IPART Independent Pricing and Regulatory Tribunal | NSW

Monitoring the NSW retail gas market for 2023–24

Annual Report

November 2024

Energy »

Acknowledgment of Country

IPART acknowledges the Traditional Custodians of the lands where we work and live. We pay respect to Elders both past and present.

We recognise the unique cultural and spiritual relationship and celebrate the contributions of First Nations peoples.

Tribunal Members

The Tribunal members for this review are:

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The Independent Pricing and Regulatory Tribunal

IPART's independence is underpinned by an Act of Parliament. Further information on IPART can be obtained from IPART's website.

Contents

1 Executive summary

IPART is required to report annually to the NSW Minister for Energy on the performance and competitiveness of the NSW retail gas and electricity markets for small customers.[a]

Competition for small gas markets was introduced into the NSW gas market in 2002 to improve customer outcomes. Prior to this, retail gas was supplied by a government owned entity that provided both distribution and retailing services.

In a competitive market, businesses need to find new ways of doing things to gain and maintain customers – either by becoming more efficient to reduce prices, or by offering a better product or service. Prices can still increase in a competitive market where the underlying costs of supply increase. However, if retailers increase their prices above their costs plus a reasonable rate of return (accounting for the risk involved in providing the service), the customer will change to other suppliers that have either lower cost or better service.

This report sets out our findings on the performance of and competition in the retail gas market for 2023–24. We have produced a separate report on the NSW retail electricity market.

1.1 Retail prices have increased substantially over recent years, mostly driven by higher wholesale costs

The gas market on the east coast of Australia has transformed over the last decade since gas exports commenced out of Queensland's 3 liquified natural gas (LNG) terminals from 2015. Gas demand has almost tripled, with exports now making about more than two-thirds of total demand, and Australia is now among the largest exporters of gas globally.

The increased demand has resulted in large increases to the average cost of wholesale gas, in line with what producers could receive by exporting gas, and wholesale prices now make up around 30% of a customer's bill. For gas procured under new gas supply agreements, costs have increased by around 60% since 2019–20. Distribution costs – also making up around 30% of costs – are slightly lower than they were 4 years ago, however they are up 16% since June 2023.

The higher wholesale and distribution costs have added almost $140 to a typical residential customer's annual gas bill over 2023–24, an increase of 13% (for a customer using 24.4 GJ on the median offer published on Energy Made Easy). A typical residential customer now pays an annual gas bill of $1,250. Bills for business customers, who use higher volumes of gas, are up by $1,400 or 18% to $9,000 in 2023–24 (based on 250 GJ annual gas use).[b]

Compared to June 2020, prices are 35% higher for residential customers, and 46% higher for business customers. This increase is significantly higher than the increase in inflation over this time (21%).

[a] Small customers include residential customers and business customers using up to 1 terajoule (TJ) of gas per year. National Energy Retail Law (NSW), National Energy Retail Law (Adoption) Regulation (NSW) 2020.

[b] Bills calculated for customers in the Jemena coastal region, where around 95% of NSW customers are located. Similar changes in prices have been experienced by regional customers.

1.2 More customers are facing hardship as a result of the increasing prices

The timing of the energy price rises has coincided with a number of other cost-of-living pressures, including high inflation and a significant increase in the RBA's cash rate target. Increases in the cost of energy bills have added to cost-of-living pressures facing customers across the state.

We have found that in the one year to 2024, the number of retail gas customers in NSW in hardship programs increased by 65% from around 10,500 to 17.500 customers (around 1% of total gas customers).

Similar to last year, around 14,000 customers were disconnected in 2023–24 for non-payment. Research by the Justice and Equity Centre suggests that some retailers are failing to proactively identify and assist people experiencing payment difficulty. This research also found that groups often associated with disadvantage are continuing to experience higher rates of disconnection, and there is also an increasing number of working families with mid-range incomes and mortgages are experiencing disconnection.

The NSW Government gas rebate of up to $110 per year off gas bills for customers that hold either a Pensioner Concession Card, Health Care Card, Low Income Health Care Card or a DVA Veteran Gold Card. However only 50% of the estimated 570,500 eligible households are receiving the rebate. The NSW Government's Consumer Energy Strategy includes an action to conduct a review of NSW energy rebates to streamline existing rebates, improve the customer experience and ensure support reaches customers who need it most. In addition, the uptake of concessions is one of the issues that will be considered by the Australian Energy Market Commission (AEMC).

As customers look to transition their gas appliances to electricity, stakeholders are also concerned about high fees for disconnecting from the network (costing customers in the Jemena region over $1,500). This issue is currently being reviewed by the Australian Energy Regulator (AER) as part of its investigation of Jemema's new access agreement for 2025 to 2030.

1.3 There may be large savings available, but there are barriers to customers paying the lowest prices

While most offers in the market have increased significantly, the lowest market residential offers[c] have remained steady. By switching to one of these lower offers, a typical residential customer could save:

- around $220 by switching from the median market offer, a saving of 17%
- around $430 or 30% by switching from a standing offer.[d]

[c] There are a range of offers in the market. We calculate the lowest offers at the 10th percentile to exclude any outliers.

[d] As at June 2024.

In 2023–24, a record number of gas customers switched retailers, with 17% of all customers changing their retailer. However, as part of our review of the retail electricity market we found that:

- Only the most engaged customers are likely to be on the lowest offers and retailers often increase their prices once or twice in the 12-month periods after a customer signs up to an offer.
- Customers are experiencing confusion around whether they should be switching, as retailers offer different prices for plans with the same name. Customers are receiving notifications that they can save on their bills by switching to a plan with the same name that they are already on.[e]

Given that most large retailers offer both electricity and gas retailing services, small gas customers in NSW that customers may be experiencing similar issues.

The AEMC will be considering these issues over the next 6 months in response to proposals submitted by the Federal Energy Minister, Hon. Chris Bowen, MP, that aim to help customers pay lower prices.[f]

1.4 Market conditions may discourage new retailers from entering the market

There are currently 11 retailers offering to customers in NSW. The 3 largest retailers (AGL, Origin, and EnergyAustralia) supply 83% of the market, however, they are slowly losing market share. In aggregate, their market share has declined by 7% since June 2020. However, no new retailers have actively entered the market[g] since 2019–20, and further entry into the retail gas market may be limited.

Following volatile wholesale market conditions in 2022, a key challenge for retailers is being able secure wholesale gas and pipeline capacity at affordable prices. A number of government reforms have been implemented to help address these issues, including the Australian Government's new Gas Market Code which came into force in July 2023.

However, continuing uncertainty over market conditions and the impact of the government interventions, as well an expected decline in the customer base over the longer term, may discourage further entry.

[e] The Better Bills Guideline requires retailers to include a 'better offer' statement on the front page of consumer bills. This explains whether the retailer offers a better deal and summary instructions on how to switch plans.

[f] The details of these rule change proposals are included in our electricity report.

[g] The AER has granted new retailer authorisations, but these retailers have not sought to acquire any customers.

2 What we have heard from stakeholders

In a competitive market, businesses need to find new ways of doing things to gain and maintain customers—either by becoming more efficient to reduce prices, or by offering a better product or service. Prices can still increase in a competitive market where the underlying costs of supply increase. However, if retailers increase their prices above their costs (including a reasonable profit), then they will be outcompeted and lose customers.

The opposite can occur if competition is not effective. Retailers will be able to increase prices above costs, or deliver lower levels of service. This can occur for a variety of reasons, including if it is difficult for new gas retailers to enter the market, where there are barriers in the switching process, or where there is limited information for customers to make decisions that will benefit them.

It is IPART's role to consider the performance and competitiveness of the retail gas and electricity markets for small customers. We must report annually on the matters set out in Box 2.1. However, in undertaking this role, we are limited in the information we can consider. We are only able to consider publicly available information, information provided by the AER and the AEMC, and certain information from retailers on prices and customer numbers.[1]

Box 2.1 IPART's role and the information we may consider

IPART, as Market Monitor, must report on the following matters:

- the participation of small customers in each market and, if the Market Monitor thinks it appropriate, particular groups of small customers;
- prices of electricity or gas for small customers in regional areas;
- any barriers to entry to or exit from, or expansion, in each market;
- the extent to which retailers are competing to attract and retain small customers;
- whether price movements and price and product diversity in each market are consistent with a competitive market;
- if the Market Monitor is of the opinion that it is required, steps necessary to improve the competitiveness of each market;
- whether there is a need for a detailed review of retail prices and profit margins in each market;
- any other matters the Market Monitor thinks appropriate.

Source: Section 234A of the National Energy Retail Law (NSW)

2.1 We received 14 submissions to our review

We published a Consultation Paper for our Energy Market Monitoring report in August 2024.[2] We sought feedback on:

- our analytical approach for Energy Market Monitoring and the metrics we report on
- the impact of changing tariff structures, including time-of-use and demand tariffs on households and businesses, including whether they are creating barriers to switching
- information available to help IPART understand and report on virtual power plant programs in NSW and the experience of customers who have participated in virtual power plants
- other emerging issues in the NSW retail electricity and gas markets that we could consider in this report (or in future Energy Market Monitoring reports).

We received 14 submissions in response to this consultation paper from a range of stakeholders, set out in Table 2.1 The submissions are publicly available on our website, except for one confidential submission that was received. Due to the confidential nature of this submission, it is not referred to in our reports.

Table 2.1 Number of submissions by stakeholder group

Stakeholder group	Number of submissions	Name of stakeholders that provided a submission
Consumer advocacy groups	2	Justice and Equity Centre National Seniors Australia
Individuals	4	P. Robertson M. Fletcher H. Griffiths Name supressed
Energy retailers	5	EnergyAustralia AGL Origin Engie Powershop (Shell Energy)
Distribution Network Service Provider	1	Ausgrid
Ombudsman	1	EWON
Confidential submission	1	Energy Locals Pty Ltd

Reflecting the questions for consultation, most of the issues raised by stakeholders were related to the NSW retail electricity market.

The Justice and Equity Centre raised concerns around certain retailer pricing practices that result in worse outcomes for customers that are likely to relate to both the electricity and gas markets. We have included our analysis of these issues in our electricity report:

- Retailers often increase their prices once or twice in the 12-month period after a customer signs up to an offer.[3] This means that only the customers that are switching very frequently are likely to be on the lowest prices.
- Customers are experiencing confusion around whether they should be switching, as retailers offer different prices for plans with the same name. Customers are receiving notifications that they can save on their bills by switching to a plan with the same name that they are already on.[h,4]

There were only a few issues raised through submissions that were specific to gas:

- The high cost of permanently disconnecting from the gas network, which we discuss below.
- That IPART should publish data on customers disconnecting from the gas network and monitoring the extent of electrification.[5] We have included information in Chapter 3 of this report.

2.2 High customer fees for removal of gas service

Jemena customers are currently charged $1,617 for abolishment (permanent removal of gas meter) and $157.30 for meter disconnection (the restriction of gas from passing through the meter).[i6]

EWON is receiving complaints from consumers about the cost of abolishment.[7] In its submission, it referred to a recent complaint from a customer that involved a large retailer advising it only offered the much higher cost abolishment option, and would not provide a disconnection service.[8]

Stakeholders are concerned that the high abolishment costs will discourage customers from shifting from gas to electricity.[j,9] The Justice and Equity Centre is also concerned that over the long term, lower income households and renters are at risk of being left on the gas network, and facing higher gas costs as network costs are spread across a smaller customer base. as higher income households remove their gas service.[10]

The AER is currently considering the level of these fees as part of the Jemena's access arrangements for 2025–30 (Box 2.2).

h The Better Bills Guideline requires retailers to include a 'better offer' statement on the front page of consumer bills. This explains whether the retailer offers a better deal and summary instructions on how to switch plans.

i A further charge of $126.50 applies to customers who have had their meter disconnected and wish to reconnect.

j The NSW Consumer Energy Strategy includes a commitment to set new targets to increase uptake of key technologies, boost energy efficiency, and increase uptake of electrification for 2035 and 2050.

Box 2.2 Jemena's proposed access arrangements for 2025 to 2030

The AER is currently reviewing Jemena's proposed access arrangements for the 5-year regulatory period of 1 July 2025 to 30 June 2030 (2025–30 period). The AER will determine how much revenue that Jemena can recover from its customers. As part of this proposal, Jemena proposing a $1,424.98 fee for abolishment of gas services.

In June 2023, the AER made decisions on access arrangement proposals submitted by Victorian gas distributors for the 2023–28 period. This included reducing ancillary reference tariffs for abolishment in Victoria from $950 to $220. Only a portion of the abolishment costs are paid for by the customer requesting the abolishment, with the balance recovered from all Victorian customers via gas transportation tariffs.

The AER's decision was based on safety concerns that high abolishment tariffs disincentivised customers from requesting the abolishment service, leaving unused gas connections in situ for indefinite periods. The AER has noted that this approach was supported by other government departments and other stakeholders, including the Pipeline and Gas Networks team that sits within the NSW Department of Climate Change, Energy, the Environment and Water (DCCEEW). The AER explained the Pipelines and Gas Networks team expressed support for this approach to minimise abolishment costs and incentivise customer take up of abolishment.

However, Jemena has proposed to retain its current cost-reflective tariff, in part due to customer feedback that a user-pays approach is more appropriate.

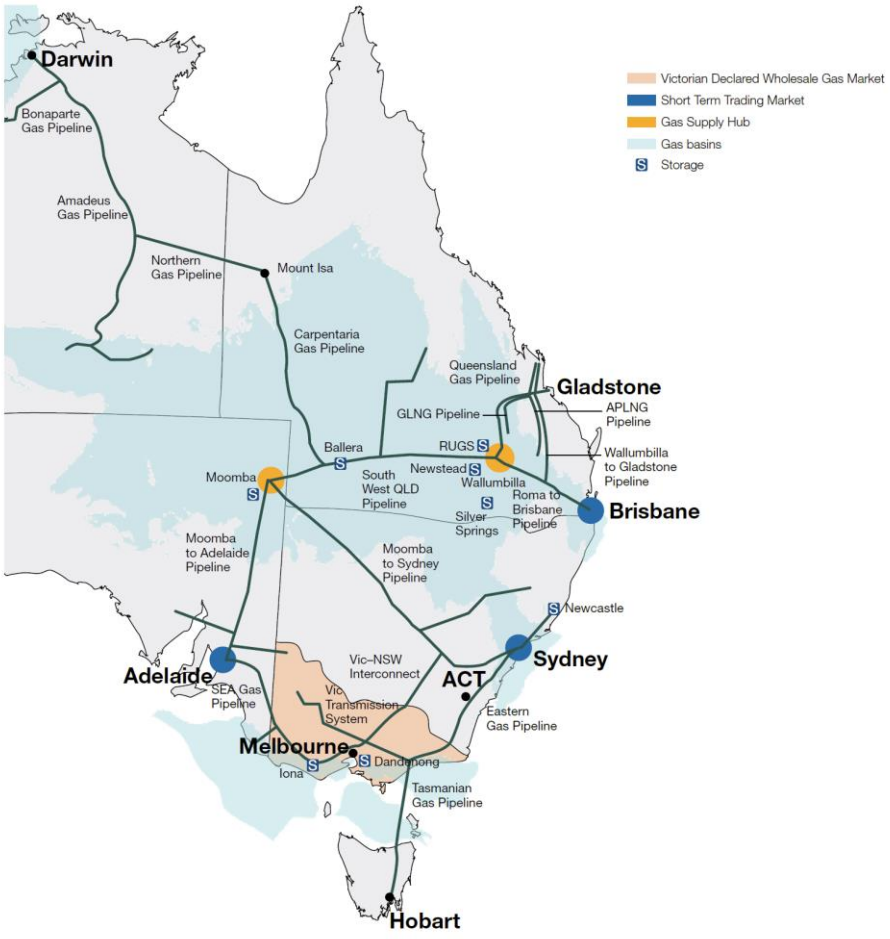
The AER will publish a draft decision on Jemena's access arrangements in November 2024 and will undertake consultation until February 2025. The AER will publish its final decision by 30 April 2025.

Source: Jemena, Jemena gas networks 2025 plan, June 2024; AER, Issues paper on the early signal pathway expectations, Jemena Gas Networks (NSW) access arrangement 1 July 2025 to 30 June 2030, August 2024.

3 Overview of the NSW gas market

The NSW gas market is interconnected with the broader Australian east coast gas market (Figure 3.1). NSW has some local reserves, such as the Sydney Basin and the Gunnedah Basin. However, it has no current production since AGL's Camden facility stopped producing in August 2023.[11] It depends on gas produced in other states and transported via transmission pipelines. The main production basin in eastern Australia is the Surat–Bowen Basin in Queensland.[12]

Figure 3.1 Eastern gas basins, markets, major pipelines and storage



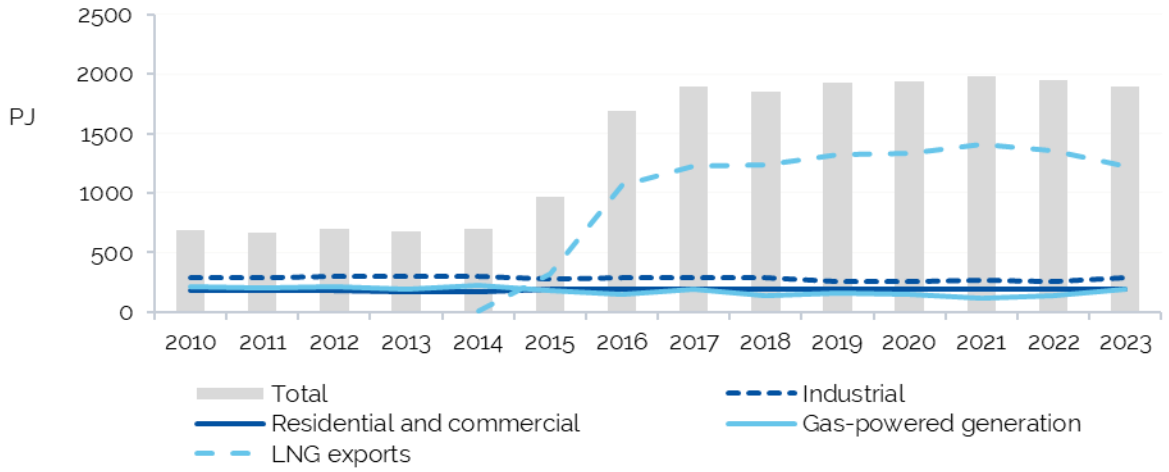
Source: AER, State of the Market 2024, p 47.

3.1 Australia is now one of the largest exporters of LNG

The Australian east coast gas market has transformed over the last decade since gas exports commenced out of Queensland's 3 liquefied natural gas (LNG) facilities in 2015. Gas demand has almost tripled, with exports now making about more than two-thirds of total demand (Figure 3.2). Due to the rapid expansion of the Australian LNG industry on both the east and west coasts, Australia has become one of the world's largest LNG exporters. In 2023, Australian exports made up 20% of global LNG exports, alongside Qatar (20%) and the United States (21%).[13]

Wholesale gas prices are now around 4 to 5 times higher[14] than they were before the development of the export industry, due to tight supply-demand dynamics on the east coast, and higher costs of production (which increase with the volumes of gas extracted).[15] With gas producers having a choice to export or sell gas domestically, prices in the domestic market are influenced by international gas prices.[16]

Figure 3.2 Gas demand in the east coast gas market



Source: AER, *Data - State of the energy market 2024 - Chapter 4 - Gas markets in eastern Australia*, accessed 18 November 2024.

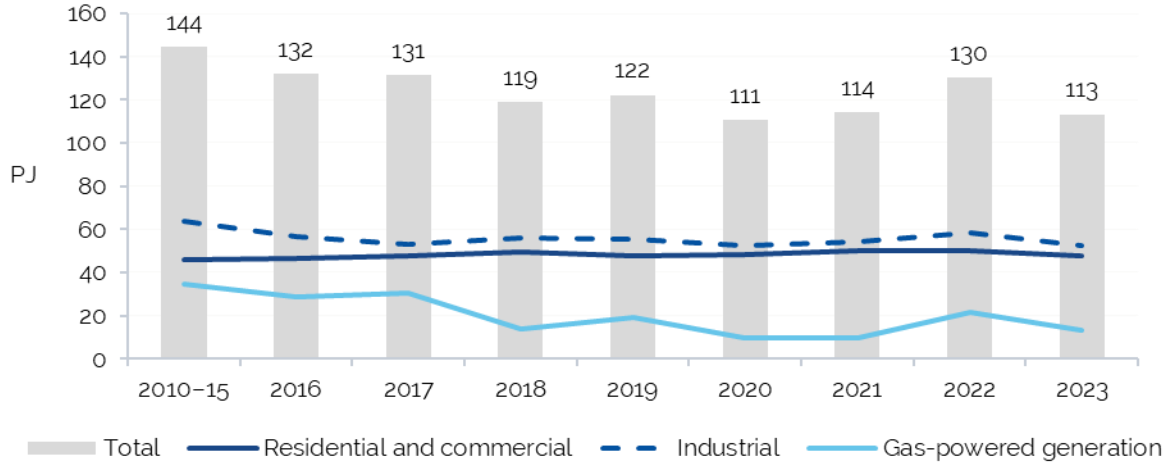
3.2 Changes in gas use in NSW

Of the gas consumed in NSW, in 2023, around 42% is used by residential and small customers.[17] There are currently around 1.5 million gas customers in NSW, equal to around 45% of households.[18] The remaining gas is used by industrial customers in manufacturing, mining and agriculture (46%), and electricity generation (12%).[19]

Figure 3.3 shows that gas usage has reduced in NSW, mainly driven by reductions in gas-powered electricity generation. However, AEMO forecasts that gas-powered generation in the National Electricity Market (NEM) is projected to increase in the coming years[20] to maintain reliability alongside batteries and hydroelectric plants. This is because gas-fired power plants are able to respond quickly when wind and solar sources are not generating power.[21]

Figure 3.3 shows that the amount of gas used by NSW residential and commercial gas customers has remained fairly constant over the past decade, even has the number of customers has increased by around 20% since 2015.[22] However, over time, gas usage may slowly reduce as more residential customers electrify their homes. In 2023, there was a small reduction in the total household demand from 50 PJ to 47 PJ, likely driven by a particularly mild winter.[23]

Figure 3.3 Gas demand in NSW



Source: AER, Data - State of the energy market 2024 - Chapter 4 - Gas markets in eastern Australia, accessed 18 November 2024.

In the ACT and Victoria, new gas connections are prohibited from this year.[24] In NSW, the number of new gas connections continues to increase at around 20,000 new connections per year (Table 3.1). This is higher than the number abolishments (around 3,000), which involve the removal of the provision of gas services from the property by removing the meter.[25] However, there are a growing number of premises where no gas has been consumed for over 12 months. These are known as long term dormant connections.

The number of abolishments combined with the growth in the number of long-term dormant connections (around 35,000), exceeds the number of new connections by almost 12,000 households.[26] The growth in the number of dormant connections may be due to the high costs involved in abolishment (discussed in the previous chapter).

Table 3.1 New, abolished and long-term dormant connections in the Jemena Network

	2022-23	2023-24	Change
New connections	22,978	23,217	239
Abolishments	3,603	3,229	-374
Connections dormant for more than 12 months	587,540	619,291	31,751

Note: New connections are defined as a new delivery point on the gas distribution network.[27] That is, a connection where there has never been a gas supply, as opposed to reactivating an existing connection.
Source: AER, Gas quarterly disconnection reporting, 28 August 2024, accessed 10 October 2024.

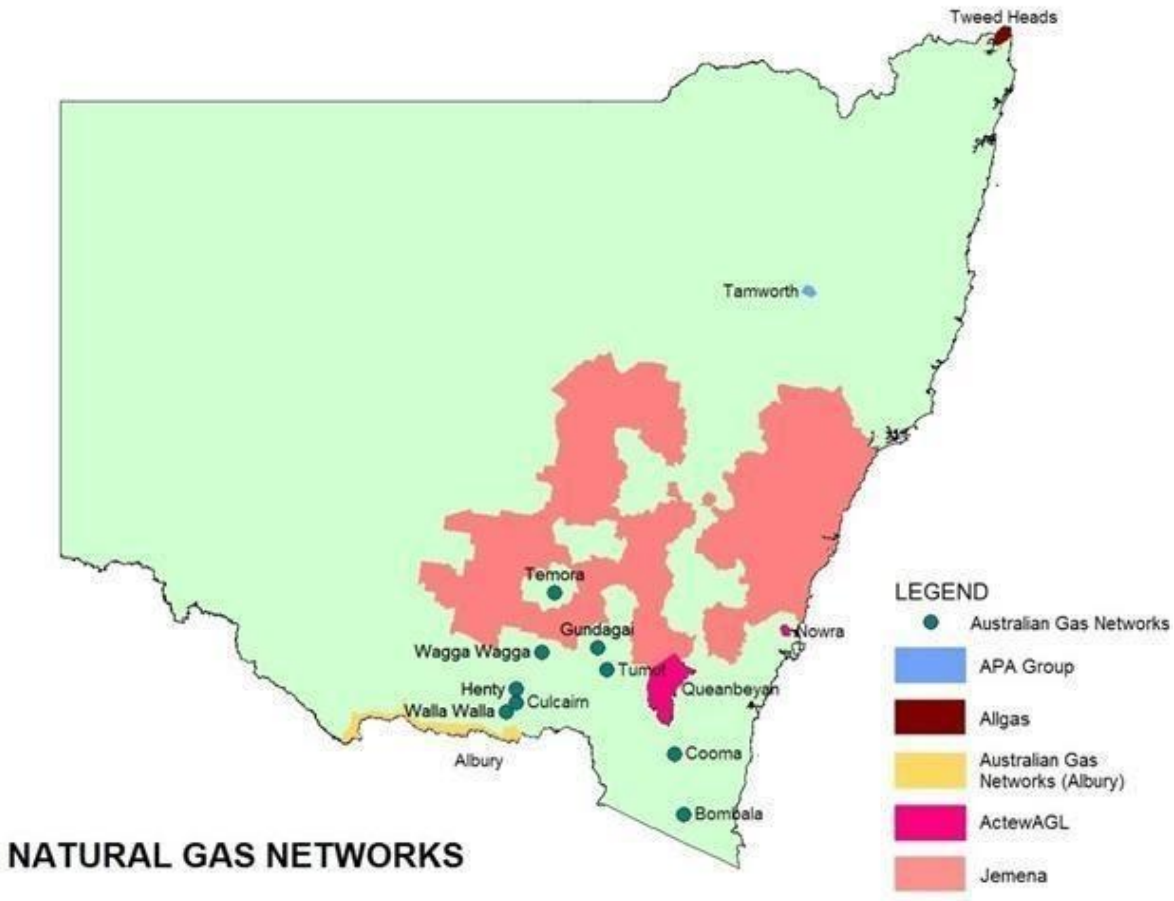
Some councils in Sydney are in the process of updating planning rules to require all new residential and non-residential development applications to be all-electric. However, the ACCC notes that NSW laws prevent councils from introducing planning controls that set higher environmental requirements than are in place at a state level.[28]

3.3 How gas is delivered to small customers in NSW

From the high-pressure transmission pipelines, gas pressure is lowered and injected into local distribution networks for transport to customers. There are 6 authorised natural gas network operators in NSW (Figure 3.4).

Almost all residential and business gas consumers in NSW are located in Jemena's Coastal distribution network (91% of customers in NSW).[29] There are far fewer consumers in regional gas network areas. The largest of these regional networks are Jemena's Country Network, supplying around 100,000 customers are 6% of all NSW customers the Australian Gas Network (AGN) Wagga Wagga (around 24,000 customers) and AGN Albury areas (around 28,000) customers.[30]

Figure 3.4 Gas distribution networks in NSW



Source: NSW Government, *Gas network operators*, accessed 17 June 2024

Small customers must purchase their gas from a retailer, who buy:

- wholesale gas from producers
- pipeline capacity from pipeline from pipeline owners
- distribution services on the low-pressure network.

Most wholesale gas is purchased from producers under confidential bilateral gas supply agreements. Traditionally these agreements have locked in prices and terms and conditions for long periods (15 to 20 years). However more recently there has been a trend to shorter contracts. Retailers can also buy gas on the spot market, which is mainly used by retailers to balance their contract positions.

In 2002, the NSW Government allowed the entry of new gas retailers. Prior to this distribution was provided by a single Government owned entity in each region.[31] Since 2002, all NSW small natural gas retail customers have been able to choose their retailer, and retailers set their own prices to recover their costs. Price regulation was removed in 2018 when the NSW Government considered competition was sufficient protection for customers against high prices.[k]

[k] Prior to 2018, IPART review and approved prices of the incumbent retailers in each distribution region. Smaller retailers were not subject to this oversight, but they had to compete with the incumbent retailers that were.

Retailers must offer gas to small customers on either a 'standing offer' (also known as a 'standard retail plan') or a 'market offer.' All retailers must offer a standing offer. This must contain certain terms and conditions set out in the National Electricity Retail Rules, including that the prices of these offers can't change more than once every 6 months, and there is a minimum amount of time before customers can be disconnected if they do not pay their bill.[32] Retailers also usually offer market offer plans, which are usually are set at lower prices when the customer signs up. However, these prices can change any time, subject to notification requirements.

4 Barriers to entry and expansion

Key findings

- Prior to 2019–20, the barriers to new retailers entering the gas market appeared relatively low, with the number of 'active retailers' (retailers with at least 50 customers) rising from 6 to 13 from June 2016 to June 2020.
- 12 new gas retailers gained authorisations to supply customers in NSW since June 2020. However none have started offering plans to customers.
- Of the 13 active retailers, 11 currently have plans available to new customers on Energy Made Easy.
- It is difficult for retailers to expand their market share, with the 'Big 3' retailers—AGL, Origin and EnergyAustralia—continuing to supply 83% of the market. However, the market share of each of these retailers has fallen since June 2020 and in aggregate they have lost around 7% of the market. Since June 2020, the 2 retailers that have grown their market share most are:
  - Red Energy, gaining around 50,000 new customers, to almost double its market share to 7%
  - Simply Energy (recently acquired by Engie), gaining around 20,000 new customers, increasing its market share by 1.4 percentage points to 2.1%.
- After extreme market conditions in 2022, the key challenge for retailers is being able secure wholesale gas and pipeline capacity at competitive prices. Significant reforms to the gas market are underway in response to these issues. However, continuing uncertainty in the market and how the government interventions will play out may be discouraging further entry.

The entry of new suppliers and the expansion of smaller suppliers (who are already operating in market) can contribute to improved competitive outcomes as they compete with existing suppliers on price, product features and service quality to attract (and then retain) customers.[33] If new suppliers can enter a market and can provide customers with a cheaper or more suitable product offering, attempts by incumbents to exercise market power will be unsustainable since their customers will simply switch to the new entrant or to another supplier.

Even if there is not rivalry between existing suppliers, if the barriers to entry are sufficiently low that new suppliers are able to quickly enter and provide lower prices or a better offering, the market will generally tend towards more competitive outcomes.[34]

4.1 There are 11 gas retailers competing to supply customers in NSW

Over the past few years, there have been between 11 and 12 gas retailers in NSW offering plans to customers on Energy Made Easy.[l]

Table 4.1 shows all retailers are currently competing in the Jemena coastal region, where around 90% of NSW gas customers are located (see Chapter 3 for more detail). In the other smaller regions up to 5 retailers are actively competing for new customers. AGL, Origin, and Red Energy compete in most of the distribution regions. EnergyAustralia competes in the Southern distribution regions, and Covau is active in Tamworth and Wagga. More detail on the dynamics of the smaller distribution regions is included later in this chapter.

Table 4.1 Retailers with offers on Energy Made Easy by gas distribution region, as at June 2024

Retailer/ Distribution region	Jemena coastal	Adelong	Albury	Bombala	Murray	Temora	Wagga	Allgas	Tamworth	Queanbeyan	Shoalhaven
AGL[a]	✓	✓	✓		✓	✓	✓	✓		✓	✓
Alinta Energy	✓										
CovaU	✓						✓		✓		
Dodo Power & Gas	✓										
EnergyAustralia	✓		✓		✓		✓			✓	
Globird Energy	✓										
Origin Energy	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
Powershop	✓										
Red Energy	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
Sumo	✓										
ENGIE	✓										
Total retailers	11	3	4	2	4	3	5	3	3	4	1

a. Includes ActewAGL

Source: Energy Made Easy.

In addition to the retailers in Table 4.1 that have offers published on Energy Made Easy, Figure 4.1 shows that there are some 'active retailers' that are supplying gas to existing customers, but are not seeking new customers. 'Active retailers' are retailers with over 50 customers.[m]

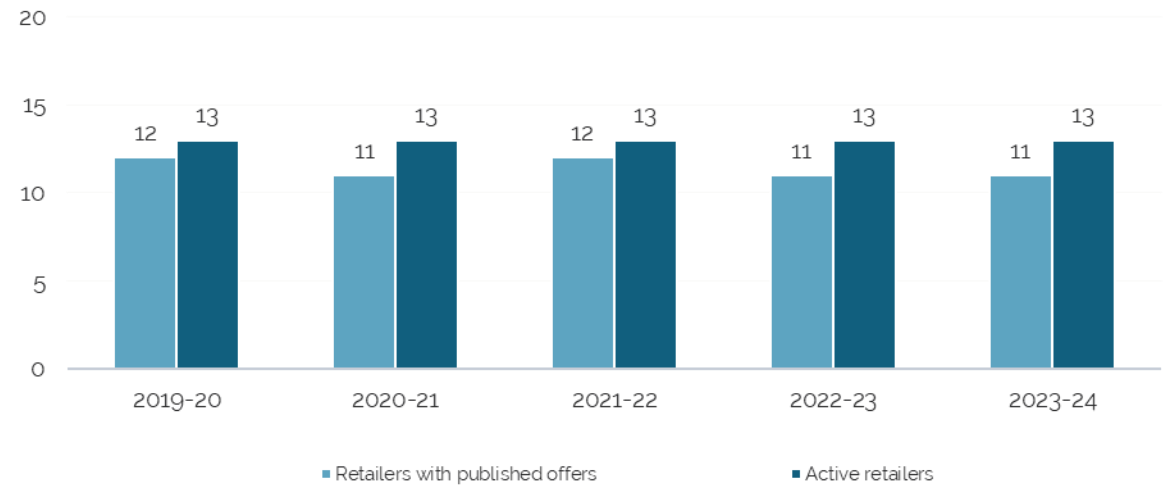
[l] Under section 63 of the National Energy Retail Law (NSW) 2012, a retailer must submit to the AER information and data relating to the presentation of standing offer prices and market offer prices that are generally available to classes of small customers in a jurisdiction. The AER publishes these offers on Energy Made Easy.
Generally available plans are all plans that are available to any customers in the appropriate distribution zone with the appropriate metering configuration and are generally available unless they are a restricted plan.

[m] This definition of *active retailer* is consistent with that used in the ACCC's Inquiry into the National Electricity Market. For example, see ACCC, Inquiry into the National Electricity Market, December 2023, p 24.

Over the last few years, of the active retailers, only Discover Energy and Savant Energy have not published gas offers. As of 2023–24, both retailers have less than 100 customers across NSW.

Since offering plans to customers for the first time in 2019–20, Discover Energy's customer numbers peaked in 2021–22 at around 3,000 customers, and it stopped offering plans to new customers in 2022–23. Savant Energy entered the market in 2019–20, and it only offered to supply gas in that year. Its customer numbers have since halved from around 160 to 80.

Figure 4.1 Number of retailers with published offers in NSW, and number of 'active retailers' (2019–20 to 2023–24)



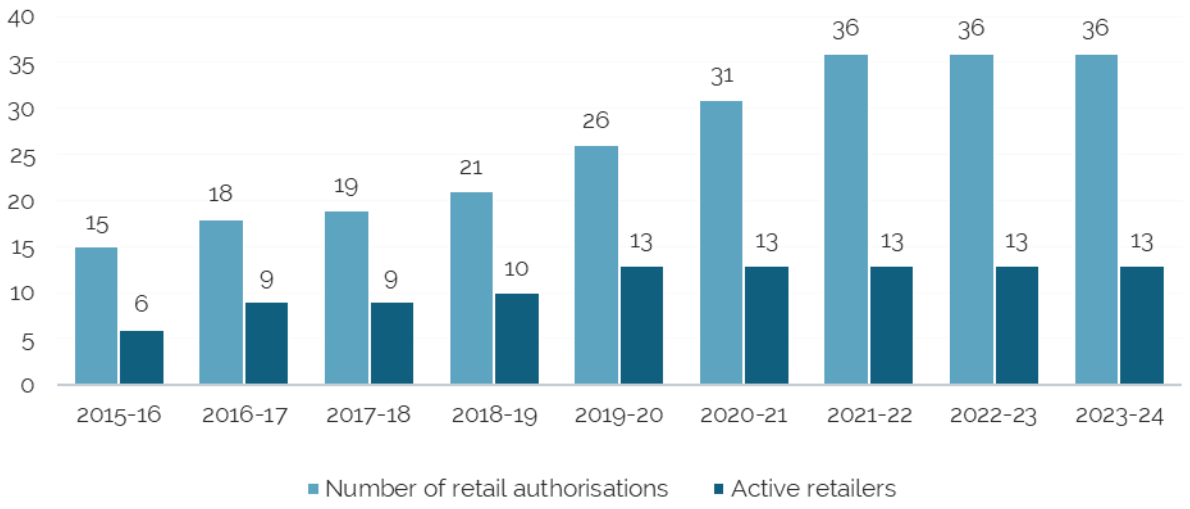
Note: Retailer numbers as at June each year, except for 2023-24, which uses retailer numbers at March. Not all of the retailers with published offers are 'active retailers', because they may not yet have 50 customers. In particular, Discover Energy began offering for the first time in 2019–20 but did not gain more than 50 customers until the following year. Reamped Energy began offering in 2021–22 but its customer numbers peaked at 45 in that year, and have since declined to 4.
Source: AER, Schedule 2 - Quarter 3 2023–24 Retail Performance Data, accessed 27 November 2024; AER, Schedule 2 - Retail performance data Q4 2020–21, accessed 27 November 2024.

4.2 Retail numbers have doubled in the last 10 years, but there have been no new entrants since 2019–20

Prior to 2019–2020, the number of total active retailers more than doubled between 2015–16 and 2019-20 from 6 to 13 (Figure 4.2). This suggests that the barriers to entry were relatively low. However, no new retailers have offered plans to supply new customers since 2019–20.

Figure 4.2 shows that in addition to the 13 active retailers as at June 2024, there were a further 23 retailers who had an authorisation from the AER to provide gas services. However, these retailers were not actually supplying any customers (or had less than 50 customers). More detail on the change in retail authorisations is provided in Box 4.1

Figure 4.2 Number of active retailers and retail authorisations (2015–16 to 2023–24)



Note: Retailer numbers as at June each year, except for 2023-24, which uses retailer numbers at March.
Source: AER, Authorisations, accessed 27 September 2024; AER, Schedule 2 - Quarter 3 2023–24 Retail Performance Data, accessed 27 November 2024; AER, Schedule 2 - Retail performance data Q4 2020–21, accessed 27 November 2024.

Table 4.2 provides more detail on how the active retailers changed since 2015–16. It shows that the net addition of 7 retailers between 2015–16 and 2023–24 is made up of 9 new retailers entering the market, 1 being acquired, and 1 leaving the market.

In a well-functioning market, business exits occur for a range of reasons including changing consumer preferences and economic shocks. Businesses that use higher risk strategies or whose innovations fail are prone to exiting the market, particularly when disruptions occur. However, numerous retailers exiting the market (or no longer actively competing for new customers) can result in weaker competitive pressures and be a cause for concern.[35]

Table 4.2 Movements of active retailers in the NSW gas market (residential and business customers)

	Entries[a]	Acquisitions	Exits
2015-16			
2016-17	Alinta, Amaysim, Simply		
2017-18			
2018-19	Real utilities,		
2019-20	Globird, Savant, Sumo		
2020-21	Discover Energy[b]	AGL acquires Amaysim	
2021-22	Powershop		Real utilities
2022-23			
2023-24			

a. A retailer is not counted as having entered the market until it has acquired at least 50 customers. In addition to those listed, Win Energy began offering to customers in 2018–19, but its customer numbers have never exceeded 3 customers. Reamped Energy began offering in 2021–22 but its customer numbers peaked at 45 in that year, and have since declined to 4
b. Discover Energy began offering for the first time in 2019–20 but did not gain more than 50 customers until the following year.

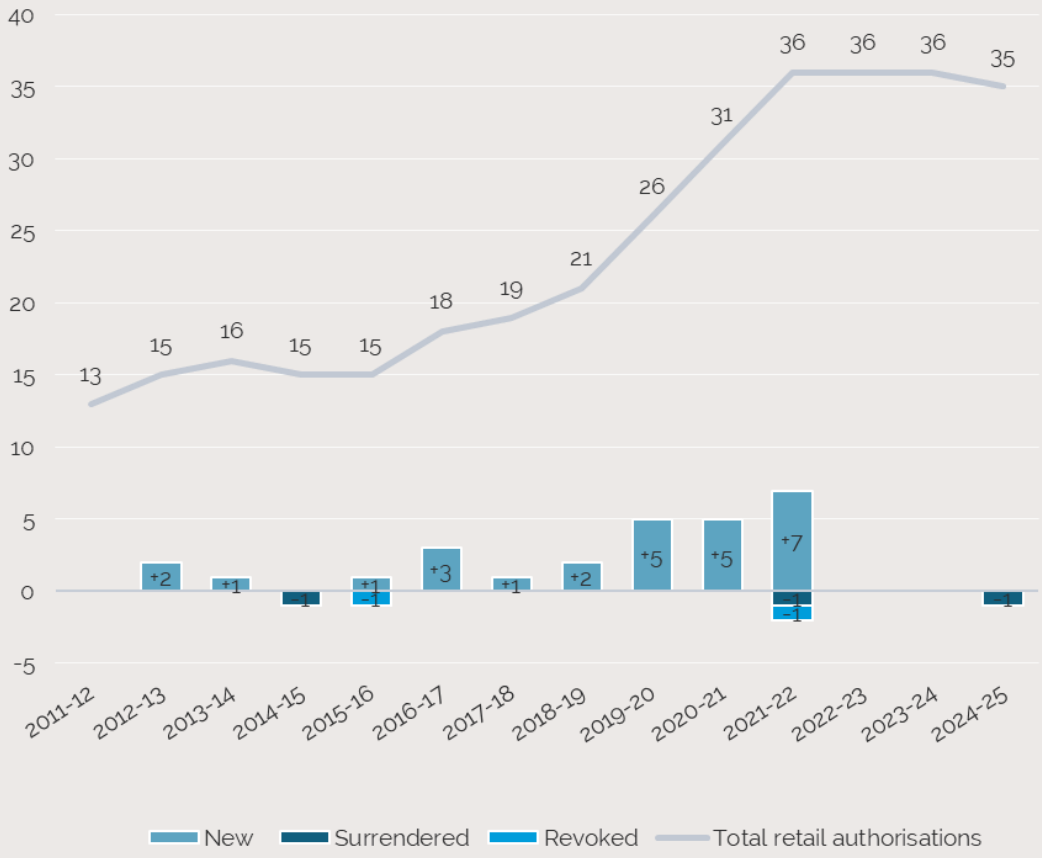
Source: AER, Schedule 2 - Quarter 3 2023–24 Retail Performance Data, accessed 27 November 2024; AER, Schedule 2 - Retail performance data Q4 2020–21, accessed 27 November 2024.

Box 4.1 Gas Retailer Authorisations in NSW

As at September 2024, there were 35 retailers authorised by the AER to supply gas services to NSW customers, up from 13 in 2011–12. Figure 4.3 shows that since 2011–12:

- 27 new retailers became authorised
- 3 surrendered their licence (Australian Power and Gas 2014–15, Amaysim 2021–22, Reamped, 2024–25)
- 2 had their licences revoked (Go Energy in 2015–16, and Weston Energy in 2021–22).

Figure 4.3 Number and change in the number of gas retail authorisations for NSW



Source: AER, Authorisations, accessed 27 September 2024.

4.3 Concentration in the NSW retail gas market has slowly declined

Market concentration provides an approximation of the size of the suppliers in a market. Changes in market concentration over time can reveal the ability of new entrants and smaller competitors to attract customers and expand.[36] High and stable rates of concentration in a market raises the risk that competition in the market will be muted. This can lower the incentive for firms to innovate and improve product offerings and may lead to higher prices.

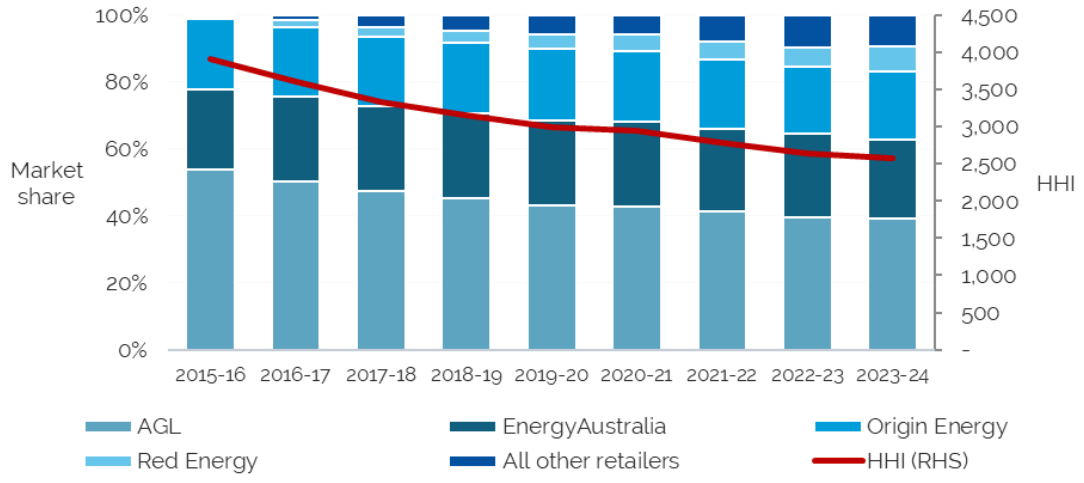
The retail gas market in NSW continues to remain relatively concentrated. Figure 4.4 shows that as at March 2024, AGL supplies around 40% of the market (down from 53% in June 2016). It also shows that the 3 largest retailers (Origin, AGL and EnergyAustralia) hold an aggregated market share of 83%.[37] This is down from 98% in 2016 (a decline of 15 percentage points). The decline in market concentration has been consistent over the period, including a reduction of around 1 percentage point in 2023-24.[38] Over the same period, Red Energy's market share of residential customers has increased from 1% to 7%.

The remaining 9 retailers held an aggregate market share of 9% as at March 2024. Figure 4.5 shows that of these:

- Alinta, with around 40,000 customers, holds the largest market share (2.6% up from 2.1% in 2019–20)
- Engie/Simply has grown the most since 2019–20, gaining around 20,000 customers, up 1.4 percentage points.

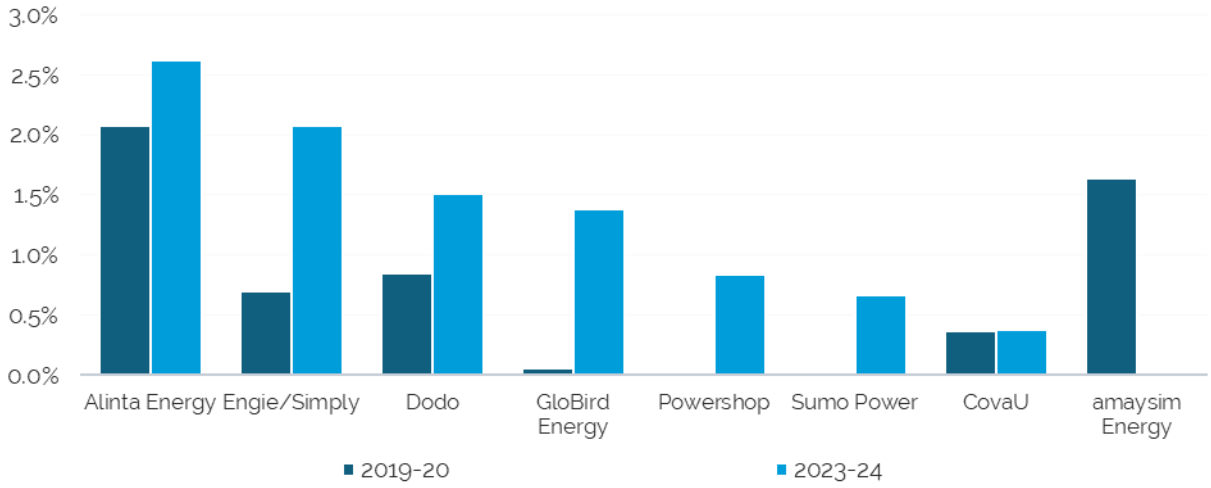
The Herfindahl-Hirschman Index is another measure of market concentration and is typically used in horizontal merger analysis (explained in Box 4.2). The Herfindahl-Hirschman Index has consistently declined year-on-year since 30 June 2016 from 3,835 to 2,575 (Figure 4.4).[39]

Figure 4.4 Market shares and the Herfindahl-Hirschman Index for NSW gas market (residential and gas customers)



Note: Market shares and the Herfindahl-Hirschman Index are based on the number of residential customers with each retailer on 30 June of the relevant year. Data for 2023–24 is based on customer numbers for 31 March 2024 (which was the latest available data point).
Source: IPART calculations AER, Schedule 2 - Quarter 3 2023–24 Retail Performance Data, 21 June 2024, accessed 7 August 2024.

Figure 4.5 Market share of smaller retailers 2019–20 and 2023–24



Note: Amaysim's customers were acquired by AGL in 2020–21. Market shares are based on the number of residential customers with each retailer on 30 June of the relevant year. Data for 2023–24 is based on customer numbers for 31 March 2024 (which was the latest available data point).

Source: IPART calculations AER, Schedule 2 - Quarter 3 2023–24 Retail Performance Data, 21 June 2024, accessed 7 August 2024.

Box 4.2 The Herfindahl-Hirschman Index

The Herfindahl-Hirschman Index is a commonly used measure of market concentration.

The HHI is calculated by summing together the squared market shares of each supplier in a market at a point in time. The Herfindahl-Hirschman Index can range from close to zero for a highly competitive market (where there are a large number of retailers all holding small market shares) to 10,000, which represents a monopolistic market (a market with a single supplier).

The ACCC and other competition regulators use the Herfindahl-Hirschman Index as one concentration metric in horizonal merger analysis and market studies.

The ACCC considers it is less likely to identify competition concerns where a post-merger Herfindahl-Hirschman Index is:

- less than 2,000, or
- greater than 2,000, with a delta less than 100

The US Department of Justice considers:

- a market with a Herfindahl-Hirschman Index greater than 1,800 is highly concentrated, and
- a change in the Herfindahl-Hirschman Index of more than 100 points is a significant increase

The ACCC's and US Department of Justice's Horizontal Merger Guidelines explain that while market concentration is not determinative in and of itself of the level of competition in a market, it can provide an indication of whether a market and a merger within that market may be more likely to result in suppliers exercising market power through unilateral or coordinated effects.

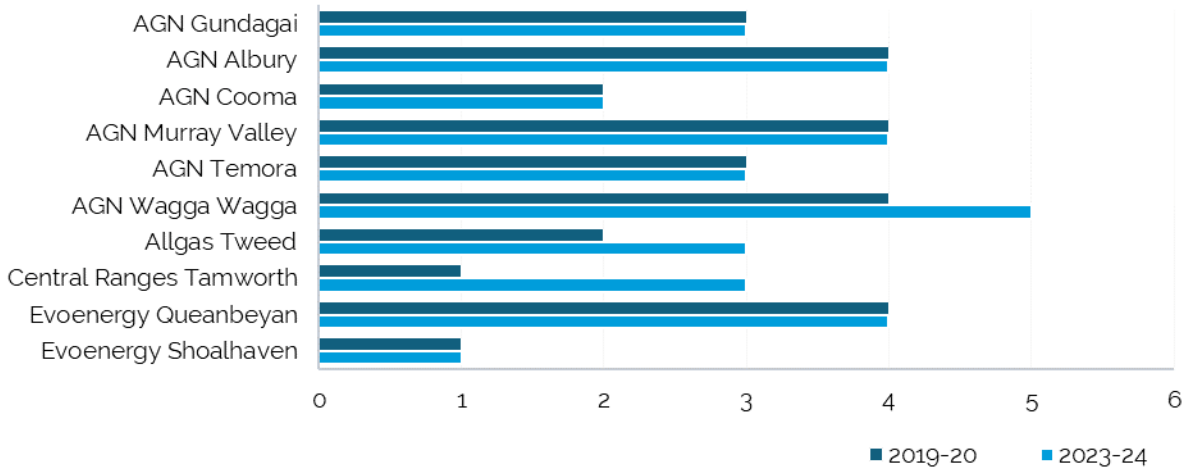
Source: ACCC, Horizonal Merger Guidelines, 2008, update 2017, accessed 29 July 2024, pp 33-35; US Department of Justic, Horizontal Merger Guidelines, 2023, accessed 29 July 2024, pp 5-6

4.4 The regional markets are very small, which may limit further entry

As shown above in Table 4.1, there are fewer retailers competing in gas markets outside of the Jemena region.

Figure 4.6 shows that most regions being supplied by between 2 and 4 retailers, and have the same numbers of retailers now as they did in 2019–20. However there have been some movements. The number of suppliers in the Tamworth region has increased from 1 to 3, and 1 additional retailer is offering in Wagga Wagga and the Tweed regions.

Figure 4.6 Number of retailers with offers on Energy Made Easy by gas distribution regions outside of Jemena (2019–20 compared to 2023–24)



Source: Energy Made Easy

In the Shoalhaven distribution network, there is only one retailer operating. A single retailer without competitive pressure may have the opportunity to exert market power and increase profitability (for example, by increasing prices without any increase in underlying costs) or to reduce service quality (and reduce their cost base).

However, these markets can still deliver competitive outcomes for customers as long as the barriers to entry are sufficiently low that other suppliers could quickly enter the market and start competing for customers.

In addition, the availability of electricity as an alternative fuel may also help constrain gas prices. Although there are high switching costs from moving from gas for electricity, some customers may be financially better off replacing their gas appliances with electric ones if gas prices remain elevated over a sustained period.

There are no market offers available in the Shoalhaven distribution network; and only a single 'standing offer' contract from ActewAGL. Despite this, the prices in the Shoalhaven distribution network are comparable to other networks.

A survey of gas retailers conducted by Farrier Swier Consulting for the AEMC's 2019 Energy Competition Review[40] found that the size of the market has a bearing on potential entrants' perceptions of whether market entry would be feasible. There are fixed costs associated with negotiating pipeline access and the supply of wholesale gas that mean that the average costs per customer may be above the average customer revenue where there are few customers. For example, in a very small region such as the Shoalhaven, which has less than 5,000 gas customers, an average of 750 customers are likely to switch retailer each year once a competitor has established itself.[n] It may take some time for this level of switching to occur, especially if customers have historically been served by a single retailer and they may not be aware there is another supplier. In these circumstances, barriers to new entry can be high, as new entrants may be unlikely to secure enough customers to bring down their average costs in line with the incumbent suppliers that have a large customer base.

[n] Based on the average switching rates.

4.5 There are challenges accessing wholesale gas and pipeline capacity

The AEMC's 2019 review of competition discussed that some gas retailers were reporting it was difficult to access reasonably priced gas and pipeline capacity to transport gas, that this was seen as a barrier for entry and expansion.[41]

Potential retailers entering the NSW gas market need to be able to access wholesale gas and pipeline capacity to move gas from its source to major population centres. Gas production companies and gas pipelines are owned by different companies, which means that retailers must negotiate separately with producers to buy gas and with pipeline businesses to have the gas delivered. Where gas needs to flow across multiple pipelines to reach its destination, retailers may have to enter into several agreements for transport.[42]

These factors make entering the retail gas market relatively more difficult than the retail electricity market where retailers can readily purchase wholesale electricity from the NEM and access network services without the need to contract capacity. They are discussed in further detail below.

4.5.1 Access to wholesale gas

In its Gas Inquiry June 2020 Interim Report the ACCC considered that the uncertainty around the supply outlook over the immediate and longer term may discourage new potential retailers from entering the gas market.[43] More recently in its June 2024 report, it has reported that uncertainty appears to be continuing following the volatility of 2022 and subsequent regulatory changes, including introduction of the Gas Market Code (discussed below). It found that there are relatively low volumes of gas being contracted through long term gas supply agreements and fewer offers to market than in past years, and there has been a shift to short term gas transactions.[44]

In June 2024, the ACCC forecast sufficient gas supply in the short term. It reported that as in previous years, NSW will be reliant on gas from Queensland, and that to meet seasonal variations in demand, LNG producers would need to commit more gas to the east coast market and/or gas would need to be drawn from storage. However, shortfalls in the east coast gas market are predicted from 2027. This is earlier than its December 2023 forecast of a possible shortfall from 2028. The date from shortfalls may occur reflect anticipated delays in regulatory approvals for new projects and problems with legacy gas fields.[45]

In NSW, Santos has proposed the Narrabri gas project, which aims a potential annual yield of 55 petajoules (PJ) by 2026, equal to around half of NSW's gas demand.[o] Santos has committed this supply entirely to the domestic market. However, legal appeals challenging the project's approval have caused delays, postponing Santos' final investment decision until all project approvals are resolved.[46] Import terminals may also help to address supply gaps, although their viability is subject to international prices for LNG and the terminals securing foundation customers.[47] In NSW, Squadron Energy's LNG terminal in Port Kembla, which is the most advanced import project, aims to start importing gas in time for winter 2026.[48] However, due to uncertainty around the contracting of gas supply, it was reclassified by AEMO and removed from the list of anticipated projects feeding into forecast supply outlooks.[49]

[o] Based on gas demand in 2023. AER, State of the energy market 2024 Chapter 4 Gas markets in eastern Australia.

In response to concerns about domestic gas supply adequacy, the Australian Government has intervened in the gas market. The Australian Domestic Gas Security Mechanism was put in place in 2017 to allow the Minister for Resources to limit LNG exports or require companies to source additional gas if a domestic shortfall is anticipated. This scheme is in place until 2030. Queensland LNG producers have since entered agreements with the Government committing to offer uncontracted gas on reasonable terms to meet expected supply shortfalls. They also committed to offer gas to the Australian market on competitive market terms before offering any uncontracted gas to the international market.[50]

More recently, the Australian Government implemented the Gas Market Code (the Code), which commenced on 11 July 2023 (with a 2-month transitional period). The Code seeks to ensure east coast gas users can contract for gas at reasonable prices and on reasonable terms, and includes the following elements.

- a wholesale price cap of $12/GJ (superseding the temporary emergency price order cap of $12/GJ, which expired on 22 December 2023)
- an exemptions framework to incentivise producers to commit additional supply in the short term and facilitate new investment in the medium term to support access gas at reasonable prices and on reasonable terms
- transparency obligations, including additional reporting to the ACCC, to increase visibility of the amount of uncontracted gas to be produced, and timing when it will be available to the domestic market
- conduct obligations aimed at reducing bargaining power imbalances between gas producers and buyers and establishing minimum conduct and process standards for commercial negotiations.[51]

4.5.2 Access to gas transportation infrastructure

Many critical pipelines have little or no spare, uncontracted capacity, making it difficult for new suppliers to negotiate access. In addition, many pipelines face little competition and may charge monopolistic prices. Capacity on some pipelines is fully contracted to gas shippers, who do not fully use it.

Reforms since 2019 have aimed to improve access, allowing capacity trading on platforms and requiring unused capacity to be auctioned on a day-ahead basis. This auction has increased competition, particularly in southern markets, by enabling the movement of low-cost northern gas southward, easing price pressures.[52]

In May and June this year, transportation capacity upgrades on the north–south pipeline corridor increased the flow of gas southwards, delivering more supply from Queensland to southern markets.[53]

To further address capacity constraints, pipeline expansions have been progressing to increase the flow of gas from Queensland to New South Wales and Victoria. The Southwest Queensland Pipeline and Moomba to Sydney Pipeline have increased capacity by 25%, and are currently in the design phase of further expansion, with a final investment decision expected in 2025.[54]

5 Customer engagement

Key findings

17% of customers switched retailers in 2023–24, slightly higher than the longer-term average of 15%, driven by a spike on transfers in August 2023. This may reflect:

- Higher gas prices, which increased by more than 10% between June 2023 and June 2024.
- Increases in the savings available from switching, with typical residential customers moving to the lowest offers able to save around:
  - $220 by switching from the median market offer, a saving of 17%
  - $430 or 30% by switching from a standing offer.[p]
- A declining customer experience:
  - While 80% of households in NSW are satisfied with the overall provision of their gas service, satisfaction has declined for some aspects of the service over the past 3 years, including on customer service, clear and simple billing and assistance in managing gas bills.
  - Customer complaints to EWON about gas increased by 23% in 2023–24 compared to the previous financial year.

For markets to lead to good outcomes for consumers, customers need to be willing to switch suppliers, be able to switch suppliers with minimal frictions, and have the knowledge, information and tools necessary to assess, compare, and choose the best product for their circumstances.[55]

This provides firms the incentives to develop and offer products that meet customer needs and preferences, and compete on price to gain new customers and retain existing customers.

This chapter discusses the extent to which consumers are participating in the market, and our findings on the recent customer experience, which can affect customers' decisions to consider switching retailers.

Unless otherwise specified, the price impacts discussed in this chapter focuses on the publicly available prices on the Australian Government's Energy Made Easy website for the **Jemena coastal network** (which supplies around 90% of customers in NSW). Where we discuss 'the lowest offers' in the market, we are referring to offers at the 10th percentile. This helps ensure that our analysis avoids outliers, and that the offers being discussed are likely to be available to customers.

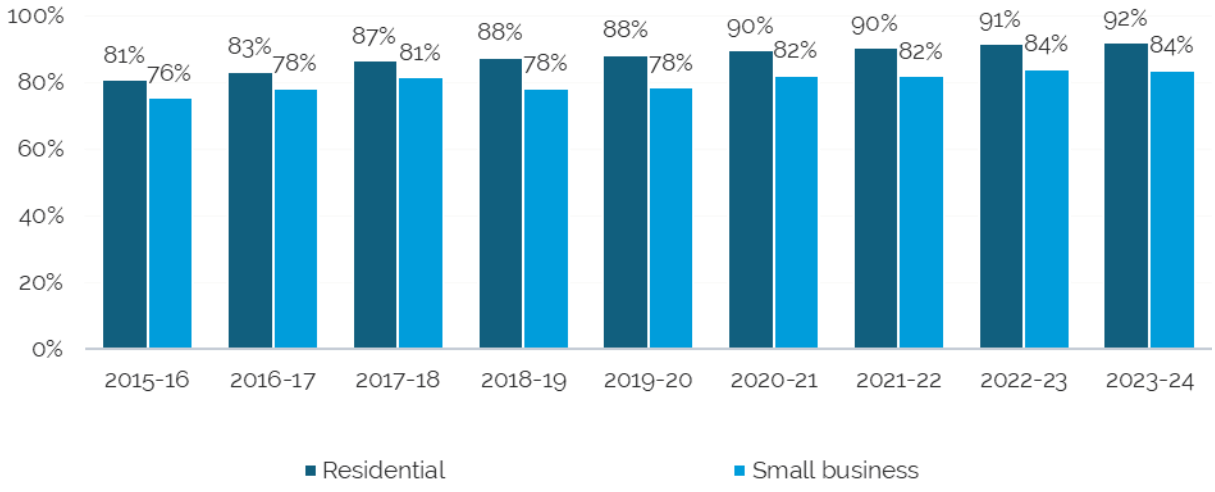
[p] As at June 2024.

5.1 More than 90% of residential customers have engaged in the market at least once

As set out in Chapter 2, under the National Energy Customer Framework, a retailer can provide household and business customers electricity under a market offer contract or standard offer contract.[56] A customer must actively sign up to a market offer, whereas they can be put onto a standard offer contract by default. Therefore, if a customer is on a market contract, it indicates that they have actively engaged in the market at their current supply address.

Figure 5.1 shows that 92% of residential customers and 84% of business customers are on market offer contracts, and therefore have engaged in the market before.

Figure 5.1 Proportion of small gas customers in NSW on market offer contracts



Note: 2023-24 numbers are based on quarter 3 data.
Source: IPART calculations AER, Schedule 2 - Quarter 3 2023–24 Retail Performance Data, 21 June 2024, accessed 7 August 2024.

The increasing numbers of customers on market offers does not indicate that there are likely to be a growing number of customers on cheaper offers. While market offer customers who have recently switched offers may be paying lower prices than standing offer customers, those who have not recently switched may be paying similar rates (or higher rates) than customers on standing offers.

5.2 More customers switched their retailer in 2023–24

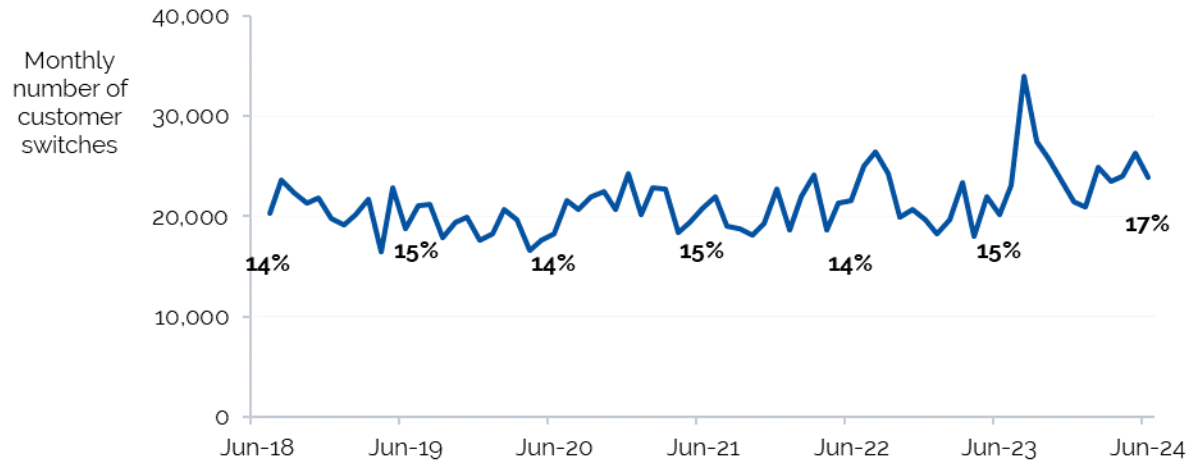
The number of customers switching retailers is one metric for customer engagement in the retail gas market.

Figure 5.2 shows that the level of switching in NSW has been very consistent over a long period at around 15%. The blue line in Figure 5.2 shows the numbers of switches per month, and the labels show the annualised switch rate. In August 2023 there was a spike in the number of switches above 30,000 for the month, leading the annual switch rate to peak at 17% for 2023–24.

There are some limitations with the switch rate:

- it does not capture the customers that stayed with their retailers but switched onto a better plan
- it includes cases where a customer moves house but keeps their current retailer
- it captures when the same customer switches more than once.[57]

Figure 5.2 Monthly number of customers that switched retailers and annualised switch rate



Source: AEMO, Gas retail market reports and data.

The uptick in switching in 2023–24 may have been in response to mid-year price increases and the savings available from switching offers. Box 5.1 provides more information about the range of prices in the market.

As we discuss in detail in the next chapter, between June 2023 and June 2024 bills for a typical residential customer increased by around:

- $140 (13%) on the median market offer
- $270 (22%) on the median standing offer.

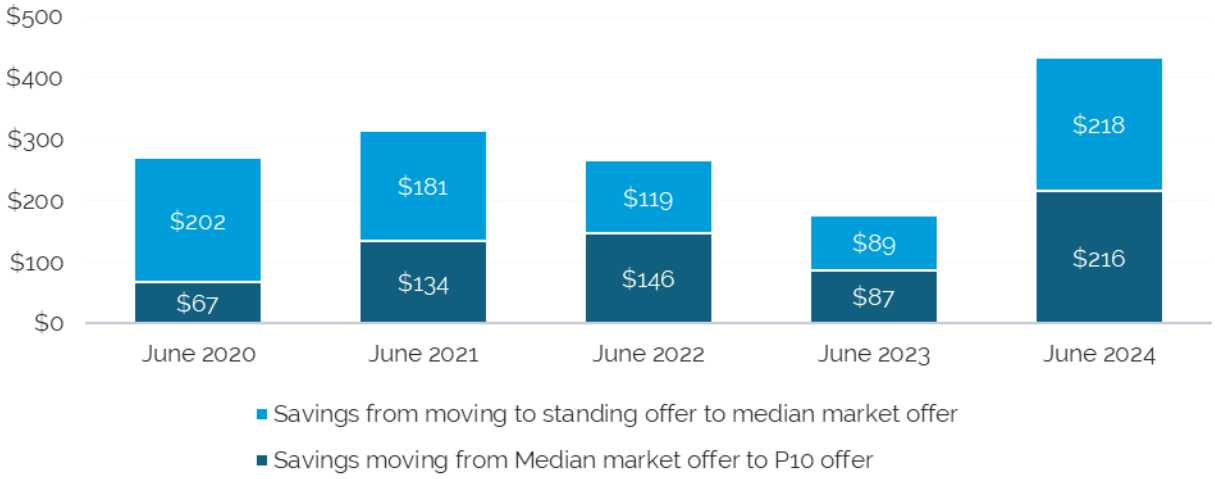
On the other hand, the lowest offers for residential customers (at the 10th percentile) only increased by 1%.

This meant that the savings from switching increased significantly in 2023–24 (Figure 5.3). As at June 2024, a typical customer switching to the lowest offers could save:

- $220 by switching from the median market offer, a saving of 17%
- $430 or 30% by switching from the median standing offer.

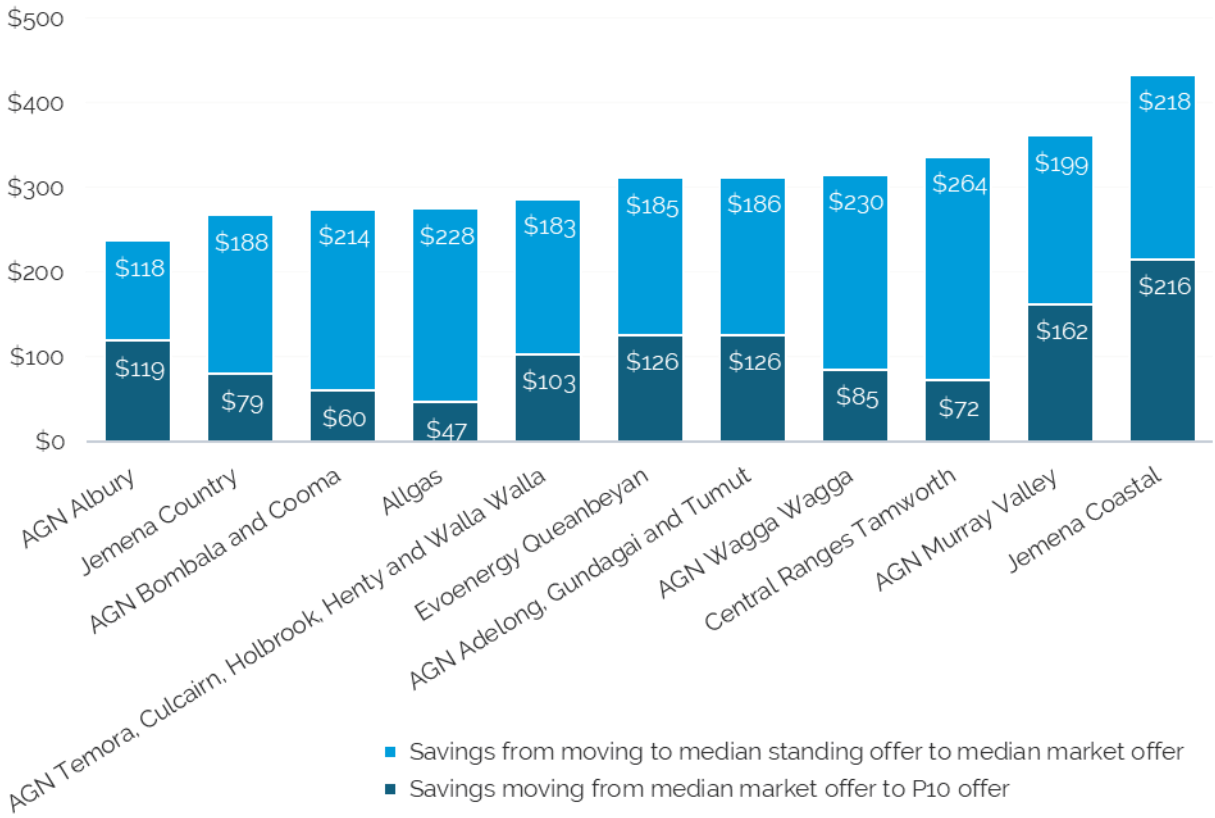
Figure 5.4 shows that as at June 2024, savings of between around $240 and $360 were available in the other distribution regions by switching from the median standing offer to the lowest offers.

Figure 5.3 Savings from switching offers over time (Jemena coastal, 24.4 GJ, nominal including GST)



Source: IPART Analysis using Energy Made Easy

Figure 5.4 Savings from switching offers by distribution region as at June 2024 (24.4 GJ, including GST)



Note: The Evoenergy Shoalhaven distribution region did not have any market offers in 2024, and so this region has not been included in the chart.

Source: IPART Analysis using Energy Made Easy.

Box 5.1 There is a range of gas offers in the market

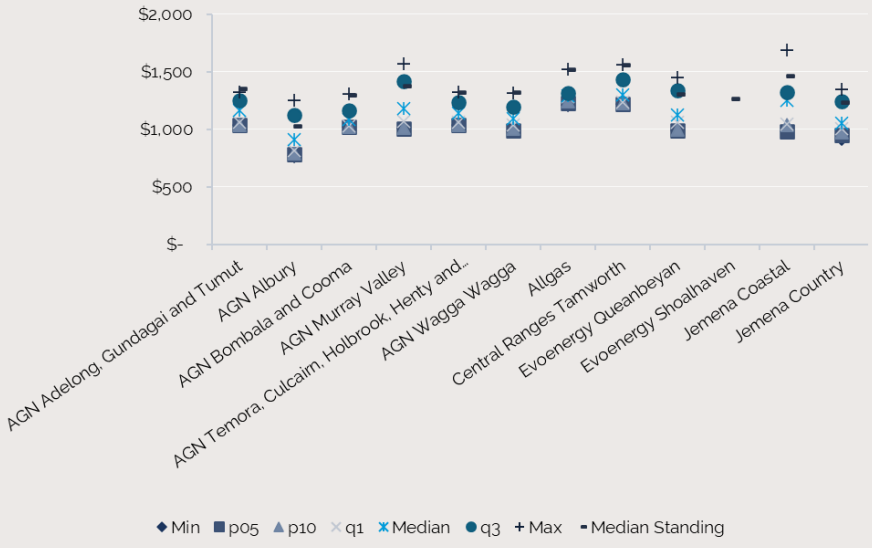
Retailers offer a range of prices which result in a wide spread of offers across the market. Figure 5.5 shows that in June 2024, the spread of offers in the Jemena coastal region between the q1 and q3 prices was $273, which was wider than it has been previously, and significantly wider than last year ($142).

Figure 5.5 Distribution of offers in the Jemena coastal region between June 2020 and June 2024 (nominal, 24.4 GJ gas, including GST)

Source: IPART Analysis using Energy Made Easy

There is a similar spread of offers across the distribution areas. Figure 5.6 shows that the Murray Valley currently has the widest spread between the q1 and q3 offers ($345), while the spread in Allgas is $35. In the Shoalhaven region, there is only one standing offer in the market.

Figure 5.6 Distribution of offers across distribution regions (June 2024. 24.4 GJ gas, including GST)



Source: IPART Analysis using Energy Made Easy

5.3 Customer satisfaction has decreased for some aspects of gas retailing services in 2024

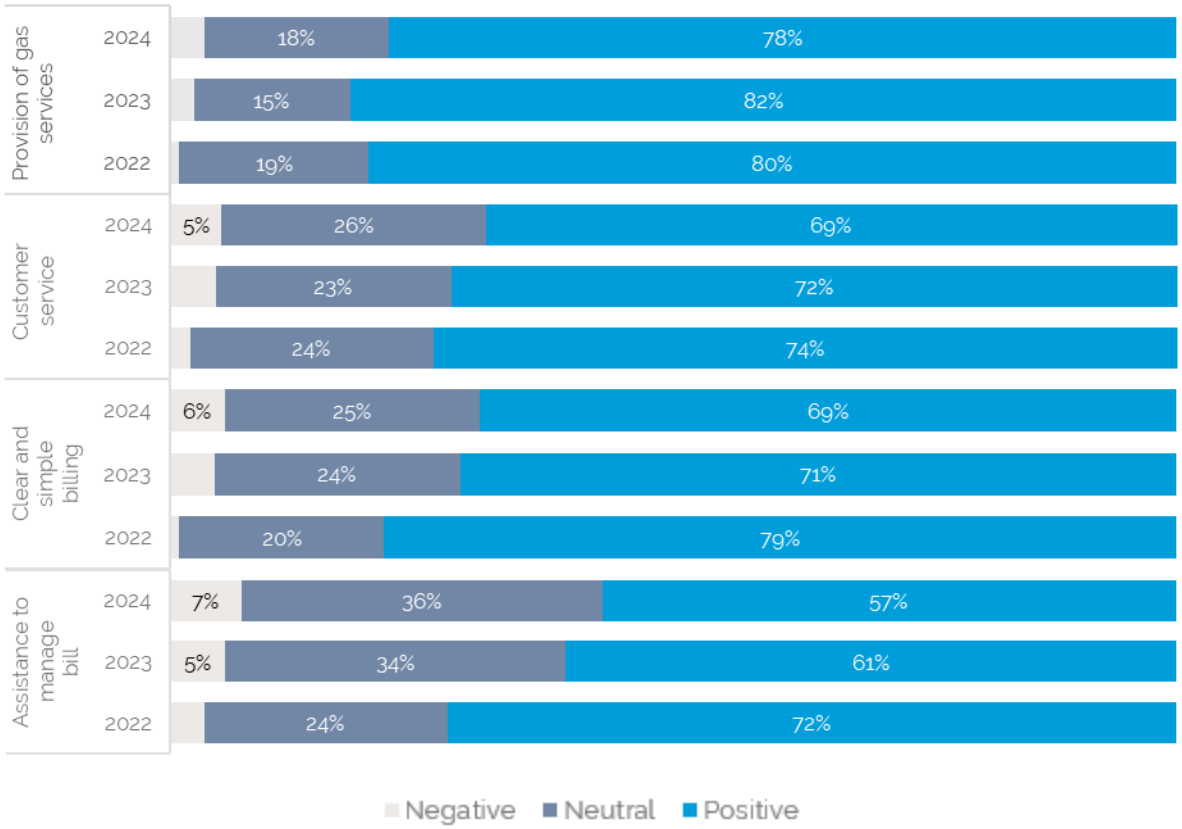
The level of switching can also reflect the broader customer experience. Where customers are unhappy with their retailer, they may be prompted to consider changing retailer.

Customer satisfaction with the overall provision of gas services has been stable over the past 3 years, with around 80% of households in NSW reporting a positive score (Figure 5.7). However, satisfaction with some aspects of service has decreased notably over this period. This includes customer service, clear and simple billing and assistance in managing gas bills.

The number of households that reported a positive score has decreased from June 2022 to June 2024 as follows:

- **Customer service:** 74% of households reported a positive score in June 2022, which decreased to 69% of households in June 2024 (a 5 percentage-point decrease).
- **Clear and simple billing:** 79% of households reported a positive score in June 2022, which decreased to 69% of households (10 percentage-point decrease).
- **Assistance to manage bills:** 72% of households reported a positive score in June 2022, which decreased to 57% in June 2024 (a 15 percentage-point decrease).

Figure 5.7 Satisfaction with the provision of gas services, customer service, clear and simple billing and assistance to manage bill, households in NSW



Number or respondents: 2022: 207, 2023: 201, 2024: 198

a. Survey questions:

- Provision of gas services - How satisfied are you with the following elements of your gas service over the past 6 months?
- Customer service - How satisfied are you with the following aspects of your gas retailer in the past 6 months?
- Clear and simple billing - How satisfied are you with the following aspects of your gas retailer in the past 6 months?
- Assistance to manage bill - How satisfied are you with the following aspects of your gas retailer in the past 6 months?

b. Respondents were asked to select a score from 0 to 10 in response to each question. A score of 0 to 3 is reported as a negative score. A score of 4 to 6 is reported as a neutral score. A score of 7 to 10 is reported as a positive score.

c. Values less than 5% are not shown in the chart for the purpose of readability.

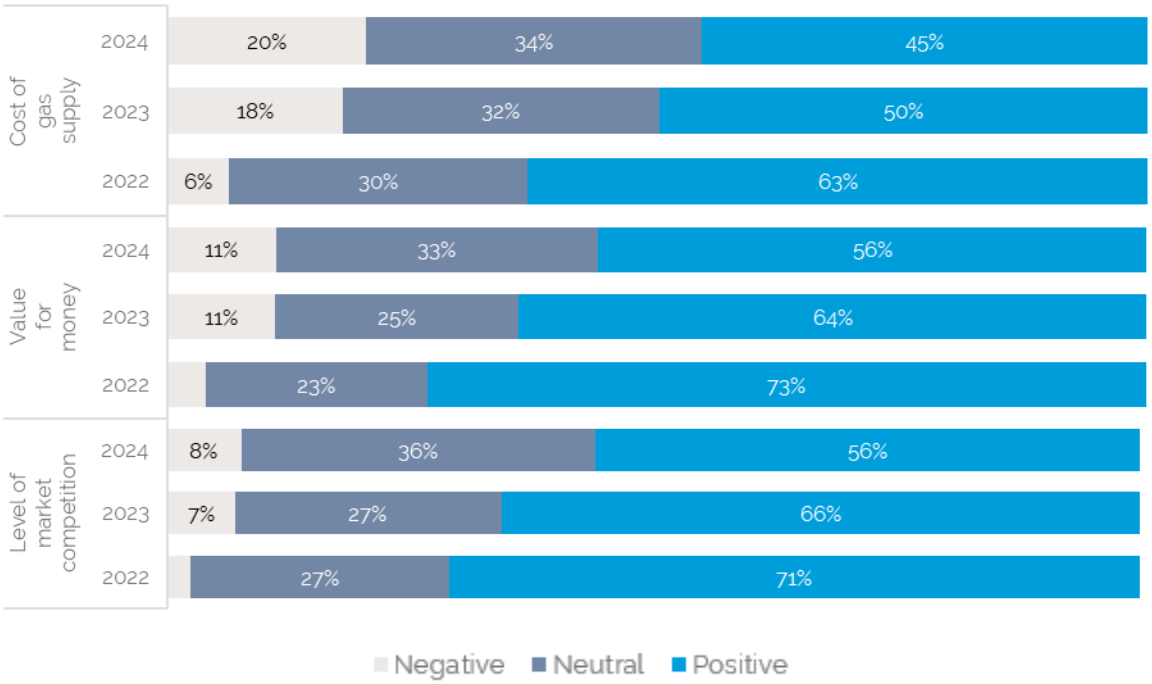
Source: Energy Consumers Australia, Sentiment Survey – June 2024 – Topline data, Sentiment Survey – June 2023 – Household Topline Data, Sentiment Survey – June 2022 – Topline Data, accessed 7 November 2024

Customer satisfaction with the cost of gas supply, value for money and level of market competition also decreased materially over the past 3 years (Figure 5.8).

The number of households that reported a positive score from June 2022 to June 2024 has decreased as follows:

- **Cost of gas supply:** 63% of households reported a positive score in June 2022, which decreased to 45% of households in June 2024 (an 18 percentage-point decrease).
- **Value for money:** 73% of households reported a positive score in June 2022, which decreased to 56% of households in June 2024 (a 17 percentage-point decrease).
- **Level of market competition:** 71% of households reported a positive score in June 2022, which decreased to 56% in June 2024 (a 15 percentage-point decrease).

Figure 5.8 Satisfaction with cost of gas supply, value for money and level of market competition, households NSW



a. Number or respondents: 2022: 207, 2023: 201, 2024: 198

b. Survey questions:

- Cost of gas supply - How satisfied are you with the following aspects of your gas retailer in the past 6 months?
- Value for money - How would you rate the overall value for money of the products and services provided by your gas retailer in the past 6 months?
- Level of market competition - How satisfied are you with the following elements of your gas service over the past 6 months?

c. Respondents were asked to select a score from 0 to 10 in response to each question. A score of 0 to 3 is reported as a negative score. A score of 4 to 6 is reported as a neutral score. A score of 7 to 10 is reported as a positive score.

d. Values less than 5% are not shown in the chart for the purpose of readability.

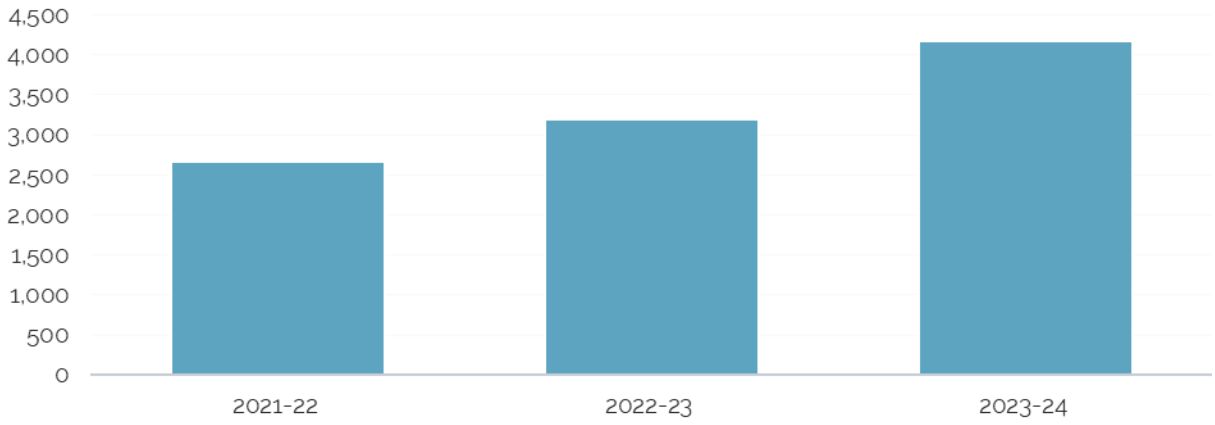
Source: Energy Consumers Australia, Sentiment Survey – June 2024 – Topline data, Sentiment Survey – June 2023 – Household Topline Data, Sentiment Survey – June 2022 – Topline Data, accessed 7 November 2024

5.4 Customer complaints have increased in NSW

EWON publishes quarterly statistics on the number of complaints received about electricity, gas and water services. Complaints to EWON about gas have increased by 23% since 2022–23 to 4,165 (Figure 5.9).[58] This is likely to be driven by high bills. The top cause of complaints to EWON in 2023–24 was high bills, making up more than 10,000 of the total complaints for energy and water. This was 63% higher than the previous year and may be due to the ongoing cost of living crisis.[59]

Customers in NSW are encouraged by the Energy and Water Ombudsman (EWON) to attempt to resolve their complaints with their retailer before making a complaint to EWON. If customers are unable to resolve their issue with the retailer, or they are not happy with their retailer's response, customers can make a complaint to EWON. Therefore, the number of EWON complaints likely reflects the number of customers who have been unable to resolve their issue with their retailer in the first instance, and the number of complaints made to retailers in the first instance could be significantly higher.

Figure 5.9 Number of EWON complaints about gas services in NSW



Source: IPART calculations based on EWON, EWON Insights, accessed 13 August 2024.

6 Trends in retail gas pricing

Key findings

- Over the last 4 years, the median market gas offer for residential customers has increased by 35%, or 12% in real terms. In the most recent financial year, residential prices (based on the median market offer) increased by 13% between June 2023 and June 2024 (an annual increase of almost $140 for a typical user consuming 24.4 MJ per year).
- Prices for business customers increased by significantly more than for residential customers. The median market offer increased by almost 50% over the last 4 years (or 21% in real terms). In the 12 months to June 2024, the median market offer increased by almost 20%, which is an annual increase of around $1,400 for business customers using 250 MJ per year.
- While most offers in the market have increased, the lowest residential offers have remained fairly stable – increasing by 1% or $11 in the past year, and remaining constant in real terms since 2019.

The price analysis used in this chapter focuses on the **median market offers available** on the Australian Government's Energy Made Easy website for the **Jemena coastal network** (which supplies around 90% of customers in NSW). We also include information on:

- the prices of the lowest offers available (at the 10th percentile), and the median standing offer prices
- on how prices compare in regional areas.

The published offers provide an indication of changes in prices generally available in the market. However, changes in offers available in the market may not represent the average price change experienced by consumers over the same period. There are several reasons for this, however one main reason is that many customers are on legacy offers. A legacy offer is an offer that has been withdrawn from the market and is no longer available to new customers. As the offer is not *'generally available to a class of customers'*, information on these offers (including prices) is not reported to the AER and is not included on the Energy Made Easy website. Customers on legacy offers tend be those who have not switched offers for some time.

As discussed in our electricity report, the ACCC is currently collecting information about the prices that all customers are paying for their electricity plan, but not for gas. We have made a recommendation that retailers be required to submit their prices for all their plans to the AER, along with the customer numbers for those plans. This will provide regulators with information about what prices customers are actually paying. The details of this recommendation can be found in Chapter 6 of our electricity report – pricing outcomes for customers in NSW.

6.1 Gas prices have increased over the past 4 years

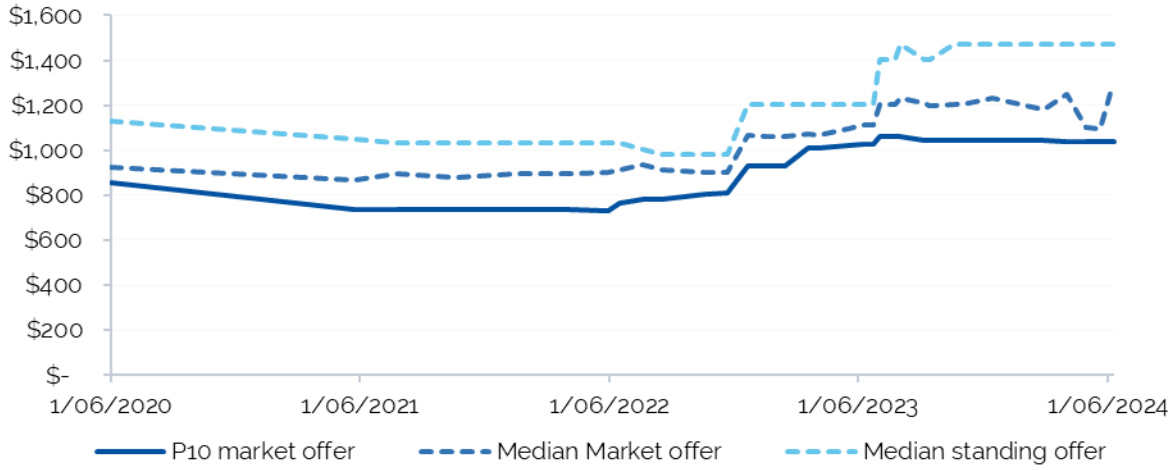
Figures 6.1 and 6.2 show how gas prices have changed over the last 4 years for residential and business customers. They show that prices are higher than they were 4 years ago.

For a typical residential customer using 24.4 GJ of gas, the annual bill for the median offer has increased from $920 to $1,250 (an increase of $330).

Figures 6.1 and 6.2 also show that there is a range of offers in the market. For residential customers:

- the lowest offers in the market (at the 10th percentile or P10) are typically between 5% and 20% below the median offer, and are currently around $220 or 17% lower than the median offer
- standing offers have typically been between 10% and 35% above the median offer, and are currently $220 or 17% higher.

Figure 6.1 Annual residential gas bill in the Jemena coastal region for a range of offers (nominal, June 2020 to June 2024, 24.4 GJ gas, including GST)

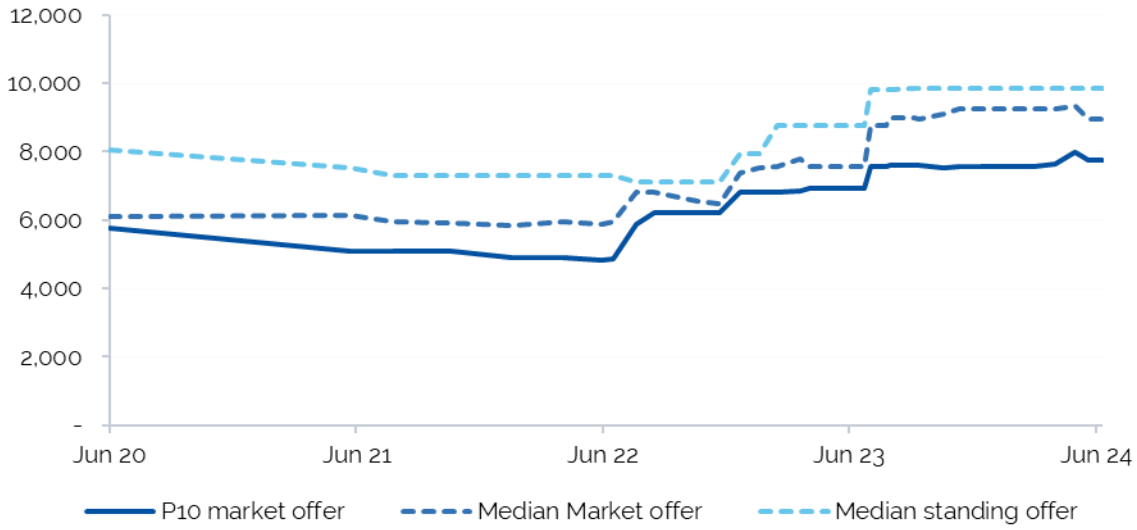


Source: IPART analysis of Energy Made Easy data

Figure 6.2 shows how prices have changed for business customers. It shows that over the last 4 years, the annual bill for the median offer for a typical business customer has increased from $6,000 to $9,000 (an increase of $3.000 or almost 50%) using 250 GJ of gas. It also shows that:

- the lowest offers in the market are currently around $1,200 or 13% lower than the median offer
- the standing offer is currently around $900 higher or 10% higher than the median offer.

Figure 6.2 Annual business gas bill in the Jemena coastal region for a range of offers (nominal, June 2020 to June 2024, 250 GJ gas, including GST)



Source: IPART analysis of Energy Made Easy data

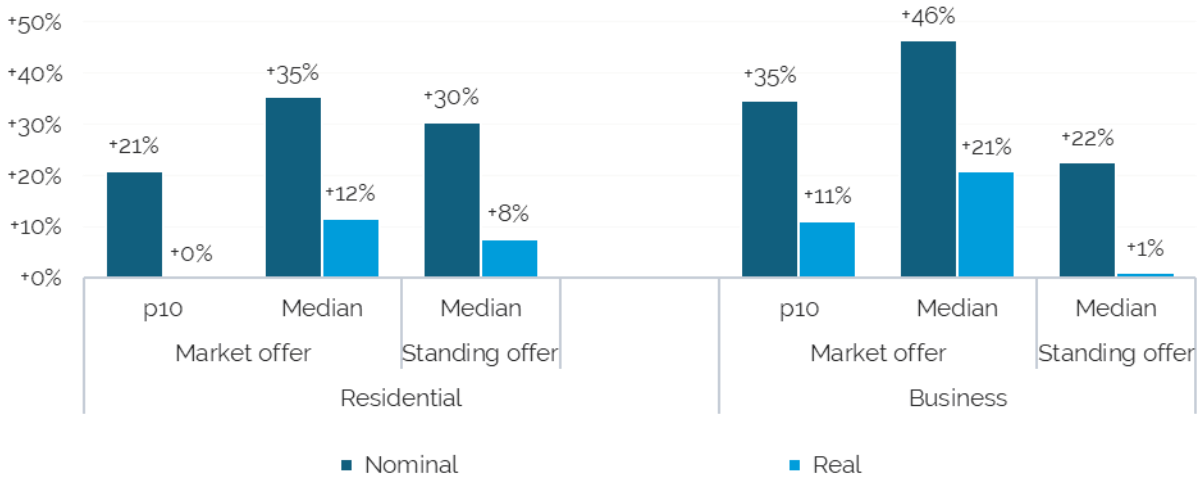
Figure 6.3 summarises the overall price changes for the different types of offers over the past 4 years. It shows that since 2019–20, for residential customers:

- the median market gas offer has increased by over 35%, or 12% in real terms
- the increase for the lowest offers in the market was lower at 21%, which is equal to the level of inflation over the period (and so it has remained constant in real terms).

It shows that prices have increased by significantly more for business customers. Over the past 4 years:

- the median market offer increased by almost 50% (or 21% in real terms)
- the lowest offers in the market have also increased by 35% (or 11% in real terms).

Figure 6.3 Change in gas prices, June 2024 compared to June 2020 for business and residential customers for a range of offers

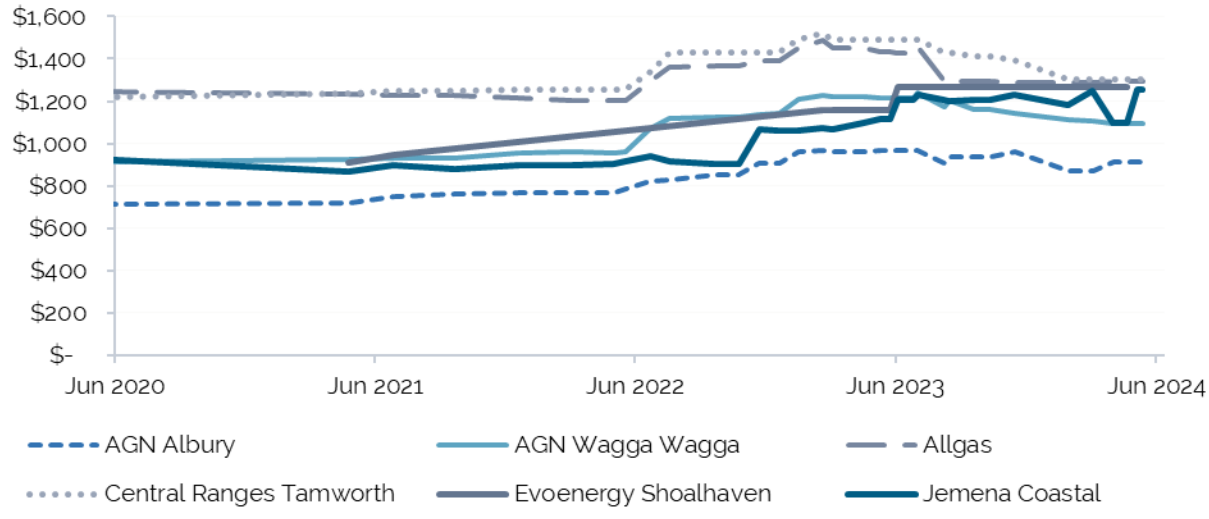


Source: IPART analysis of Energy Made Easy data

Figure 6.4 shows the price changes over time for selected distribution regions for residential customers. It shows that prices have risen across each of the regions since 2020, but prices in most regions are down from where they were a year ago. It shows that as at June 2024 the annual bill for the median offer ranged from $900 in Albury to $1,300 in Tamworth, however the bill for most distribution regions was in the $1,100 to $1,300 range.

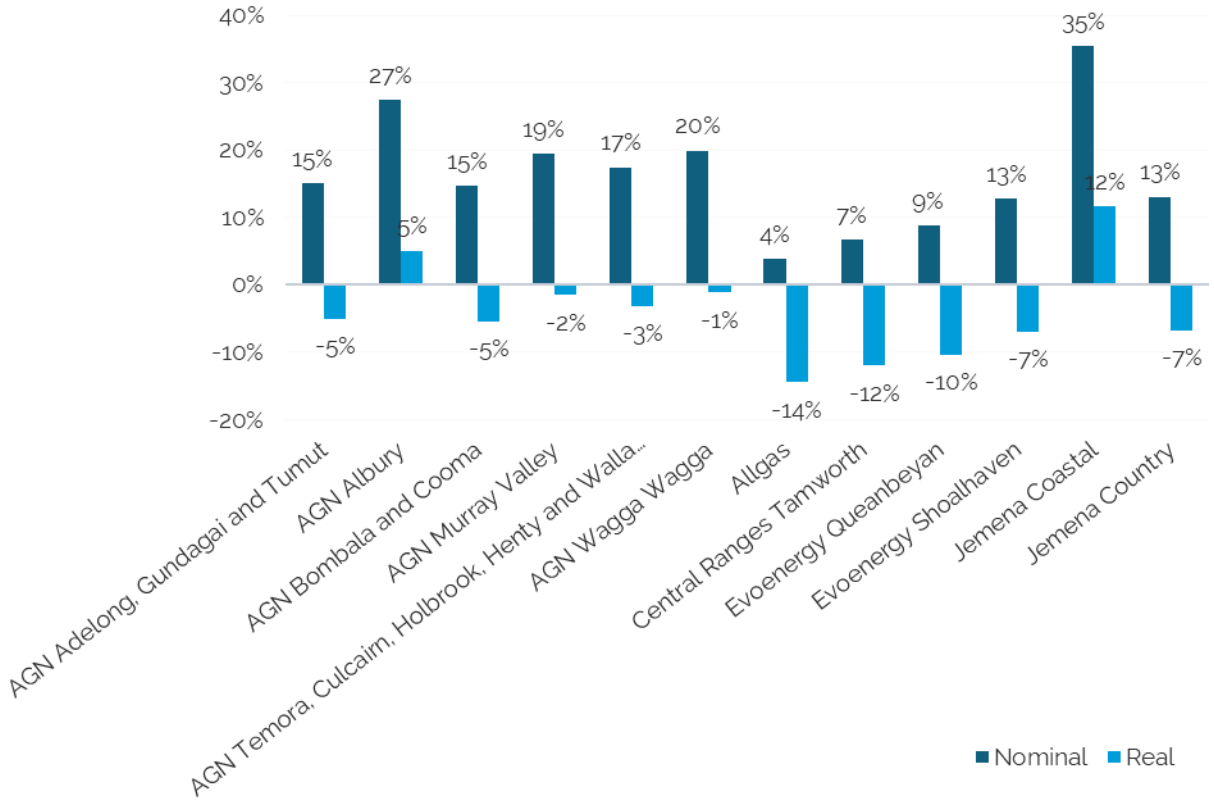
Figure 6.5 summarises these price changes over the last 4 years. It shows that the annual bills for the median market offer are higher than they were 4 years ago in every distribution region. However, in most regions, prices have increased by less than the rate of inflation (and so prices are lower in real terms). The Jemena coastal region is the notable exception with its 35% price increases. In addition, as seen in Figure 6.7 in the next section, prices for residential customers in most distribution areas are lower than they were a year ago.

Figure 6.4 Annual residential gas bill on median market offer for a range of distribution regions (nominal, June 2020 to June 2024, 24.4 GJ gas, including GST)



Source: IPART analysis of Energy Made Easy data

Figure 6.5 Change in residential gas prices for the median market offer, June 2024 compared to June 2020 by distribution region (24.4 GJ gas, including GST)



Note: No market offers were offered in Evoenergy Shoalhaven in 2024. The price change reflects the difference in the median market offer in 2023 and the median standing offer in 2024.
Source: IPART analysis of Energy Made Easy data

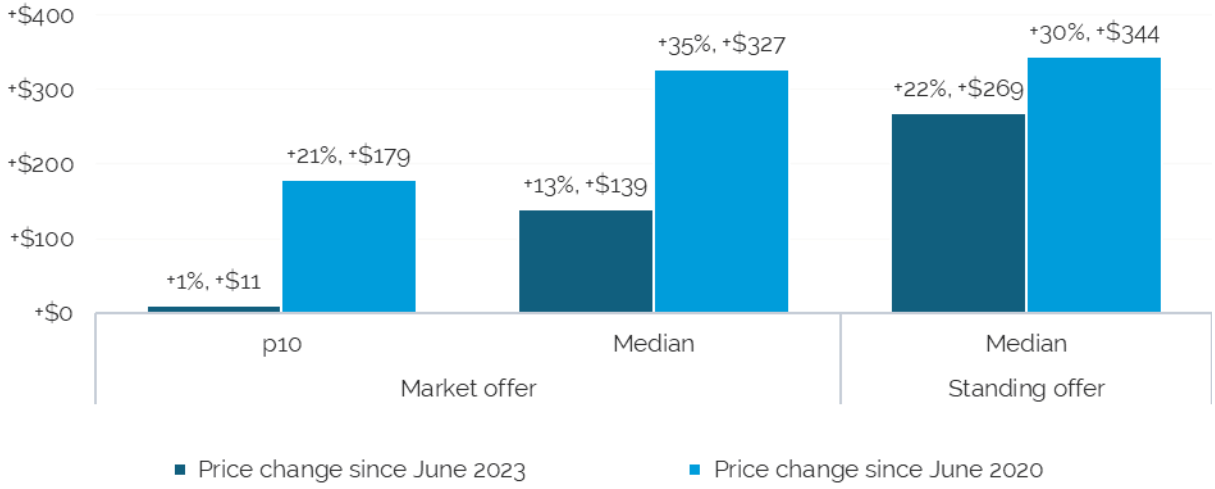
6.2 There have been some significant price increases over the past 12 months

Figures 6.6 and 6.7 show the price changes in the most recent financial year, and how they compare to the cumulative price changes over the 4-year period.

Figure 6.6 shows that for a typical residential customer, the median market offer increased by 13% or $139 between June 2023 and June 2024 and the median standing offer increased by almost than twice this, at 22% (or $269). However, the lowest offers in the market only increased slightly, rising by 1% or $11.

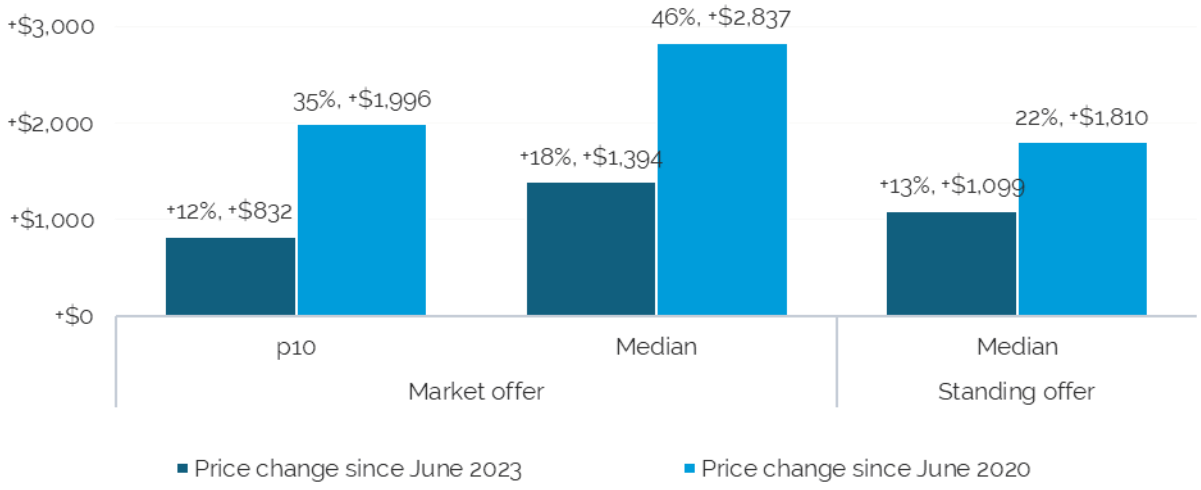
For a typical business customer, Figure 6.7 shows that the median market offer increased by almost 20% ($1,394) in the most recent financial year. The lowest offers in the market also increased by 12%, or more than $800.

Figure 6.6 Change in **residential** annual gas bill, June 2024 compared to June 2019 and June 2023 (nominal, 24.4 GJ gas, including GST)



Source: IPART analysis of Energy Made Easy data

Figure 6.7 Change in **business** annual gas bill, June 2024 compared to June 2019 and June 2023 (nominal, 250 GJ gas, including GST)

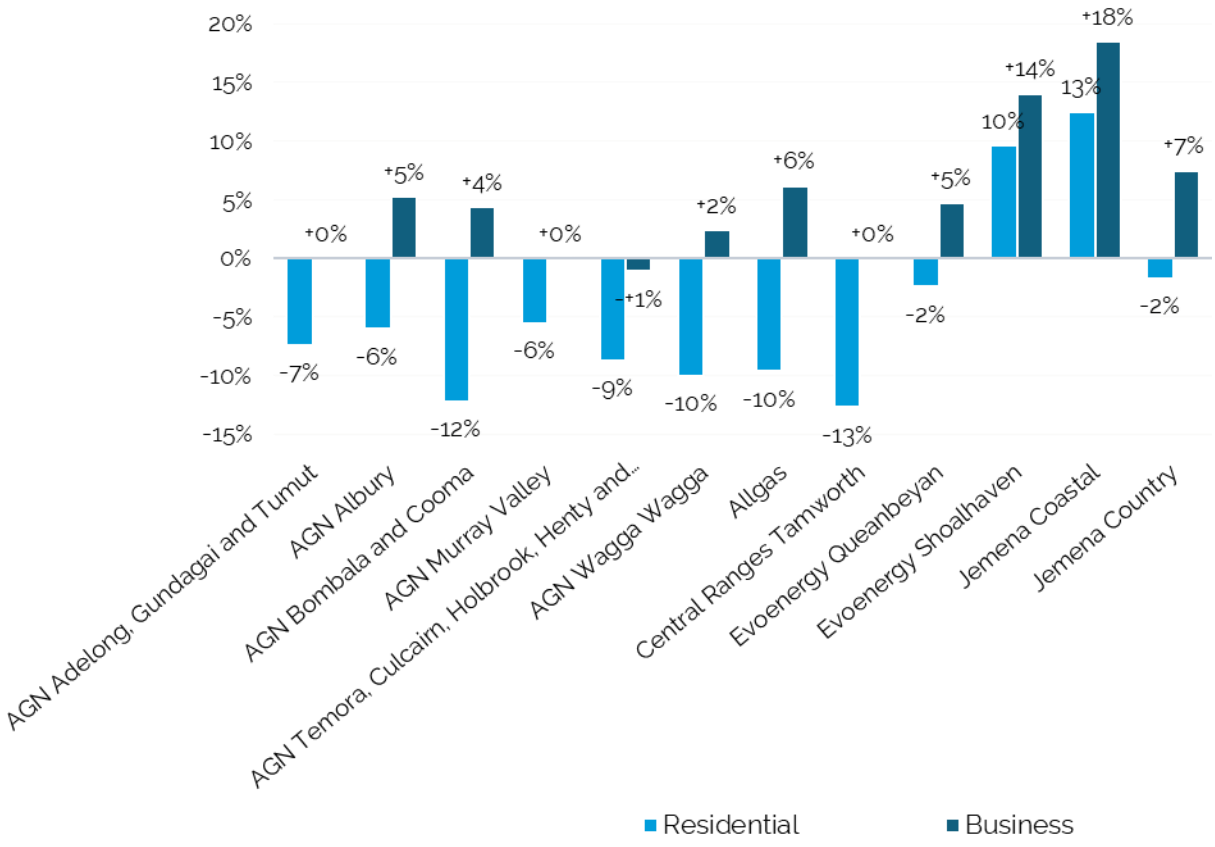


Source: IPART analysis of Energy Made Easy data

Figure 6.8 shows that the price increase in the Jemena coastal region between June 2023 and June 2024 was significantly higher than for other distribution regions. As noted above, in many of the regional distribution regions, the median market offers have fallen for residential customers between June 2023 and June 2024. However, prices for business customers have risen in almost all regions.

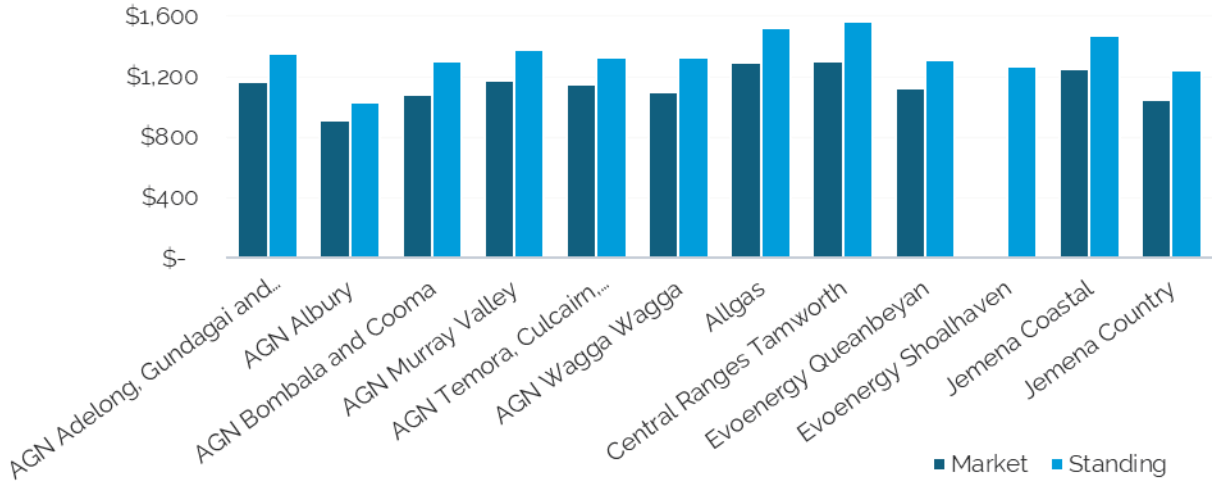
Even though there have been much larger price increases in the Jemena coastal region, Figures 6.9 and 6.10 show that the median market offer prices in the Jemena coastal region are comparable to many of the other distribution regions.

Figure 6.8 Price changes in the median market offer between June 2023 and June 2024 by distribution region by customer type (nominal)



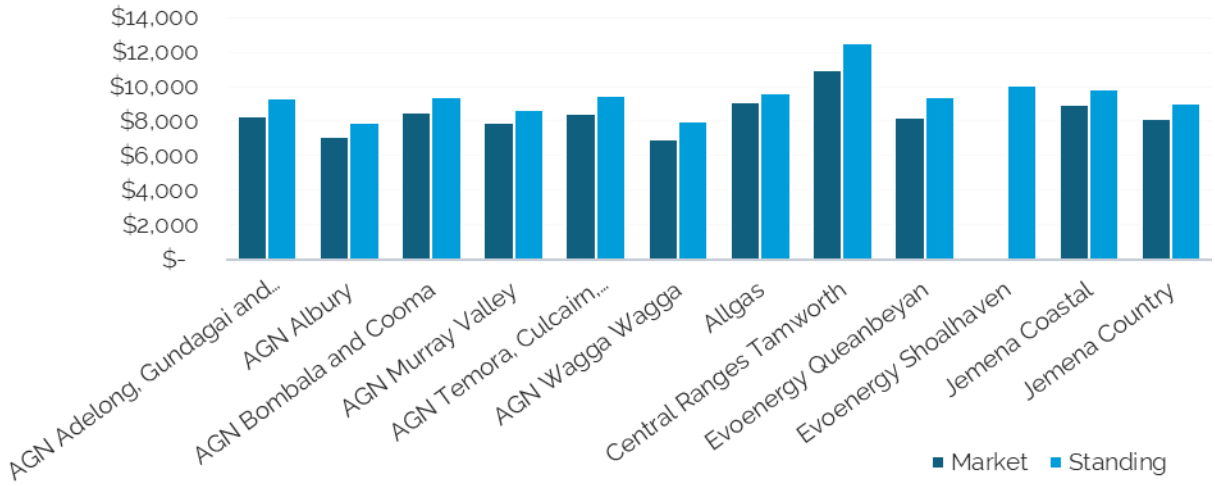
Note: No market offers were offered in Evoenergy Shoalhaven in 2024, or for business customers for 2023. For residential customers in the Evoenergy region, the price change reflects the difference in the median market offer in 2023 and the median standing offer in 2024, while the change for business customers reflects the change in the median standing offer during this time.
Source: IPART analysis of Energy Made Easy data

Figure 6.9 **Residential** median market offer annual bill by distribution region as at June 2024 (24.4 GJ gas, including GST)



Note: No market offers were offered in Evoenergy Shoalhaven in 2024.
Source: IPART analysis of Energy Made Easy data

Figure 6.10 **Business** median market offer annual bill by distribution region as at June 2024 (250 GJ gas, including GST)



Note: No market offers were offered in Evoenergy Shoalhaven in 2024.
Source: IPART analysis of Energy Made Easy data

7 Changes in the cost of supply

Key findings

- Our analysis indicates that the changes in prices broadly reflect the changes in the underlying costs that would occur in a reasonably competitive market.
- The weighted average wholesale cost of gas procured under new gas supply agreements increased by around 60% since 2019–20. The large retailers are likely to have faced larger increases in their commodity costs (around 80%) as a significant portion of their legacy supply contracts concluded in 2020. Wholesale costs are likely to now make up more than 30% of a typical bill.
- Distribution costs increased by 16% in 2023–24. However, following reductions in distribution costs for the preceding years, the distribution costs are still currently lower than they were 4 years ago. Distribution costs now make up around 30% of costs.
- Transmission costs - which make up around 10% of total costs – are likely to have increased in line with inflation.
- Assuming other costs have increased roughly in line with inflation, retail margins are likely to be at similar levels to where they were between 2014 and 2018. The ACCC conducted a detailed review of margin for this period using data provided to them by the major retailers, and it found that retail margins in NSW for small customers were between 12% and 16%.

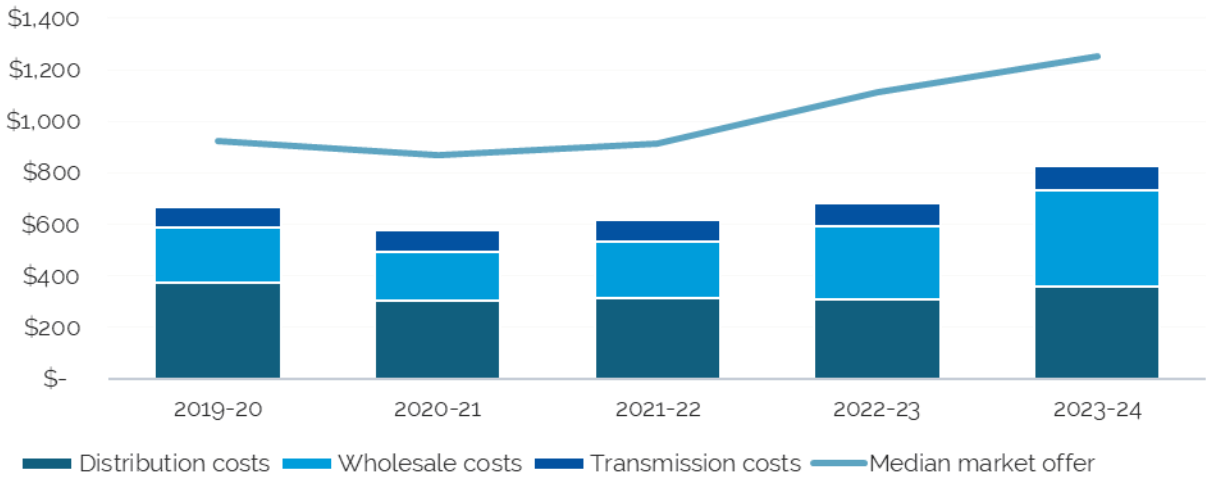
Retailers have 4 main cost components in the supply of gas to small customers. These are wholesale costs, distribution costs, transmission costs and retail costs (such as billing and call centres). They also need to make reasonable profits that reflect their risks (retail margin).

Figure 7.1 shows our estimates of some of the key cost components of supplying a typical residential customer, based on publicly available information, and compares them to the median market offer. As discussed in the sections below, actual wholesale costs are likely to vary significantly between retailers, based on the timing and terms on which they have entered into supply contracts. Retail costs and margin are not shown on this chart because there is limited recent publicly available data.

Figure 7.1 shows that the increases in wholesale costs have been the key driver of price increases in the last few years. In the most recent financial year, the retail price increases of more than 10% reflect the combination of higher wholesale and distribution costs. These cost components are discussed in detail in the sections below.

The ACCC has reported that transmission costs vary by pipeline but have generally increased in line with inflation over the period under review.[60] They are likely to make up around 10% of total costs.

Figure 7.1 Estimated major cost components for supplying a typical residential customer, compared to median market offer (24.4 GJ, nominal, including GST)



Source: IPART analysis.

Under Section 234A(4)(g) of the National Energy Retail Law (NSW), IPART is required to report on whether there is a need for a detailed review of retail prices and profit margins in the retail electricity market and retail gas markets in NSW. Given that the price changes appear to be broadly reflective of the changes in costs, we are not recommending a detailed review of retail prices and profit margins in the retail gas market at this time.

In 2019, the ACCC conducted a detailed review of margins using data provided to them by the major retailers as part of its Gas Inquiry. It found that between 2014 and 2018, retail margins in NSW for the major retailers supplying small gas customers were between 12% and 16% between 2014 and 2018.[61] Our analysis shows that retail margins are likely to currently be at similar levels if retail costs have varied in line with inflation, and the median market offers represent the average prices paid by customers. However as discussed in the previous chapter, we do not have data about the average price being paid by customers.

7.1 Wholesale gas costs have increased significantly

Around 80% to 90% of gas in Australia is traded through bilateral contracts, known as 'gas supply agreements' (GSAs). Traditionally, gas supply agreements were long term contracts that locked in prices and terms and conditions for several years.[62] Prior to 2010, gas prices under gas supply agreements were steady and relatively low at around $3 to 4/GJ. However, from late 2010, gas prices across the east coast began to increase, as Queensland's 3 liquid natural gas (LNG) export projects were being developed.[63]

As discussed in previous chapters, the LNG export industry has led to tight supply-demand dynamics, and higher costs of production (which increase with the volumes of gas extracted).[64] Since gas was first exported from Queensland in 2015, gas producers on the East Coast of Australia have had the choice to export or sell gas domestically. Consequently, prices in the domestic market are influenced by international gas prices,[65] and around half of the volume of gas is purchased under gas supply agreements that are directly linked to international commodity prices.[66] The industry has also shifted towards shorter terms (1 to 2 years) for gas supply agreements with review provisions.[67]

Figure 7.2 shows the volumed-weighted average gas commodity price supplied in the most recent 5 years under long-term gas supply agreements with producers for gas delivered to the NSW, Victoria, and South Australian ('the Southern states').[q] This is the average price of all agreements executed in the 2 years before the supply period (for example, the 2024 price is a volume-weighted average of all agreements executed between January 2022 and August 2023).

Figure 7.2 shows that over the period between 2020 and 2024, the average gas price has increased by almost 60%. After a 22% reduction in prices in 2021, prices increased by 17% in 2022, 31% in 2023, and a further 32% in 2024.

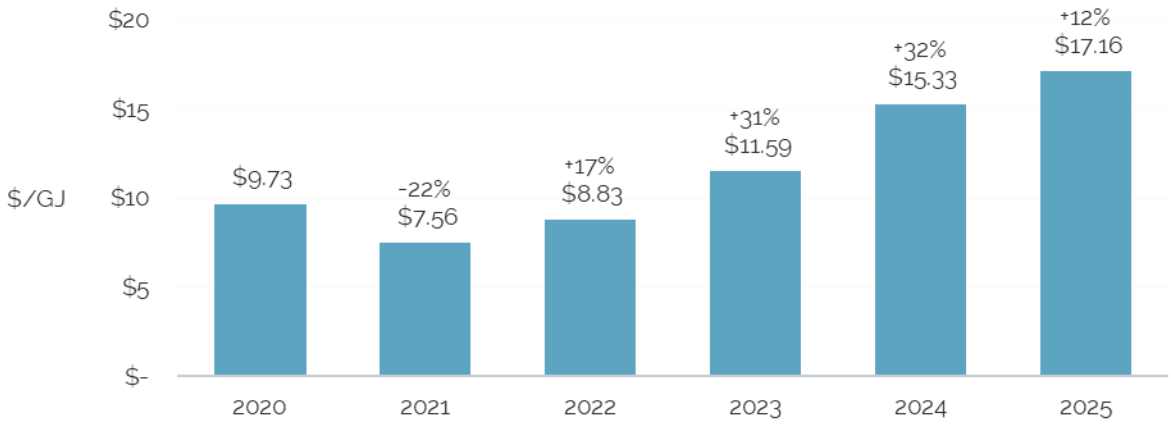
While there have been large increases in the average price of gas traded under the recent gas supply agreements, the actual costs of wholesale gas incurred by individual retailers is likely to vary significantly. This is because:

- The averages are for a wide range of agreed prices. For example, the average price for 2024 of $15.33 per GJ falls within a range of agreed prices from around $10 to $24 per GJ.[68]
- The averages do not include the prices of longer-term agreements executed prior to 2 years before the pricing period. Of note, a portion of the gas supplied by the Big 3 retailers was purchased under long-term gas agreements executed before 2010, at prices around $3 to $4 per GJ. According to the ACCC analysis, around 35% of the gas purchased for 2019 and 2020 and 15% of the gas for the 2021 to 2028 supply period was procured under legacy contracts. This reduces their average commodity costs relative to market prices.[69] However, the more recent contract prices are likely to be representative of the costs a new entrant retailer would face.

In addition, the contract prices are not directly comparable, because the terms and conditions are likely to vary from contract to contract. Gas contracts can take many different forms, with variations in the time between traded and delivery dates, and the timespan in which the gas is delivered over.[70]

[q] Agreements with a term length of at least 12 months, and that only include those with fixed prices or prices linked to a commodity price index, such as Brent Crude oil.

Figure 7.2 Volume-weighted average gas commodity price ($/GJ) payable under gas supply agreements with producers for NSW, Victoria and South Australia (nominal)



Note For gas supply agreements executed in the 2 years before the supply period to August of the preceding year.
Source: ACCC Gas Inquiry Reports.

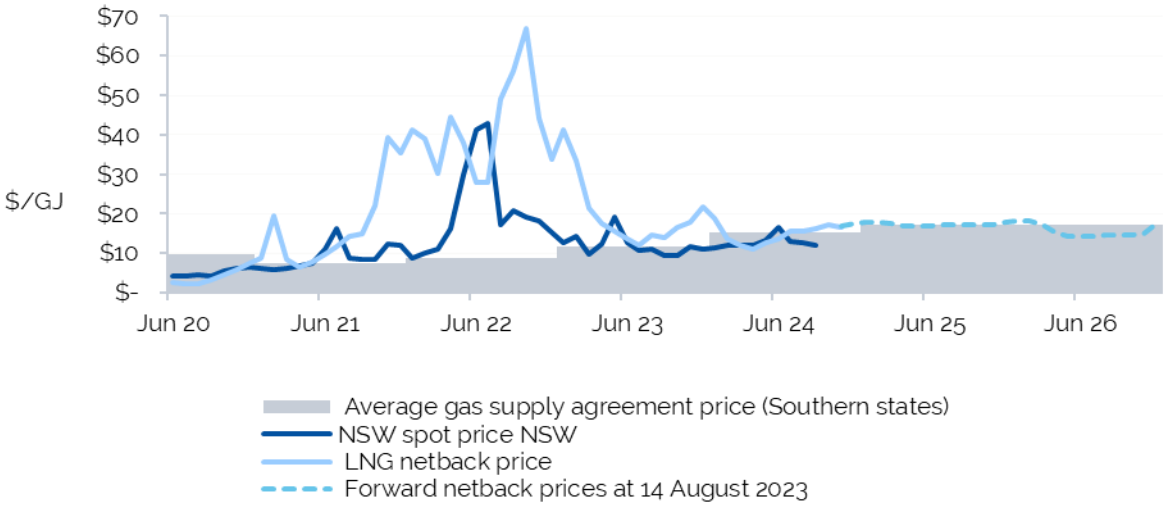
Higher international gas prices since are a key reason for the increases in prices.[71] Inflation and foreign exchange rates also affect the price of gas.[72]

International prices can be measured using the ACCC's LNG netback prices, which are based on Asian LNG spot prices. The LNG netback price - the export market value minus transportation costs - is the price that a domestic gas producer would expect to receive from exporting its gas rather than selling it domestically.[73]

Figure 7.3 shows that the LNG netback prices increased dramatically in the middle of 2021 and reached their peaks in the middle of 2022. This was primarily driven by shipping constraints, and increased demand as the global economy began to recover following COVID-19, coinciding with very cold winters in parts of China and Japan, creating additional demand for heating. In early 2022, the Russian invasion of Ukraine also led to significant disruptions in global gas supplies, driving up LNG prices worldwide.[74]

In 2023, international prices eased as storage inventories grew, reducing international gas supply risks. International prices returned to similar levels as domestic prices. However, international prices are still above long-term historical averages. This means that gas supply agreements linked to international gas prices are exceeding the prices historically seen in the east coast domestic gas market.[75] As at January 2024, the average prices for gas price agreements for 2025 were in line with the short-term netback prices.[76]

Figure 7.3 Comparison of average gas supply agreement prices (Southern states), the LNG netback price, and NSW spot prices



Source: ACCC Gas Inquiry Reports; ACCC, LNG netback price series 18 Nov 2024, accessed 25 November 2024; AEMO SYD price and withdrawals.

Spot prices

Around 10% to 20% of gas is traded through the spot markets. Spot market trading can be a useful mechanism for participants to manage imbalances in their contract positions. The short-term trading market is for gas with hubs in Sydney, Brisbane and Adelaide that allows gas trading on a day-ahead basis. AEMO sets a clearing price at each hub based on scheduled withdrawals and offers by shippers to deliver gas, with a price floor of $0 per GJ and a cap of $400 per GJ. Pipeline operators schedule flows to supply the necessary quantities of gas to each hub.[77]

Spot markets can reflect short-term shifts in market conditions due to factors such as gas supply and gas storage levels, the timing of LNG shipments and conditions in the electricity markets.[78]

Figure 7.3 shows that spot prices reached record highs from May 2022, converging with international prices. This reflected a series of overlapping factors, including:

- the high international gas prices and changes to global supply and demand conditions, strengthening the incentive for producers to export LNG rather than supply into the domestic market
- significant demand from gas-powered generators due to other supply-side constraints in the NEM
- demand pressures arising from residential heating demand in southern states following a particularly cold start to winter.[79]

In the period after the 2022 peak, spot prices have reduced significantly. This is likely to have been helped by relatively more stable international prices.

In early 2023, prices eased to average around $12 per GJ but increased in mid-2023 in response to supply constraints. They then reached a 2023 low in October, averaging between $5 per GJ and $6 per GJ due to lower demand, milder weather and increased supply.[80] Since then, prices trended up, increasing temporarily above international price levels in 2024. This occurred as a result of the numerous supply and demand factors present in the domestic market, particularly in the southern markets that experienced a prolonged stretch of cold weather.[81]

Impact of policy changes on wholesale price

From 23 December 2022, the Australian Government put in place the Competition and Consumer (Gas Market Emergency Price) Order 2022 for 12 months, which introduced a price cap on gas sold under gas supply agreements of $12 per GJ for gas delivered in 2023.[82]

The order was put in place following the sharp increase in contract prices offered that occurred for 2023 supply from March 2022. The majority of offers exceeded $30 per GJ, with offers peaking at $70 in August 2022. As outlined above, this reflected tight international market conditions and the high level of price volatility across mid-2022.[83]

Following the emergency order, the ACCC reported that nearly all producer contracts from this period decreased to $12 per GJ or less, and the volume of gas sold under short-term gas supply agreements and traded on facilitated markets increased.[84] However, most of the gas for 2023 was already under contract before the introduction of the cap.[85]

From mid-July 2023, the Australian Government replaced the price order with the mandatory Gas Code of Conduct, discussed in the previous chapter. The code maintains a price cap, initially to continue at $12/GJ, which took effect in September after a 2-month transition period.[86] Not all gas sold will be subject to the cap. The code includes an exemptions framework for this price cap to incentivise short-term supply commitments, and incentivise investment to meet ongoing medium-term demand.[r]

As shown in Figure 7.2 above, the weighted-average contract price for 2024 is $15.33 for the Southern States, which is higher than the $12 GJ price cap. This higher average price reflects that the majority of the gas produced in 2024–25 will not be subject to the Code's price rules.[87] Most of the gas included in retailers' portfolios for 2024 was procured before September 2023 when the price cap took effect.[88] For example, prices for supply for 2023–24 were around $65 per GJ before December 2022, and $19 per GJ in April 2023.[89]

Similarly, the weighted-average contract price for 2025 shown in Figure 7.2 (for agreements made to January 2024) mainly reflect agreements made before the code taking effect. Producers made only 6 offers between September and January 2024, and these offers were subject to exemptions and thus did not have to comply with the Code's reasonable pricing provisions.[90]

In its June Gas Price Inquiry Interim report, the ACCC stated that it is not yet possible for it to draw conclusions about the impact of the Code on prices.[91]

[r] The framework provides exemptions for small suppliers producing less than 100 PJ per year and who supply that gas to the domestic market, and to larger suppliers if they are granted conditional exemptions by the Energy Minister with the agreement of the Resources Minister. Suppliers that have been granted a conditional Ministerial exemption have identified volumes of potential gas supply that could be made available to the domestic market, which would help to reduce the risk of shortfalls in the medium to longer term. ACCC, Gas Inquiry 2017-30, June 2024 p 8.

7.2 Gas distribution network costs have fallen significantly in real terms

As can be seen in Figure 7.1 above, distribution costs in 2023–24 are around $15 lower than they were in 2019–20. Prices fell in 2020–21 under the new access arrangement that commenced in that year, due to cost reductions compared to the previous regulatory period, including:

- return on capital
- the tax allowance as a result of the lower return on equity and the value of imputation credits
- the deprecation costs, driven by lower capital spending in gas connections, meter replacement and mains replacement
- revenue adjustments made for the previous period also reduced prices.[92]

However, in the most recent financial year, distribution tariffs increased by 16%, driven by inflation, the annual update to the regulated rate of return, and adjustments for unaccounted for gas.[s] This was partially offset by Jemena Gas Networks' one-off return of overcharged revenue in the 2023–24 period, which was caused by a modelling error.[93] This added around $50 to a typical bill, accounting for just over a third of the recent bill increases.

[s] Unaccounted for gas is the difference between the measured quantity of gas entering the network (gas receipts) and metered gas deliveries (gas withdrawals). Unaccounted for gas can have various causes, although these can be broadly itemised into 5 categories – gas leakage (fugitive emissions), metering errors, gas heating values (losses related to the quality of gas injected into the pipelines), data quality, and theft. AER, Gas network performance report, 2023, p 38.

8 Affordability and hardship

Key findings

- The number of retail gas customers in NSW on hardship programs has increased by 65% in one year to March 2024, from around 10,500 to 17.500 customers (around 1% of total gas customers).
- Customers are also staying on hardship programs for longer. The number of NSW gas customers participating in a hardship program for more than 2 years increased threefold from 482 in March 2023 to 1,508 in March 2024.
- Around 50% of eligible households have received the NSW Gas Rebate in recent years.
- Around 14,000 customers were disconnected in 2023–24 for non-payment. Research by the Justice and Equity Centre found that 60% of customers were not receiving support at the time they were either disconnected, notified about an impending disconnection, or had been seriously worried about risk of disconnection.
- This may suggest that some retailers are failing to proactively identify and assist people experiencing payment difficulty.
- The Justice and Equity Centre's research found that groups often associated with disadvantage are continuing to experience higher rates of disconnection and there is an increasing number of working families with mid-range incomes and mortgages experiencing disconnection.

Gas is an essential service for households and businesses in NSW. Challenges with access to gas (including disconnection), rising prices, assistance in managing payments and access to rebates not only impact the financial position of households and business owners, but can also impact the physical health and mental wellbeing of these customers.

Several stakeholders including Justice and Equity Centre and the Energy and Water Ombudsman raised strong concerns in their submissions around energy affordability, including few households accessing the rebates available to them, and the impact of disconnection and the threat of disconnection.

In this chapter we report on trends in the number of customers on hardship and payment plans, disconnection rates, the use of rebates and assistance, and electricity complaints.

However, as raised in the submission by the Justice and Equity Centre, these trends and data points do not tell the full story in relation to affordability, hardship, disconnection and complaints. Research by the Justice and Equity Centre highlights that in some cases households:

- go without energy (under consume) to lower their energy bills
- go without other essentials, such as food, so they can pay an electricity bill on time, and/or
- shift the impact elsewhere using credit (such as Buy Now Pay Later or credit card).[94]

As a result, we supplement our analysis in this chapter with findings from the consumer research by the Justice and Equity Centre and Energy Consumers Australia. This provides deeper insight into the consumers impacted by the rising cost of energy and the extent of the impact.

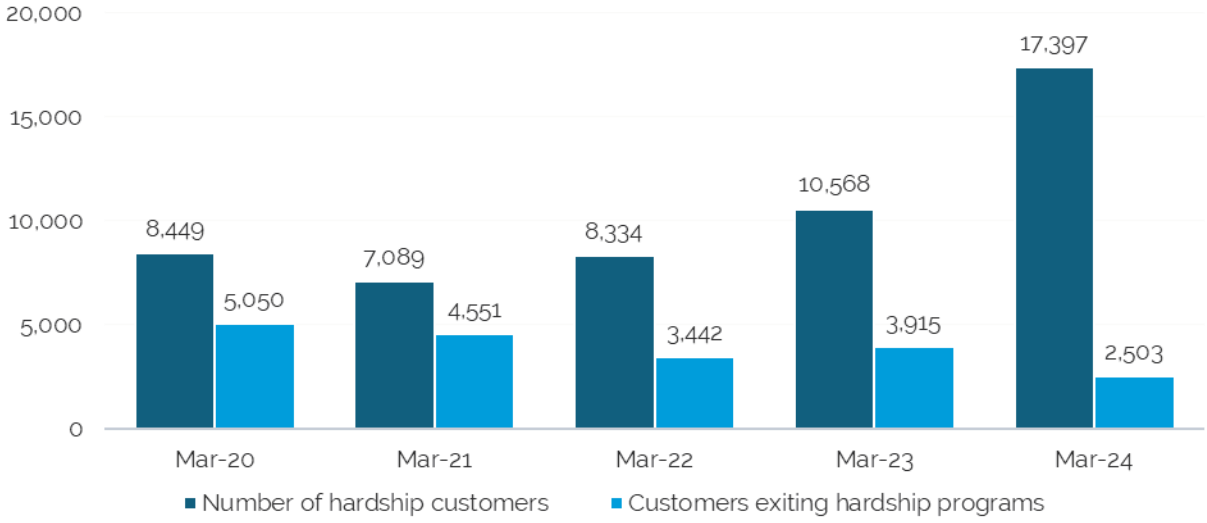
8.1 The number of customers in NSW in hardship programs has doubled in the last 2 years

Hardship programs are assistance schemes designed to protect energy customers from disconnection and help manage outstanding payments.[95] Examples of hardship programs include flexible payment plans, payment extensions, debt and payment assistance and protection from disconnection. All energy retailers in NSW are required under the National Energy Retail Rules to have programs in place to help customers facing financial hardship.[96]

To apply for a hardship program, customers need to contact their retailer. The retailer will then assess the customer's application against the eligibility criteria for their hardship program.[t]

As of 31 March 2024, there were 17,397 residential customers on hardship programs in NSW (around 1% of all NSW gas customers). This is an increase of 65% (6,829) compared to 12 months earlier, and an increase of 109% (9,063) compared to 31 March 2022 (Figure 8.1).[97]

Figure 8.1 Number of residential gas customers in NSW in hardship programs as at March each year, compared to number of customers exiting hardship programs annually (March to March)



Source: AER, Schedule 4 quarter 3 2023–24 retail performance data, accessed 29 July 2024.; and AER, Schedule 4 quarter 4 2022–23 retail performance data, accessed 12 August 2024, AER, Schedule 4 quarter 3 2021–22 retail performance data, accessed 10 October 2024; and AER, Schedule 4 quarter 3 2020–21 retail performance data, accessed 10 October 2024.

[t] Customers whose retailer is unable to help or if are not happy with their retailer's response can contact the Energy and Water Ombudsman (EWON) for free independent advice about their situation and their retailer's response or to lodge a complaint. If a complaint is made, EWON will investigate the complaint and try to resolve the complaint and reach an agreed outcome. Energy & Water Ombudsman NSW, Help paying bills, accessed 8 August 2024.

Further, the number of customers that have successfully completed and exited hardship programs[u] has been trending downwards since 2020, even though the number of hardship customers are increasing. As shown by Figure 8.1 above, the number of customers successfully completing and exiting hardship programs decreased by almost 40% in March 2024 compared to the previous year and 50% compared to 2020. This indicates that customers on hardship programs are continuing to face difficulties with their gas bills and have not been able to leave the hardship programs as quickly as in previous years.[v]

As a result of this, the number of customers on hardship programs for longer periods of time has increased. The number of NSW gas customers participating in a hardship program for more than 2 years increased threefold from 482 in March 2023 to 1,508 in March 2024.[98]

In August 2024, the AEMC received a package of 7 consumer related rule change requests from the Hon. Chris Bowen, Minister for Climate Change and Energy, as Chair of the Energy and Climate Change Ministerial Council (ECMC). This package included a proposed rule change *"Assisting Hardship Customers"* which aims to enable hardship customers to receive better price outcomes.[99] The AEMC will publish a consultation paper when it initiates the rule change request.[100]

Under the National Energy Retail Law, retailers are prevented from moving customers to a new plan without their explicit informed consent. The onus is on customers to move themselves onto a better offer.[w] The proposed rule change enables retailers to provide hardship customers with the benefits of the deemed better offer through a crediting mechanism on the hardship customers' bill. This credit would be calculated as the difference between the full amount of their bill and what they would have been charged under a better offer.[x]

This proposal recognises that consumers experiencing hardship and vulnerability face additional barriers when engaging in the energy market including limited time, language or literacy barriers, reduced mental bandwidth due to stress and other pressures.[101]

8.2 There were around 14,000 disconnections in 2023–24

As a last resort option, retailers can disconnect customers who are unable to pay their bills. Retailers are required to take a number of steps before disconnecting a customer. These include issuing at least 2 written notices and making a reasonable attempt to contact the customer and giving them the opportunity to make a payment or enter into a payment plan.[102]

In 2023–24 there were 13,746 gas disconnections in the Jemena distribution region for non-payment. Around 95% of these customers had their gas connections reactivated.[y] The disconnection rate in 2023–24 was slightly lower than the disconnection rate in the previous year (0.9% compared to 1.1%).[103]

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[u] Most retailers require a customer to have paid off their debt and not accrued further debt to complete the hardship program. Retailers include information in their hardship policies.

[v] Our Monitoring the NSW retail electricity market 2023-24 report found a similar trend for electricity customers.

[w] The Better Bills Guideline Version 2 requires retailers to regularly assess whether customers could be on a better offer, and if one is available, to publish this on the customer's bill. AER, Better bills guideline version 2, pt 4, 30 January 2023.

[x] The proposed rule change request builds on a recommendation in the AER's Game Changer Report released in November 2023. The AER recommended that the Better Bills Guideline should be leveraged to support hardship customers by requiring retailers to automatically move hardship customers onto a deemed better offer while maintaining existing explicit informed consent requirements under the National Electricity Retail Law.

[y] Most residential gas consumers in NSW are located in Jemena's gas distribution network area.

Disconnections and the threat of disconnection was an area of concern raised by the Justice and Equity Centre in its submission to our Consultation Paper.

The Justice and Equity Centre undertook consumer research in 2023 into the experience of energy customers in NSW who were moved onto payment plans, hardship or who were disconnected. This also included NSW residents who had been disconnected, notified about an impending disconnection or had been seriously worried about risk of disconnection.

This research by the Justice and Equity Centre found:

- Households may be avoiding disconnection by cutting back on electricity usage needed for health and wellbeing purposes, cutting back on other essentials and delaying payment of other bills. Therefore, low disconnection rates do not capture the full extent of the harm that disconnection can cause households.
- Around 60% of households were not receiving any type of support at the time of being disconnected, notified of disconnection, or when they were seriously worried about disconnection.[104]

The Justice and Equity Centre consider this suggests that some retailers are failing to proactively identify and assist people experiencing payment difficulty, and failing to only consider disconnection as a last resort.[105]

This research also found that groups often associated with disadvantage, including people with disability, First Nations people and people on low incomes are continuing to experience higher rates of disconnection[106] and there is an increasing number of working families with mid-range incomes and mortgages are experiencing disconnection.[107] In particular, the research from the Justice and Equity Centre found that:

- the main income for 72% of disconnected households in the study came from a wage or salary, compared to 50% in 2018
- 20% of disconnected households in the study had an income over $120,000
- 31% of disconnected households had a mortgage. compared with 18% in 2018.[108]

This suggests that as energy prices and the general cost of living has increased, groups not often associated with disconnection, such as households with mortgages and mid-range incomes are struggling with energy affordability.

8.3 Rebates and assistance measures are available but are not accessed by many households in NSW

The NSW Government offers a range of energy rebates and financial assistance programs for households (a full list of these programs is included in our electricity report). They include the NSW Gas Rebate of up to $110 per year off gas bills for customers that hold one of the following cards:

- Pensioner Concession Card
- Health Care Card
- Low Income Health Care Card
- DVA Veteran Gold Card.[109]

The most recently available data reported under the NSW Social Programs for Energy Code shows that in 2022–23, 50% of an estimated 570,500 eligible households received the NSW Gas Rebate.[110] This is a similar take-up rate to previous years (ranging from 49% to 56%). This suggests that eligible households are not aware of the NSW Gas Rebate or that there are barriers to participation in the program.

The Justice and Equity Centre raised concerns about the participation rates of rebates in its submission. A study by the Justice and Equity Centre on households also found that participation rates in gas rebate schemes are low among households at risk of disconnection. The study found that:

- 24% of households notified about disconnection but not disconnected were receiving the NSW Gas Rebate, compared to 14% of disconnected households
- 12% of households notified about disconnection but not disconnected were receiving an energy rebate or concession from a charity or community group, compared to 8% of disconnected households.[111]

Furthermore, 14% of disconnected households reported that they had a rebate that was not applied to their bills. Not having a rebate applied occurred in lower rates for notified households (6%) and worried households (2%).[112] The Justice and Equity Centre suggested that it could be consequently inferred that rebates help people avoid disconnection, and resolving issues with the application of rebates could help respond to payment difficulty and disconnection.[113]

The NSW Consumer Energy Strategy includes an action to conduct a review of NSW energy rebates to streamline existing rebates, improve the customer experience and ensure support reaches customers who need it most.[114] In addition, the uptake of concessions is one of the issues that is seeking to be addressed under Minister Bowen's proposals to the AEMC.

There is currently an onus on concession customers to identify and ensure that they receive the rebates they are entitled to. The proposed rule change includes an obligation on retailers to proactively seek information from any new and existing customers on their eligibility for energy concessions or rebates. This obligation would prompt retailers to identify consumers who are eligible for concessions but may not be receiving them.

It also includes an obligation requiring this information to be transferred between retailers when a customer switches retailers. This would provide retailers a way of checking if a customer with ongoing concession eligibility is in receipt of that concession.[115]

The proposed changes would introduce an obligation on retailers to proactively seek information from consumers on their eligibility for energy concessions or rebates and remove the onus for customers to supply this information.

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12 AER, *State of the Market 2024*, p 146.
13 AER, *State of the Market 2024*, p 147.
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16 AER, *State of the Market 2024*, p 146.
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28 ACCC, *Gas Inquiry 2017-2030 Interim update on east coast gas market*, December 2023, p 50.
29 IPART calculations based on AER, *Schedule 2 - Quarter 3 2023-24 Retail Performance Data*, 21 June 2024; *Jemena Gas Networks 2023-24 – Annual – RIN Response*, 30 November 2023.
30 For customer numbers see AER *'Wagga Wagga – gas distribution network*' and AEMC, *'NSW: AGN Albury Gas Distribution Network'*
31 IPART, *Review of Gas and Electricity Regulated Retail Tariffs Issues Paper*, p 41
32 AEMC, *2018 Retail energy competition review,* Final Report, 15 June 2018, p 49.
33 ACCC, *Inquiry into the National Electricity Market*, December 2023, p 22
34 Frontier Economics, *Future Financial Risk-Management in the NEM*, December 2023, p 24, 29
35 ACCC, *Inquiry into the National Electricity Market*, December 2023, p 22
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