

# Review of electricity and gas retail markets in Victoria

## Terms of Reference

### Background

Previous reviews have suggested that competition in the Victorian energy retail market is strong and has provided benefits to many consumers. The Australian Energy Market Commission's 2016 Retail Competition Review found that of all National Electricity Market (NEM) jurisdictions, Victorian consumers had among the highest levels of awareness of choices, the highest rate of customer switching and among the highest customer satisfaction ratings. Victoria also had the lowest level of market concentration of the big three retailers.<sup>1</sup>

While the market appears to be delivering benefits to Victorian energy consumers, a number of reports have indicated that retailers in Victoria may have some of the highest electricity margins in the NEM, particularly for consumers on standing offers. These reports include a 2013 report by SKM MMA for the ESC<sup>2</sup>, a 2013 AEMC report<sup>3</sup>, a 2015 report by CME for the Brotherhood of St Laurence<sup>4</sup>, a 2015 report by the St Vincent de Paul Society<sup>5</sup>, and a 2016 report by CME for Get Up!<sup>6</sup>. The AER's 2015 State of the Energy Market report noted that for electricity, jurisdictions that removed retail price regulation, including Victoria, exhibited the strongest price diversity and annual charges under the cheapest contract were typically at least 30 per cent lower than under the most expensive contract<sup>7</sup>. A particular concern relates to the AEMC's finding that some customers on (higher priced) standing offers were more likely to be older or living in regional areas<sup>8</sup>.

### Objectives

The objectives of the review are to examine the operation of the Victorian electricity and gas retail markets and provide options that would improve outcomes for consumers.

### Scope

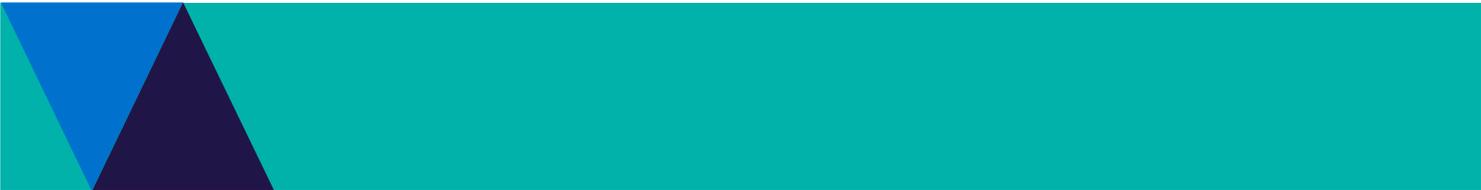
The review will consider:

- the characteristics of the electricity and gas retail markets, including consumer engagement, market structure, regulation and pricing – with a particular focus on retail costs and margins
- key drivers underlying electricity and gas retail pricing, with a focus on retail costs and margins
- whether the Victorian electricity and gas retail markets are operating in the interests of consumers
- whether the electricity and gas retail markets are competitive and whether there are potential constraints on competitiveness
- whether electricity retailers are taking advantage of the impending closure of Hazelwood Power Station, in terms of their price offerings to consumers
- consumer awareness and understanding of the retail markets, including potential barriers for particular groups of customers to engage in the markets
- a review of relevant policies and practices in other jurisdictions, nationally and internationally, to identify best practice in regulatory frameworks governing energy retail markets.

John Thwaites, Terry Mulder and Patricia Faulkner will prepare a final report to the Minister for Energy, Environment and Climate Change that identifies ways in which the operation of the Victorian electricity and gas retail markets can be improved. This report will be provided by May 2017.

### Consultation

John Thwaites, Terry Mulder and Patricia Faulkner will undertake public consultation and targeted consultation with key stakeholders in the energy sector as part of the review. This includes taking submissions and seeking information from relevant stakeholders to inform their recommendations.



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<http://aemc.gov.au/getattachment/d5a60d5b-d2dc-4219-af60-51c77d8aaa4f/Final-Report.aspx>
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<http://www.esc.vic.gov.au/document/energy/25985-skm-mma-retail-margin-for-residential-supply-report/>
3. AEMC (2013) 2013 Residential Electricity Price Trends report, 13 December; at:  
<http://www.aemc.gov.au/getattachment/fe3d2519-026d-4f01-bdd4-d65ddfae51c3/2013-Residential-Electricity-Price-Trends-Final-Re.aspx>
4. CME (2015) A critique of the Victorian retail electricity market, June 2015; at:  
[http://library.bsl.org.au/jspui/bitstream/1/5255/1/CME\\_A-critique-of-the-Victorian-retail-electricity-market\\_June\\_2015.pdf](http://library.bsl.org.au/jspui/bitstream/1/5255/1/CME_A-critique-of-the-Victorian-retail-electricity-market_June_2015.pdf)
5. St Vincent de Paul Society (2015) The NEM – still winging it, September 2015, at:  
[https://www.vinnies.org.au/icms\\_docs/228265\\_National\\_Energy\\_Market\\_-\\_Still\\_Winging\\_It.pdf](https://www.vinnies.org.au/icms_docs/228265_National_Energy_Market_-_Still_Winging_It.pdf)
6. CME (2016) Australia's retail electricity markets: who is serving whom?, August 2016, at: <http://cmeaustralia.com.au/wp-content/uploads/2013/09/160815-FINAL-getup-retail-report-.pdf>
7. AER (2015); State of the Energy Market 2015, January 2016; p.21; at:  
<http://www.aer.gov.au/system/files/State%20of%20the%20energy%20market%202015%20%28A4%20format%29%20%E2%80%93%20last%20updated%204%20February%202016.pdf>
8. AEMC (2015) 2015 Retail Competition Review Final Report, June 2015, p. iii (Executive Summary), at: <http://www.aemc.gov.au/getattachment/56a8c56f-0aeb-48cc-9097-9f2b5e645428/Final-Report.aspx>