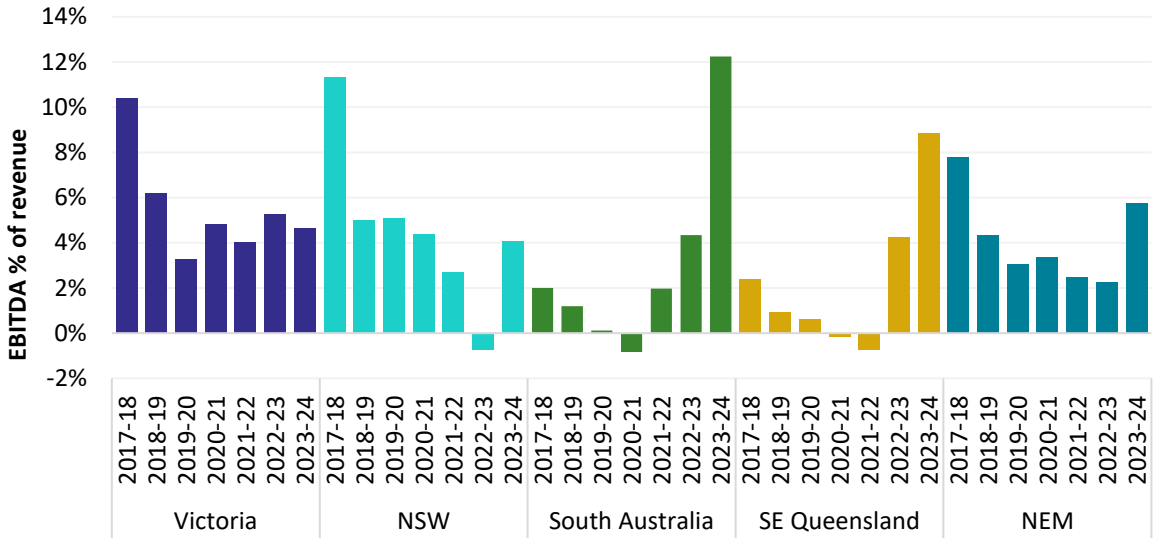

Source: ACCC analysis of retailers' data.

There was a large variation in results across regions. Figures 3.15 and 3.16 show retail margins as a share (percentage) of revenue, across each NEM region for residential and small business customers, respectively. This represents the share of customers' bills that goes to the retailer.

For residential customers, retail margins as a proportion of revenue increased significantly in New South Wales, South Australia and South East Queensland. There were decreases in Tasmania and Victoria.

**Figure 3.15: Retail margins for residential customers significantly increased in South Australia, South East Queensland and New South Wales in 2023–24**

*Average retail margins (earnings before interest, tax, depreciation and amortisation) as a share of retailers' revenue per residential customer, by NEM region, 2017–18 to 2023–24, real terms, excluding GST*



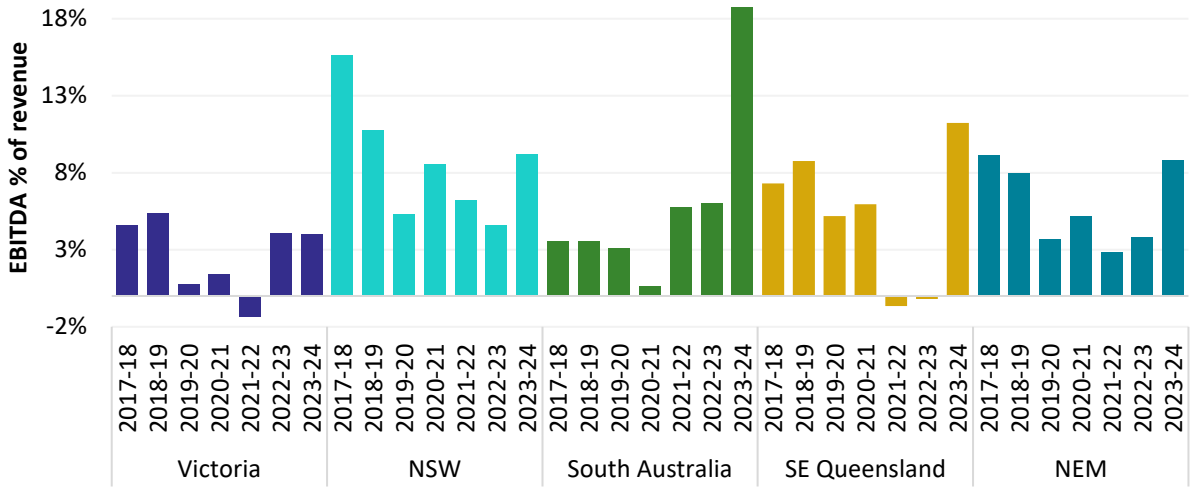

Source: ACCC analysis of retailers' data.

For small business customers, retail margins as a share of revenue increased in South Australia, New South Wales, and Tasmania. There was a very large increase for small business customers in South East Queensland, where the retail margin averaged 11% of revenue, compared with losses in the previous two years. Victoria was the only region where we saw a (slight) decrease from 2022–23.

While retail margins increased substantially overall, results varied greatly between retailers. Some retailers recorded large increases in margin and others recorded lower margins or losses. Some retailers also performed strongly in some regions and poorly in others.

**Figure 3.16: Retail margins for small business customers increased in all NEM regions except Victoria in 2023–24**

*Average retail margins (earnings before interest, tax, depreciation and amortisation) as a share of retailers' revenue per residential customer, by NEM region, 2017–18 to 2023–24, real terms, excluding GST*




Source: ACCC analysis of retailers' data.

## Drivers and implications of higher retail margins

The sharp increase in retail margins could have been driven by unique circumstances in the 2023–24 financial year. Higher overall costs, primarily driven by wholesale costs, caused most retailers to increase their prices from July 2023. However, some retailers were able to avoid some of these cost increases, which could have created an opportunity to set retail prices that were competitive with their rivals while earning higher margins.

Our data shows that retailers with lower wholesale costs tended to have higher margins. In the case of 2023–24, high and volatile contract prices in the period leading up to the financial year drove up costs for most retailers, but could have created an opportunity for higher margins for those with favourable hedge positions. Retailers that bought large portions of their contracts prior to the price spikes in mid-2022 would have had a considerable cost advantage over retailers that bought more of their contracts during the peak. Vertically integrated retailers might also have had some cost advantages, due to the natural hedge that generation assets provide against high wholesale prices. Other market events may have also played a role in overall results, with some retailers informing us that their results were impacted by one-off events.

We note that this increase in margin follows a period of relatively low margins in recent years. Several retailers in our sample reported losses in at least one of the past few years. Due to the combination of factors affecting the 2023–24 results, and relatively lower margins in recent years, it is unclear whether increased profitability will persist in the medium term.

## Margins across retailer groups

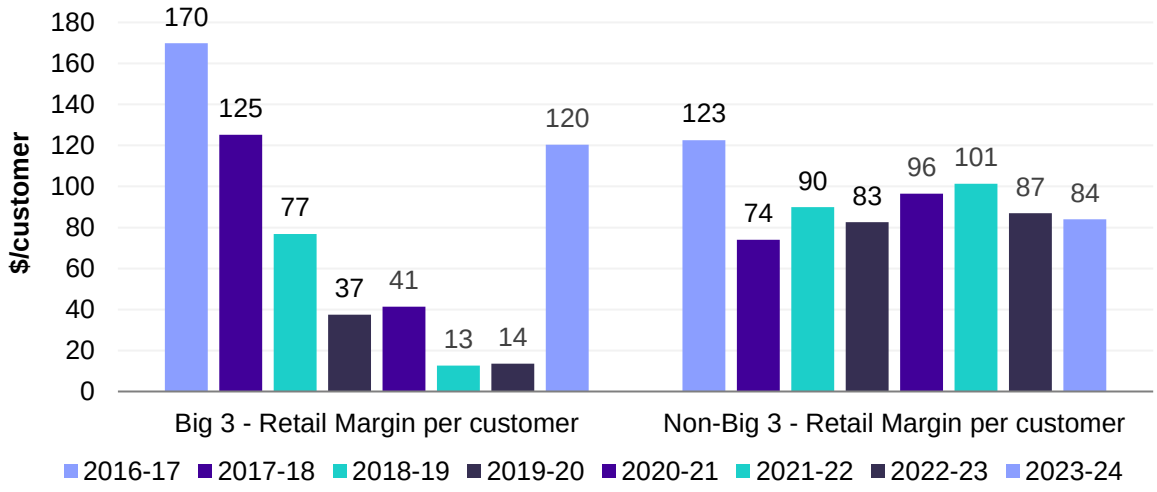
On average, the big 3 retailer group's margins increased dramatically in 2023–24 and were significantly higher than margins for the smaller retailers (Figure 3.17). However, not all retailers in the big 3 group achieved high margins in all regions. Similarly, outcomes within

the smaller retailer group were highly varied depending on the retailer and the region, with some achieving very high margins in some cases.

We note that the large increase in margin for the big 3 retailer group reverses a trend of low and decreasing margins in recent years. As discussed above, the material increase in margin may also be influenced by specific circumstances in the 2023–24 financial year. To account for these factors, we have considered the trend in margins over multiple years using a 3-year-rolling average (Figure 3.18). By this measure, we see that margins have increased for the big 3 group, but that their margins are still significantly lower than those of the smaller retailers over the medium term.

**Figure 3.17: The big 3 retailers had high margin growth while margins across other retailers were stable**

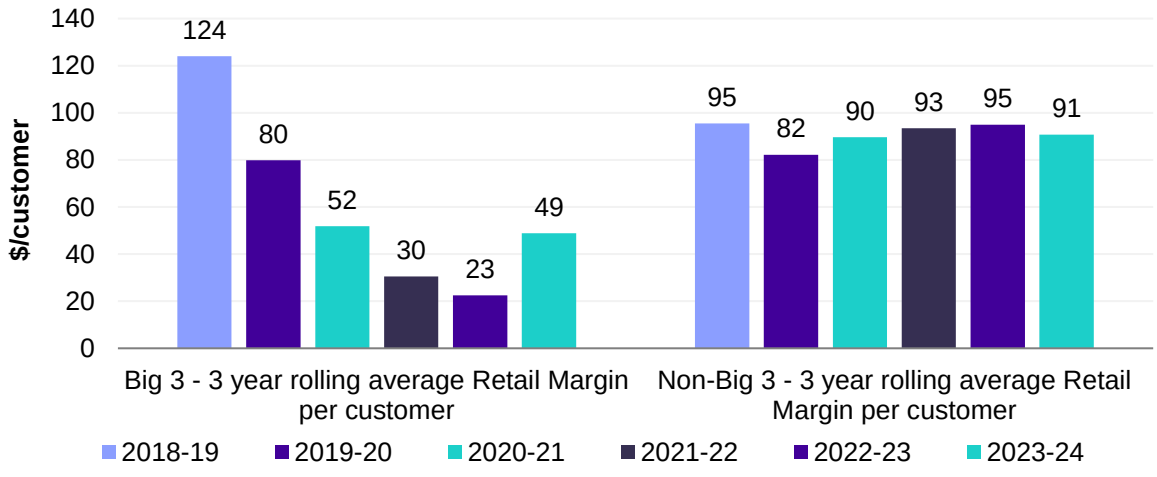
*Average retail margins per residential customer across the NEM, by retailer tier, 2016–17 to 2023–24, real terms, excluding GST*




Source: ACCC analysis of retailers' data.

**Figure 3.18: Averaging margin across multiple years indicates profitability has trended downward over the longer term but may be increasing again**

*Three year rolling average retail margins per residential customer across the NEM, by retailer tier, 2018–19 to 2023–24, real terms, excluding GST*




Source: ACCC analysis of retailers' data.

## 3.4.4. Retail costs increased

Retail costs are of interest as they include the costs to acquire and retain customers, which can be an indication of how difficult or easy it is to enter and compete with other retailers. The items included in retail costs are outlined in Box 3.3.

### Box 3.3: What components are included in our retail costs?

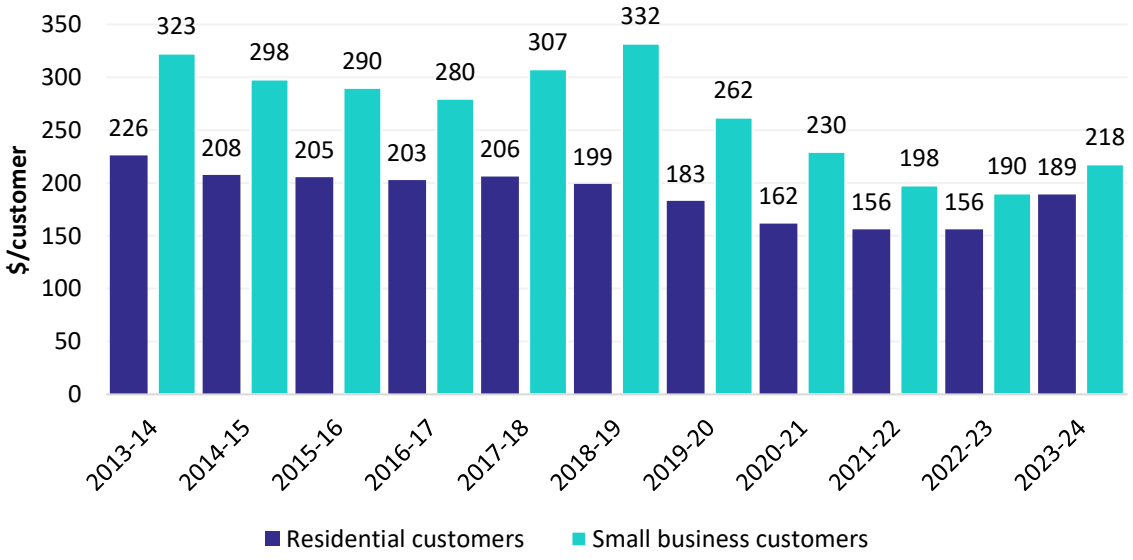
Our retail and other costs represent the expenses incurred by a retailer in delivering retail and customer services. These costs are categorised into three main areas:

- Cost to serve —such as costs for billing, customer service, debt collection and managing customer hardship.
- Costs to acquire and retain — costs including advertising, marketing, loyalty programs and third-party sales.
- Other retail costs — costs that do not fall into the previous categories due to variation between retailers' reporting systems and our cost stack template. An example of this would be the allocation of corporate costs, which may differ in classification across different retailers.

Figure 3.19 shows that average retail costs across the NEM increased in 2023–24. There was an increase in the costs of providing retail services for both customer types: $33 per residential customer (21% increase) and $28 per small business customer (15% increase) in real terms. We note that the gap in retail costs to serve these two customer segments has been narrowing over the years.

**Figure 3.19: Retail costs for serving residential and small business customers increased for the first time since 2016–17 in the National Electricity Market**

*Retail costs per residential and small business customer across the National Electricity Market, 2013–14 to 2023–24, real terms, excluding GST*




Source: ACCC analysis of retailers' data.

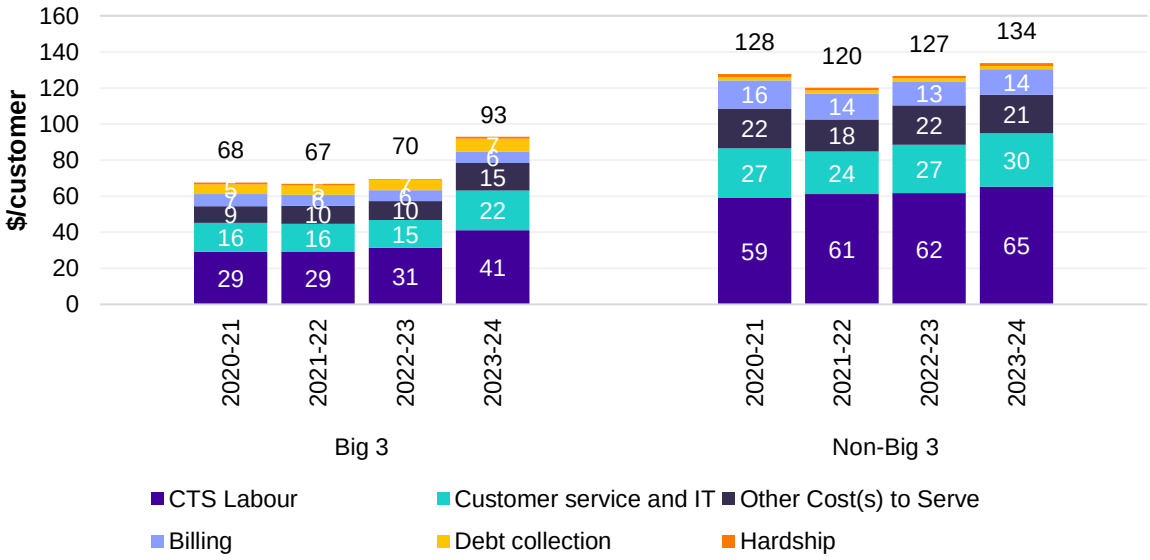
The retail costs represented above can be further broken down into cost to serve and cost to acquire and retain customers. We split our data from retailers into big 3 and non-big 3 retailers to allow comparisons of competitive advantage between these 2 groups.

## Big 3 retailers' cost advantage in cost to serve are narrowing in 2023–24

Figure 3.20 shows changes in the cost to serve customers over time. The biggest components of this are labour, and customer service and IT. These costs have generally increased since 2020–21, for both the big 3 non-big 3 retailer groups (Figure 3.20). For the big 3 retailer group, the increases this year were 38% for customer service and IT costs and 2% for labour costs per residential customer. Although the big 3 retailers retain a cost advantage over the non-big 3 retailers, in 2023–24 the gap between the two groups narrowed, with an average difference of $41 per residential customer in real terms.

**Figure 3.20: Rising costs to serve residential customers as the cost advantage gap narrows between big 3 and non-big 3 retailers**

*Average cost to serve per residential customer across the National Electricity Market by retailer group, 2020–21 to 2023–24, real terms, excluding GST*




Source: ACCC analysis of retailers' data.

Note: Data labels for small cost components have been omitted for readability. CTS = cost to serve.

When aggregated across all retailers, hardship and debt collection costs have increased by 31% in 2023–24. This could reflect the impact of the increasing cost of living on households' ability to pay, and increased efforts to support customers. The Australian Energy Regulator reported that the number of residential electricity customers participating in hardship programs in the March quarter of 2024 was 43% higher than the corresponding period in 2023.[89] Similarly, in Victoria, the number of customers accessing tailored assistance increased by 16% between June 2023 and 2024, along with a significant increase in disconnection warning notices (27%). Despite these significant increases, the Essential Services Commission also reported that large retailers (and AGL in particular) had

[89] Australian Energy Regulator, *Quarterly retail performance report: January – March 2024, June 2024*, accessed 19 November 2024.

disconnected fewer customers for non-payment in 2024, with many AGL customers previously affected by wrongful disconnections.[90]

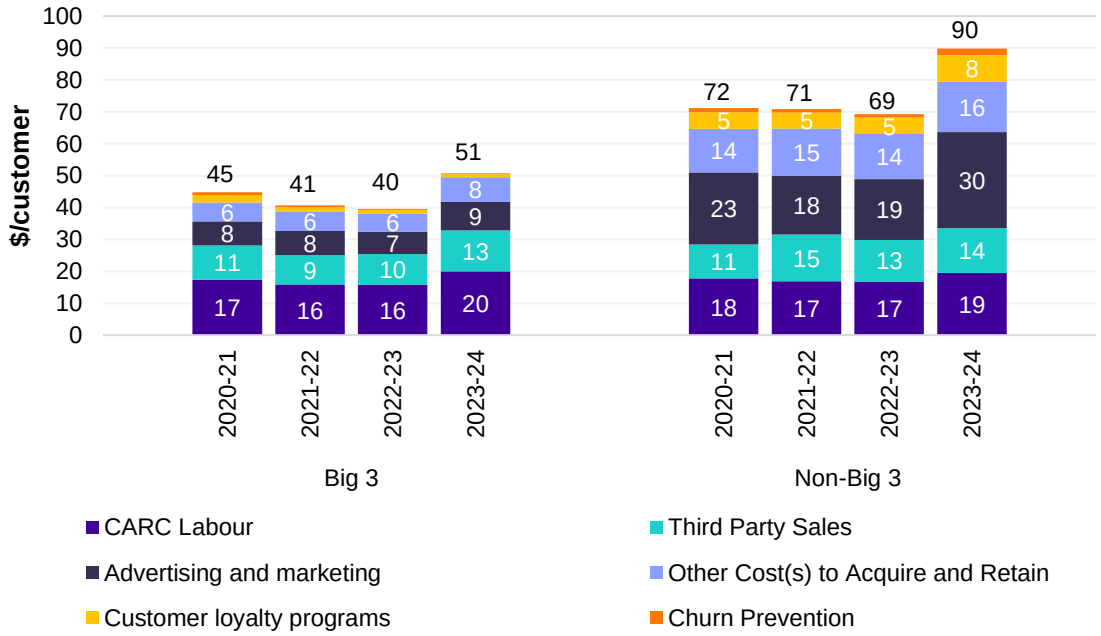
## Non-big 3 retailers have increased spending on costs to acquire and retain customers

Figure 3.21 shows a significant increase in average costs for acquiring and retaining residential customers after many years of stability. Since 2017–18 we have consistently observed that the retail costs component of the cost stack is significantly lower for big 3 retailers than for smaller retailers. This makes clear that larger retailers have significant cost advantages over their smaller competitors.

There was a relatively larger increase in spending by the non-big 3 retailers in 2023–24. For example, there was a significant increase in advertising and marketing expenses for the non-big 3 retailer group, which increased by $11 per residential customer (59% increase from the previous year in real terms). This indicates that small retailers are increasing spending in an effort to increase market share. The likely reason for this is that market conditions are now more stable and favourable for gaining customers compared to the period following the 2022 energy events. Regardless of the reason, increased spending to acquire customers is a good sign for competition.

**Figure 3.21: Rising acquisition and retention costs as non-big 3 retailers invest into advertising and marketing to increase market share in 2023–24**

*Average Cost to Acquire and Retain per residential customer across the National Electricity Market by retailer tier, 2020–21 to 2023–24, real terms, excluding GST*




Source: ACCC analysis of retailers' data.

Note: Data labels for small cost components have been omitted for readability. CARC = cost to acquire and retain customers.

[90] Essential Services Commission, *Victorian Energy Market Report: September 2024*, 26 September 2024, p 14, accessed 30 October 2024.

In 2023–24, both the big 3 and non-big 3 retailers experienced higher costs to acquire and retain small business customers, as well as higher costs to serve them (see Appendix C for details). The big 3 retailers still have a cost advantage over the non-big 3 retailers for serving small business customers, although this advantage is smaller than in recent years for acquisition and retention costs.

# Appendix A: Terms of reference

*COMPETITION AND CONSUMER ACT 2010*

INQUIRY INTO ELECTRICITY SUPPLY IN AUSTRALIA

I, Scott Morrison, Treasurer, pursuant to subsection 95H(1) of the *Competition and Consumer Act 2010*, hereby require the Australian Competition and Consumer Commission (ACCC) to hold an inquiry into prices, profits and margins in relation to the supply of electricity in the National Electricity Market.

Matters to be monitored and taken into consideration in the inquiry include but are not limited to:

i. electricity prices faced by customers in the National Energy Market including both the level and the spread of price offers, analysing how wholesale prices are influencing retail prices and whether any wholesale cost savings are being passed through to retail customers;
ii. wholesale market prices including the contributing factors to these such as input costs, bidding behaviour and any other relevant factors;
iii. the profits being made by electricity generators and retailers and the factors that have contributed to these;
iv. contract market liquidity, including assessing whether vertically integrated electricity suppliers are restricting competition and new entry; and
v. the effects of policy changes in the National Electricity Market, including those resulting from recommendations made by the ACCC in its Retail Electricity Pricing Inquiry report of July 2018.

Where appropriate, the inquiry will make recommendations to government(s) to take any proportional and targeted action considered necessary to remedy any failure by market participant(s) (or the market as a whole) to deliver competitive and efficient electricity prices for customers.

The ACCC should make use of publicly available information, including that published by the Australian Energy Regulator, the Australian Energy Market Commission or the Australian Energy Market Operator, where appropriate.

This is not to be an inquiry into supply by any particular person or persons, or by a State or Territory Authority.

The inquiry is to commence today. The inquiry is to provide its first report to me by 31 March 2019 and no less frequently than every six months thereafter. The first report should focus on setting out the analytical framework for monitoring and provide information about expectations of market outcomes and market participant behaviour. The inquiry should also provide information to the market as appropriate. The inquiry is to conclude and provide its final report by 31 August 2025.

DATED THIS 20th DAY OF August 2018

SCOTT MORRISON
Treasurer

# Appendix B: Methodology for data collection and analysis

This appendix describes our methodology for collecting, quality assuring and analysing the data presented in this report.

We collected 2 types of information from market participants using our compulsory information gathering powers under s95ZK of the *Competition and Consumer Act 2010*:

- retail electricity pricing data and information, used to inform Chapter 2
- 'cost stack' data, used to inform Chapter 3

We substantiated these with other data sources including publicly available information published by market bodies (Section B.2). This appendix also describes our approach to collecting and analysing retail offer data reported to the Australian Energy Regulator and Essential Services Commission of Victoria.

## B.1. Retail electricity prices

The ACCC issued compulsory information gathering notices to 8 electricity retailers to collect the retail prices for residential and small business customers as at 1 August for:

- flat rate offers in 2022, 2023 and 2024
- time of use offers in 2023 and 2024
- demand offers in 2023 and 2024.

The prices we collected include supply charges, usage charges, controlled load charges, solar feed-in tariffs, proportional conditional discounts, and proportional unconditional (guaranteed) discounts. We also collected the number of customers on each offer.

Our retail pricing data captures the prices charged to approximately 6.7 million residential customers, and 400,000 small business customers as at 1 August 2024.

To complement our analysis of offers, each retailer was also required to:

- provide information about when they changed their prices, the proportion of customers affected, and the customer-weighted average change in price
- provide customer maximum demand information collected at the 10th, 25th, 50th (median), 75th and 90th percentiles for the period between 1 July 2023 and 30 June 2024
- explain the strategies they use for setting their prices
- explain the strategies they used to price their electricity offers and comply with the Prohibiting Energy Market Misconduct (PEMM) prohibitions
- provide the count of residential customers who received different types of 'Better Offer' or 'Best Offer' messages on their bill between 1 January 2024 and 10 August 2024.

## Quality assurance

The ACCC examined provided data for inconsistencies and potential errors. Our checks identified data quality issues for several retailers. In each case we contacted the retailers for clarification and in several instances updated data was provided. We repeated checks on any new data provided.

Our checks also found a number of residential offers with high supply rates. We applied a methodology to remove these from our residential sample as they predominantly corresponded with underlying small business tariffs.

## Analytical methodology

To conduct analysis on our pricing dataset, we calculated an annual price for each offer using a set of usage assumptions. For most offer and customer types, we have relied on the usage assumptions outlined in the Default Market Offer and Victorian Default Offer determinations for the relevant distribution zone. This includes the half-hourly usage profile for time of use offers under the Default Market Offer for residential customers.

However, as there is no half-hourly usage profile set out for small business time of use offers under either the Default Market Offer or Victorian Default Offer, we have used data from the Australian Energy Market Operator to create a profile for these offers. We have used the same approach for Victorian residential time of use offers for which there is also no half-hourly usage profile set out in the Victorian Default Offer.

Table B.1 and Table B.2 outlines the total annual usage assumptions we applied to flat rate offers to calculate their usage charges, while Appendix C includes the usage assumptions we applied to time of use offers.

**Table B.1: Default Market Offer and Victorian Default Offer usage assumptions**

Residential *usage assumptions by distribution region (kWh/year)*

| Distribution region | 2022 | | | 2023 | | | 2024 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Flat rate | Flat rate with controlled load | | Flat rate | Flat rate with controlled load | | Flat rate | Flat rate with controlled load | |
| | | General usage | Controlled Load | | General usage | Controlled Load | | General usage | Controlled Load |
| **Ausgrid** | 3,900 | 4,800 | 2,000 | 3,911 | 4,813 | 2,005 | 3,900 | 4,800 | 2,000 |
| **Endeavour Energy** | 4,900 | 5,200 | 2,200 | 4,913 | 5,214 | 2,206 | 4,900 | 5,200 | 2,200 |
| **Essential Energy** | 4,600 | 4,600 | 2,000 | 4,613 | 4,613 | 2,005 | 4,600 | 4,600 | 2,000 |
| **Energex** | 4,600 | 4,400 | 1,900 | 4,613 | 4,412 | 1,905 | 4,600 | 4,400 | 1,900 |
| **SA Power Networks** | 4,000 | 4,200 | 1,800 | 4,011 | 4,212 | 1,805 | 4,000 | 4,200 | 1,800 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **AusNet Services** | | | | | | | | | |
| **CitiPower** | | | | | | | | | |
| **Jemena** | 4,000 | 4,000 | 2,000 | 4,000 | 4,000 | 2,000 | 4,000 | 4,000 | 2,000 |
| **Powercor** | | | | | | | | | |
| **United Energy** | | | | | | | | | |

**Table B.2 Default Market Offer and Victorian Default Offer usage assumptions**

*Small business usage assumptions by distribution region (kWh/year)*

| Distribution region | 2022 | 2023 | 2024 |
|---|---|---|---|
| | Flat rate | Flat rate | Flat rate |
| **Ausgrid** | 10,000 | 10,000 | 10,000 |
| **Endeavour Energy** | | | |
| **Essential Energy** | | | |
| **Energex** | | | |
| **SA Power Networks** | | | |
| **AusNet Services** | | | |
| **CitiPower** | | | |
| **Jemena** | | | |
| **Powercor** | | | |
| **United Energy** | | | |

For offers with a demand charge, we have used maximum demand information collected from retailers to derive a customer-weighted median maximum demand value. We used data from Ausgrid, Endeavour and Energex distribution zones to calculate this figure, because demand offer customers predominantly exist only in these three distribution regions (as noted in section 2.4.2).

Table B.3 outlines the median maximum demand assumptions we used for demand charges.

**Table B.3 Default Market Offer and Victorian Default Offer usage assumptions**

*Customer maximum demand per 30-minute interval assumptions, all regions combined*

| Customer type | Maximum demand (kW) |
|---|---|
| **Residential** | 3.9 |
| **Small business** | 9.0 |

Source: ACCC analysis of retailer pricing data.

Using calculated annual prices allows us to compare flat rate and time of use offers on a like-for-like basis. It also allows us to compare calculated annual prices to default offer prices.

One limitation with these comparisons is that offers may appear more expensive or less expensive at different levels of usage depending on how the underlying prices are set. For instance, a customer who uses a lot of electricity might save money by moving to an offer with a higher supply charge and lower usage charge. However, that offer might appear more expensive at a lower level of usage because the higher supply charge contributes more to the cost and is not offset by the lower usage charge.

Our December 2023 report found the average daily supply charge does not vary substantially as the annual cost of an offer increases, such that higher offer costs are primarily driven by higher average usage charges.[91] This is consistent with our previous finding that percentage comparisons to the Default Market Offer price remained a reliable indicator of an offer's value across a range of usage levels.[92]

This means that, regardless of our usage assumptions, the offers we identify as being high priced in our comparisons to the Default Market Offer and Victorian Default Offers likely remain expensive when compared to other offers.

## Customer usage profiles and calculated annual prices

In section 2.5, we examine how calculated annual prices change with different usage profiles. These profiles hold a customer's total electricity usage constant while varying their maximum demand or time of electricity use over the course of a day.

For the analysis in sections 2.5.1 and 2.5.3, we created high and low maximum demand profiles by varying the customer-weighted median peak demand by 30%. This percentage variation is broadly consistent with the observed variation from the median peak demand of both the 25$^{th}$ and 75$^{th}$ percentiles. See Table 2.2 for our residential customer peak demand profiles.

For the analysis in sections 2.5.2 and 2.5.3, we created high and low evening peak profiles by varying peak usage by 30%. This adjustment reduces the peak 30-minute interval usage amount relative to the average 30-minute interval usage amount. It then evenly redistributes usage over the waking hours between 7:00 am and 12:00am. Similarly, we created our noon peak profile by removing the evening peak between 2:30pm and 3:00am that was above a

[91] ACCC, *Inquiry into the National Electricity Market, December 2023 report*, ACCC, Australian Government, 15 December 2023, p 121.

[92] ACCC, *Submission to the post-implementation review of the Electricity Retail Code consultation paper*, ACCC, Australian Government, 6 October 2021, p 11.

set threshold, and redistributing it around noon using a right-skewed normal distribution. See Figure 2.12 for our residential daily usage profiles.

## Conditional discounts

In this report, we present most of our calculated annual price results with conditional discounts applied. This means we have assumed 100% of customers achieve their conditional discounts, and that these are applied to the total annual cost.

In our June 2024 report, we found only 10% of residential customers and 14% of small business customers failed to achieve their conditional discounts as at 1 July 2023. This result is based on the 15% of residential customers and 5% of small business customers who have a conditional discount on their offer.

We examine the difference in results when conditional discounts are not achieved in section 2.4.3, and present other results exclusive of conditional discounts in Appendix C.

## Solar feed-in tariffs

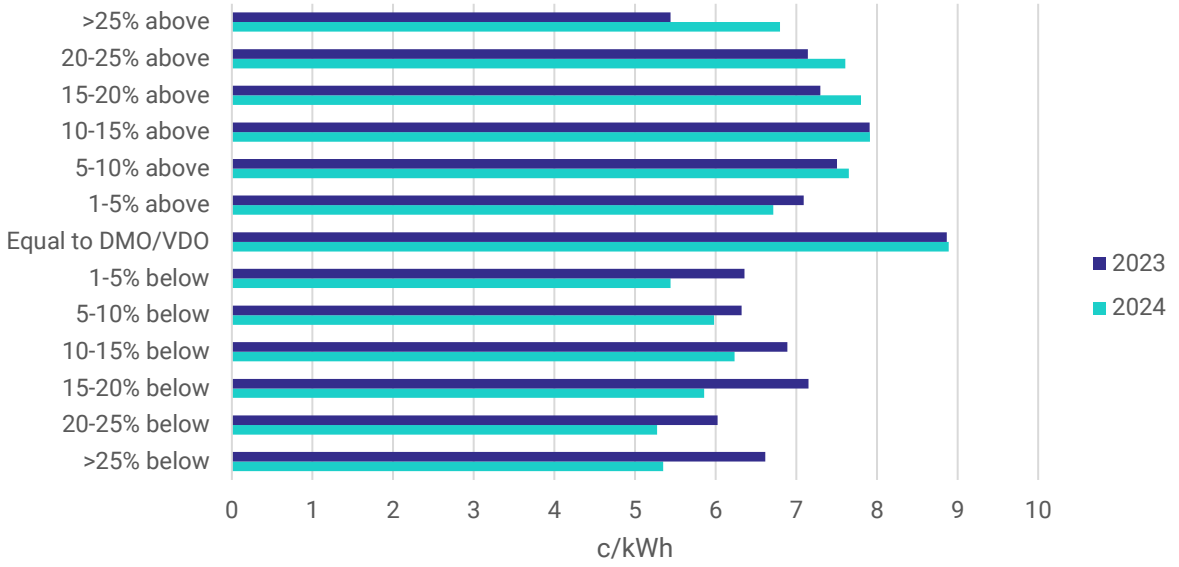
We present our calculated annual prices exclusive of solar feed-in tariffs. This is partly to allow comparisons to default offer prices (which do not include feed in tariffs), but also because it is difficult to identify a representative level of solar export.

However, for many customers, feed-in tariffs will be an important factor that helps them reduce their electricity bill. It may also influence their selection of retail offer, as a customer choosing between two similarly priced offers may be better off were they to choose the offer with a higher solar feed-in tariff rate.

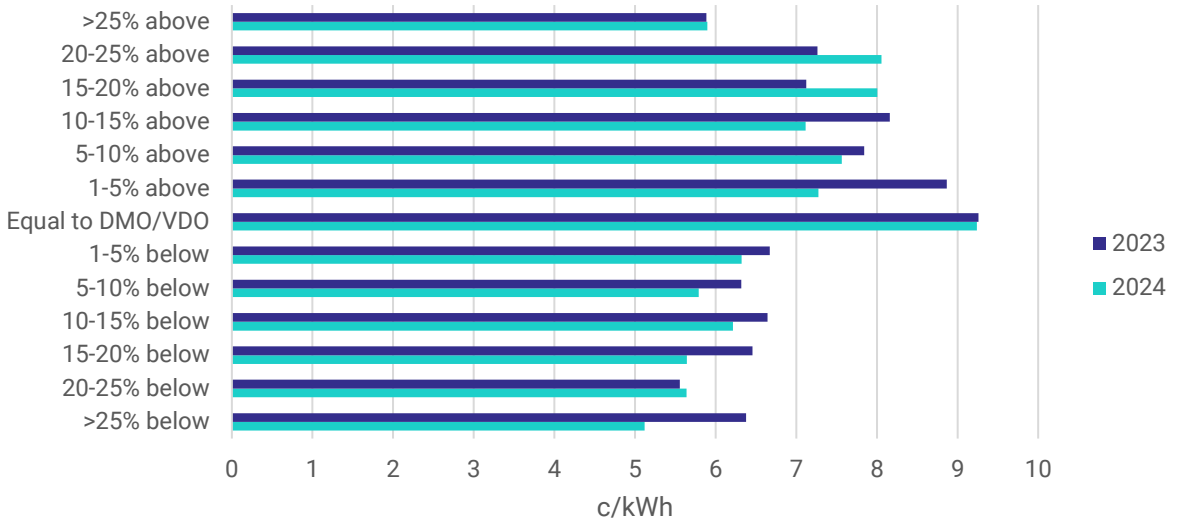
We therefore examine the relationship between solar feed-in tariff rates and calculated annual prices in Figure B.1. This analysis shows that the average solar feed-in tariff does correlate slightly with the calculated annual price of an offer for both offer types. Solar customers make up approximately 26% of all residential customers as at 1 July 2023.

**Figure B.1: Solar feed-in tariffs only increase slightly with price**

*Residential flat rate offers without demand charges customer-weighted average solar feed-in tariff by discount tier to the default offers, excluding offers with subsidised solar feed-in tariffs, assuming 100% achievement of conditional discounts, all regions combined*




*Residential time of use offers without demand charges customer-weighted average solar feed-in tariff by discount tier to the default offers, excluding offers with subsidised solar feed-in tariffs, assuming 100% achievement of conditional discounts, all regions combined*




Source: ACCC analysis of retailer pricing data. Nominal dollars, including GST.

To analyse solar feed-in tariffs, we excluded data from a minority of retailers who were unable to provide information on solar components at the offer level due to how their data was stored. We also excluded all offers with solar feed-in tariffs that were equal to or greater than 44c/kWh as these tend to correspond to government subsidised solar feed-in tariffs. We present our findings assuming conditional discounts have been achieved.

### ‘Better Offer’ and ‘Best Offer’ messages

We collected the number of residential customers who received different types of ‘Better Offer’ and ‘Best Offer’ messages from retailers (see section 2.6.5).[93] [94] In particular, we collected the number of customers between 1 January and 10 August 2024 that received a:

- ‘negative deemed better offer message’ or ‘negative deemed best offer message’ that indicated they were not on their retailer’s best offer and suggested a better priced offer.
- ‘negative deemed better offer message’ or ‘negative deemed best offer message’ messages that indicated they were not on their retailer’s best offer and suggested a better priced offer with the same name as the customer’s current offer.
- ‘negative’ or ‘positive’ message (where a ‘positive deemed better offer message’ and ‘positive deemed best offer message’ indicates that a customer is on their retailer’s best offer).[95]

For our analysis in section 2.6.5, we present the number of customers receiving a ‘negative’ message as a proportion of the total number of customers receiving any message.

As we did not collect the number of customers who received ‘positive’ messages, we have calculated this number by taking total number of customers receiving any type of ‘Better Offer’ and ‘Best Offer’ message less the number of customers receiving a ‘negative’ message). We note this analysis has some limitations in so far as it does not account for:

- customers who may have recently switched retailers, and received a message from both their current and former electricity retailer
- customers who may have received multiple messages over the period where only one of them was ‘negative’.

Further, our analysis does not provide an indication of the effectiveness of ‘Better Offer’ and ‘Best Offer’ messages in changing customer switching behaviour. This is because we did not collect information on the number of customers who acted on these messages or how much customers could have saved by doing so (which may impact their decision to switch).

## B.2. Publicly available retail offers

### Data collection

In this report, we included analysis that estimates changes in retail electricity prices from March 2021 to October 2024 (see Figure 2.18). These estimates are based on electricity offers from retailers that were publicly available on government comparator websites:

- Energy Made Easy, run by the Australian Energy Regulator and covers New South Wales, Queensland, South Australia, Tasmania, and the Australian Capital Territory
- Victorian Energy Compare, run by the Essential Services Commission of Victoria.

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93 Australian Energy Regulator, *Better Bills Guideline (Version 2)*, Australian Government, 30 January 2023.

94 Essential Services Commission of Victoria, *Energy Retail Code of Practice (Version 3)*, Victorian Government, 1 October 2024.

95 Language for the ‘Better Offer’ is from the Australian Energy Regulator Better Bills Guideline. Language for the ‘Best Offer’ in Victoria is from the Essential Service Commission’s Energy Retail Code of Practice.

All retailers must upload the details of their electricity offers (both standing and market offers) for residential and small business customers to these sites. We collect offer data at the beginning of every month.[96]

### Analytical methodology

To calculate estimated median annual bills for residential customers, we combined market offer information with benchmark consumption figures. These were different for each distribution zone and are outlined in Table B.1.

This produces an illustrative estimate of annual bills, but there are some limitations. For example, this approach only reflects prices for customers entering new contracts, not existing customers (in contrast to our retail pricing dataset outlined above). We also filtered the calculation to flat rate tariffs. While this is the most common type of tariff, there are other tariffs in use, such as time of use tariffs, that are not covered in this dataset.

In Figure 2.19 we plotted the annual bill of the median offer to illustrate the central value of publicly available offer prices. We also plotted the estimated annual bill of the standing offer in each state for comparison purposes.

## B.3. Cost stack

### Data collection

The ACCC used its compulsory information gathering powers to obtain cost stack data from electricity retailers relating to the 2023–24 financial year. These retailers provided electricity to about 85% of residential customers and about 80% of small business customers across the National Electricity Market (NEM) in 2023–24.[97]

Retailers were required to provide information on their revenues and usage, wholesale costs, network costs (transmission and distribution), environmental (green) scheme costs, and retail costs and margins. Various breakdowns of these categories were provided, although not all retailers were able to provide the exact same sub-categories. We required retailers to state their cost to serve and cost to acquire and retain, and asked them to attribute these costs to a number of pre-defined categories. These categories constitute the largest common retailer costs categories, according to our analysis of the 2017–18 retail operating costs data collected in our previous inquiry, the Retail Electricity Pricing Inquiry.

The ACCC sought information for 3 different customer types: residential, 'small business' customers (small and medium enterprise customers) and 'large business' customers (commercial and industrial customers).

Some retailers did not record certain categories of costs on a region-by-region basis or by customer type, and therefore applied allocation methodologies to estimate costs for these categories. For example, some retailers do not record costs separately for residential and small business customers. Instead, these retailers record information for a combined group, commonly referred to as 'mass market'. In such cases, retailers were asked to apply an

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[96] The exception was the months of November and December 2020, when only a subset of the required data was collected. For charts in the body of the report, we have modelled replacement figures based on the available data.

[97] AER, Retail energy market performance update for Quarter 3, 2023–24, AER, Australian Government, 21 June 2024, accessed 31 October 2024; ESC, Victorian Energy Market Report 2023–24 – Appendix: Retailer performance, ESC, Victorian Government, 26 September 2024, accessed 31 October 2024.

allocation methodology between residential and small business customers when reporting data to the ACCC. Where the retailer did not do this, we generally applied an allocation methodology ourselves.

Several retailers with generation assets provided information on their wholesale costs using a 'transfer price' methodology. The method for calculating the transfer price is not necessarily the same for each retailer, so this year we collected additional qualitative information to provide more insight on the variety of calculation methods used. The methods can be broadly categorised as either estimating the cost of generating electricity, or as estimating the price a standalone retailer would pay if it purchased electricity from the market. We consider both methods to be representative of the cost of procuring electricity. Transfer price costs provided by retailers feed into our calculations.

The results presented in figures exclude regional Queensland. Following improvements to our data collection, the Australian Capital Territory is included in New South Wales and NEM-wide data from 2019–20 onwards.

## Quality assurance

The ACCC examined the returned data for inconsistencies and potential errors, and checked it against other data sources, such as public data from the Australian Energy Regulator. For example, we:

- checked that the number of residential customers, small business customers, large business customers and solar customers by retailer and NEM region were consistent with our expectations based on customer numbers reported by the Australian Energy Regulator and the Essential Services Commission of Victoria[98]
- checked that retailers' data contained no unexpected data omissions
- queried individual retailers on any large, or unexpected, movements in their data relative to previous years.

Our checks identified several significant data quality issues for several retailers. In each case we contacted the retailers for clarification and in several instances updated data was provided. We repeated checks on any new data provided.

## Analytical methodology

For our cost stack analysis, we used retailer margins (or more specifically, earnings before interest, tax, depreciation, and amortisation), cost and usage data to obtain measures of the total cost stacks for retailers.

Our cost stack analysis is broken down into the following cost categories:

- network costs charged by network operators for the transmission and distribution of electricity (for the use of the 'poles and wires' to transport electricity) and metering
- wholesale costs of purchasing electricity from the wholesale spot market (or costs of generation for vertically integrated retailers owning generation assets), and of managing price exposure
- costs of complying with environmental (green) schemes, both state and national

[98] AER, Retail energy market performance update for Quarter 3, 2023–24, AER, Australian Government, 21 June 2024, accessed 31 October 2024; ESC, Victorian Energy Market Report 2023–24 – Appendix: Retailer performance, ESC, Victorian Government, 26 September 2024, accessed 31 October 2024.

- costs of running a retail business, such as billing, customer service, or marketing costs
- retail margin, which is the amount a retailer earns after accounting for the above costs, and reflecting the return to the retailer's investors.

The retail margin is measured as earnings before interest, tax, depreciation, and amortisation (EBITDA). A retailer's EBITDA does not include the retailer's earnings from other parts of the electricity supply chain, such as electricity generation.

For this report:

- A 'dollar per customer' measure was calculated by dividing revenue and costs by numbers of customers. This can be considered a proxy for the annual amount that an average customer would pay for electricity. However, it is only a general representation due to significant usage differences between geographic regions, time periods and customer types.
- A 'cents per kilowatt hour' measure was calculated by dividing revenue and costs by usage. This can be considered a proxy for the effective price faced by an electricity user for a unit of electricity. It does not account for usage differences between customers, which can vary dramatically. Retail tariffs are often structured with a fixed fee component which, in this case, is averaged over the usage.
- Any cost stack data prior to 2017–18 was derived from data collected as part of our previous Retail Electricity Pricing Inquiry. This collection contains yearly data from 2007–08, 2010–11 and 2013–14 onwards.

In our cost stack analysis, our measure of the representative customer generally refers to the mean rather than the median. The distribution of residential electricity usage resembles a normal distribution, though it is positively skewed – that is, the average (mean) customer uses more than the median customer. This results from a small portion of customers having much higher-than-average electricity usage and a lower bound on usage (at 0kWh).

For small business customers, there is a much larger range of electricity usage, and the distribution is not normal, reflecting the disparity in electricity requirements for small business activities. Care should be taken when interpreting small business data on a per-customer basis, because of the large range of underlying electricity consumption. Accordingly, a majority of our analysis for the small business cohort uses the c/kWh measure, which can more readily be scaled for different usage levels.

Most of our results are presented in real (inflation-adjusted) dollars. These are appropriately labelled and use June 2024 dollars. NEM-wide charts are volume-weighted by usage or customer numbers, as relevant. The Goods and Services Tax (GST) is not included in the presented charts.

While the costs of premium feed-in tariffs are typically recovered through network charges, we have adjusted the data to attribute these costs to the 'environmental' cost category, rather than 'network' costs category.

Percentage values in charts may not sum to 100 due to rounding. Other values may similarly not sum due to rounding.

To convert nominal dollars to real dollars, we adjusted the nominal dollars using the 'all groups; Australia' consumer price index from the Australian Bureau of Statistics. Real dollars are as at June 2024.