



SUBMISSIONS
CLOSE 1 NOVEMBER 2019

REVIEW OF
The performance and competitiveness of the NSW
RETAIL GAS MARKET
2018-19

**RETAIL
GAS MARKET**

DRAFT REPORT

ENERGY REVIEWS

October 2019

IPART reports annually on the performance and competitiveness of the retail gas market

We look at outcomes for residential and small business customers in NSW by considering:

- ▼ Price and product diversity
- ▼ Barriers to entry, exit and expansion
- ▼ Customer participation and outcomes
- ▼ Price movements and rivalry

We also consider whether there are any actions needed to improve the competitiveness of the market.

We are seeking feedback on our draft findings and recommendations

HAVE
YOUR
SAY

Submissions close
1 November 2019

Draft findings

1. Competition continues to develop in the retail gas market as reflected by several indicators in 2018-19:
 - ▼ The market share of new retailers continued to increase
 - ▼ The median of the lowest offers for customers engaged in the market has fallen across all retailers
 - ▼ More customers have engaged in the market - both switching rates and the number of customers that are being supplied on market contracts have increased.
2. New retailers face barriers to entry and expansion because of difficulty securing gas network agreements, and high wholesale costs.
3. A detailed review by IPART of gas prices and margins is not necessary as this work is currently being done by the ACCC.

Draft recommendation

1. That the NSW Government remove the requirement for IPART to monitor the retail gas market in NSW. Customers are protected by market monitoring by the AER, AEMC, and ACCC.

KWH	AVG KWH PER DAY	AVG COST PER DAY	
324	10.5	1.60	65.2
1,184	37.0		57.5
473	15.8		50
			43
			36
			21
			2

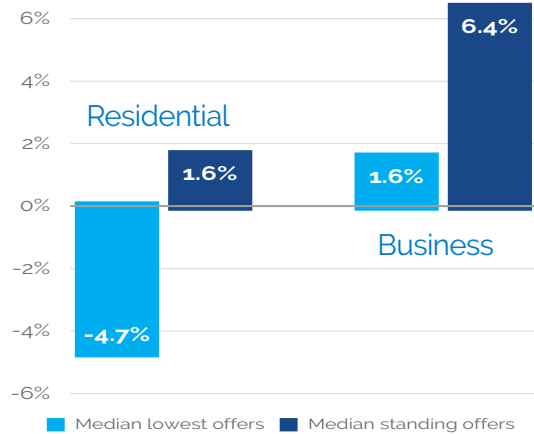
In 2018-19

Competition continued to improve in the retail gas market

▶ The median of the lowest market offers for residential customers fell

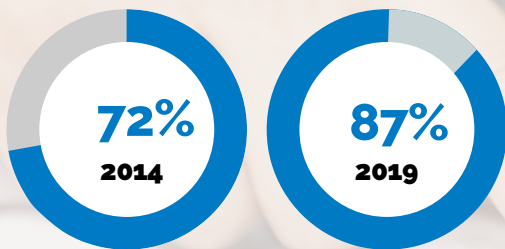
While commercial and industrial customers experienced large price increases (see page 10), median price changes for residential and small business customers have been moderate.

Retail price changes in the Jemena region 2018-19



Source: Energy Made Easy

▶ 87% of NSW households and small businesses were on market offers



193,000 small customers remain on standing offers.

Source: AER Retail Performance Data, Q3 2018-19

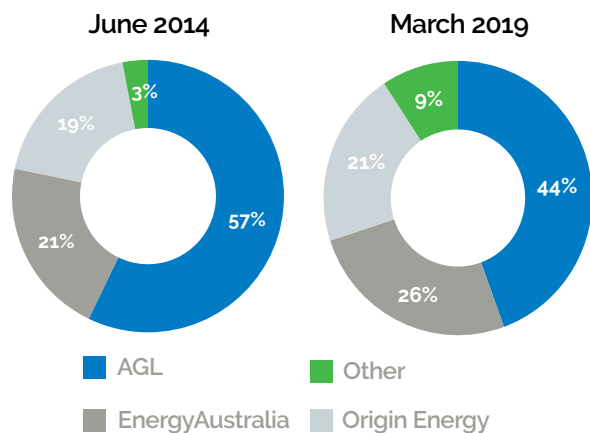
Around one in six NSW households and small business changed retailer



▶ Market concentration has fallen since 2014

Since 2014, the largest gas retailer's market share declined from 57% to 44%. Small retailers now make up 9% of the market.

However, the change in market share since 2018 has been marginal as new entry and expansion may have been impeded by high wholesale costs and difficulty accessing pipeline agreements.



Source: AER Retail Performance Data, Q3 2018-19

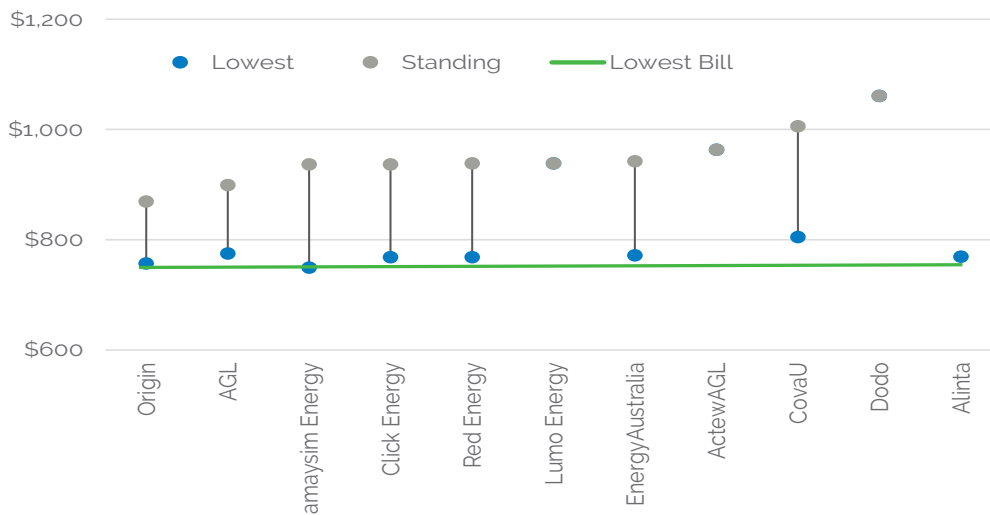
Prices are higher for customers who have never switched



Residential customers in the Jemena region who have moved to a market offer may be paying around 18% less than customers who have not. However, not all customers have moved to their cheapest



The spread of offers has increased since 2017-18 for **residential customers** as the lowest offers fell, while the standing offers increased across retailers.

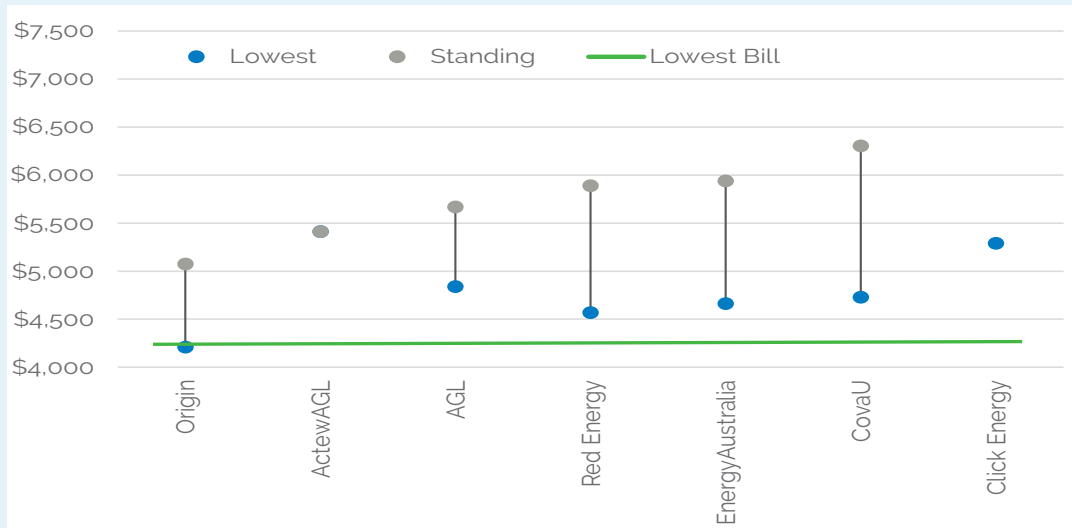


Annual residential bill in the Jemena region for June 2019 (20 GJ per year, GST-inclusive)

Note: Some retailers did not have published standing offers available on Energy Made Easy in June 2019. Simply Energy did not offer a single fuel gas offer in June 2019.



For **business customers**, the spread also increased, as the median lowest offers increased by less than the median standing offers



Annual business bill in the Jemena region for June 2019 (184 GJ per year, GST-inclusive)

Note: Some retailers did not have published standing offers available on Energy Made Easy in June 2019. Simply Energy did not offer a single fuel gas offer in June 2019.

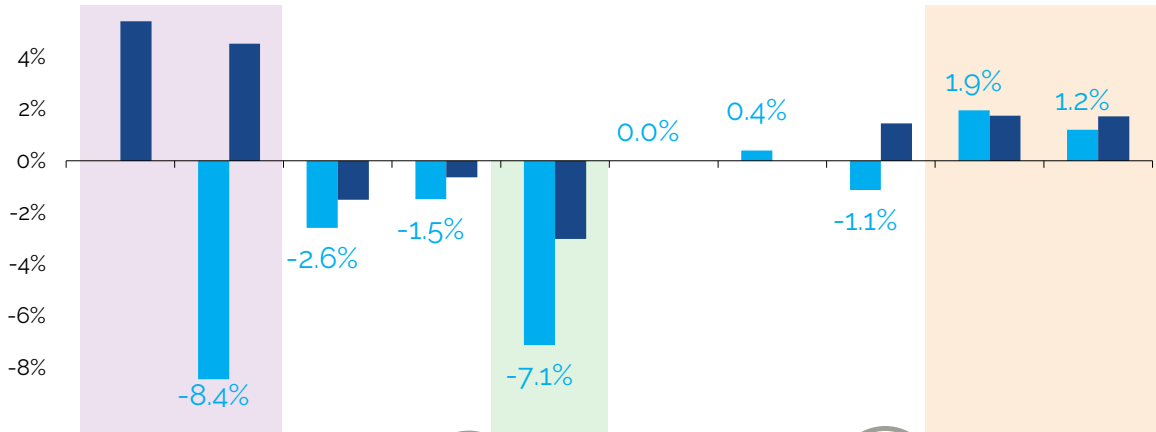
Source: Energy made Easy



Gas prices vary considerably between NSW distribution regions

Price change for residential customers between June 2018 and June 2019

■ Median lowest offers ■ Median standing offers



Some standing offer prices increased

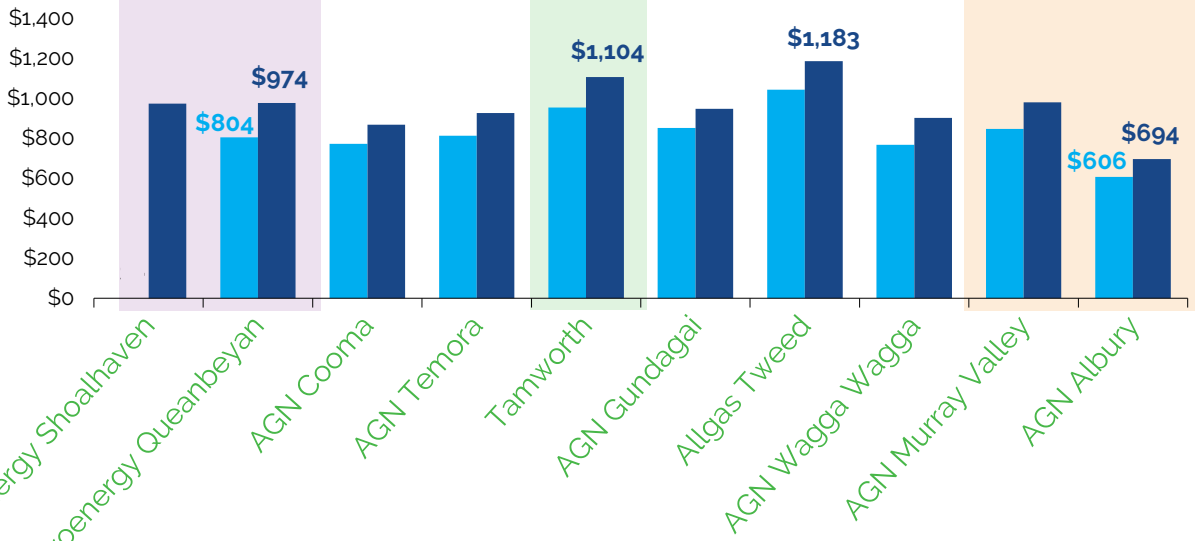
Standing offers in the Evoenergy Queanbeyan and Evoenergy Shoalhaven regions increased by 5% on top of a 6% increase in 2017-18. However, the median lowest offer decreased by 8% in the Evoenergy Queanbeyan region. This means that customers who can shop around may find a better deal.

Price decreases in Tamworth

Customers experienced larger decreases in both offer types. However, for the same level of consumption, Tamworth customers still have the second highest bills after those in the Tweed.

Prices increased in Albury

While customers in Albury had price increases for all offer types, for the same level of consumption they had the lowest bills in NSW, because of lower distribution costs.

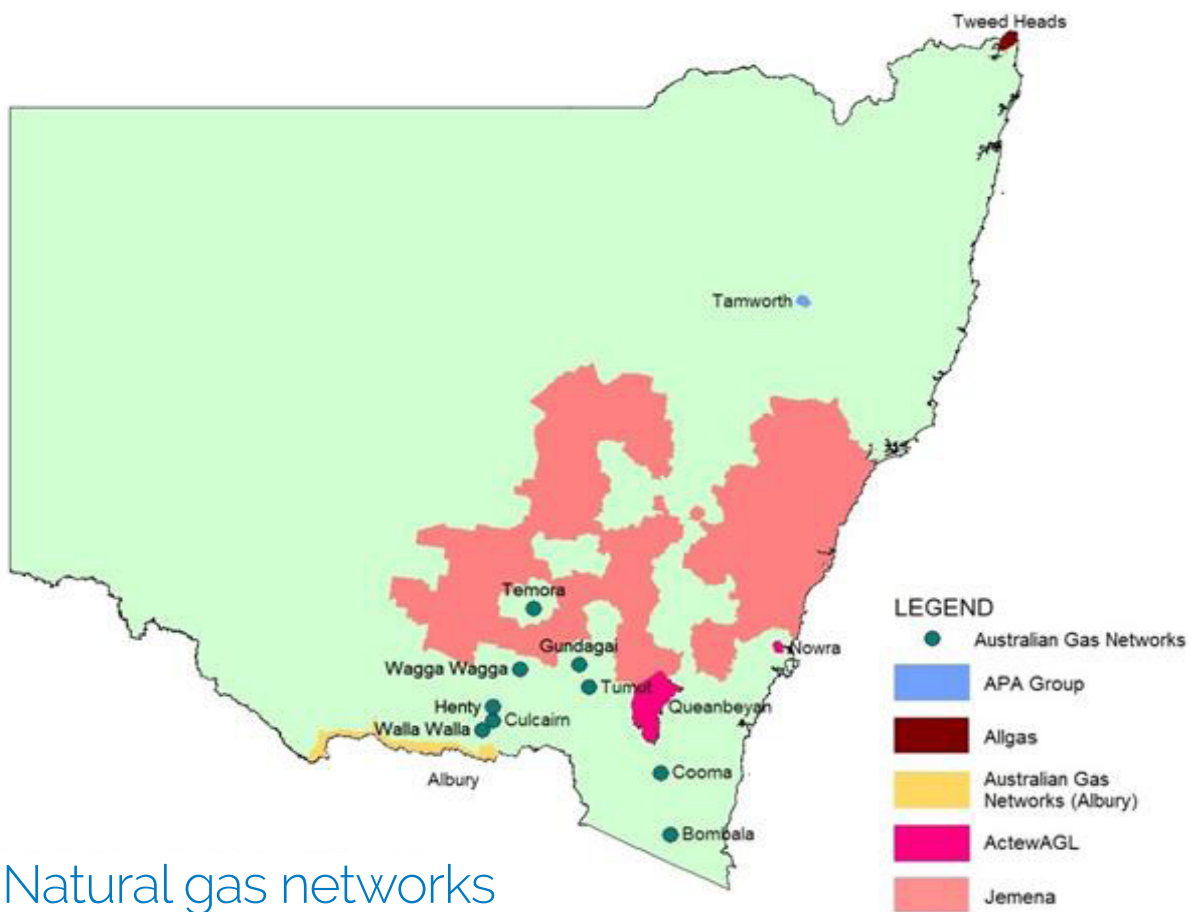


Annual residential bill for June 2019 (20 GJ per year GST-inclusive)

Source: Energy made Easy

Underlying prices vary across regions, largely reflecting distribution costs in each region. In particular, the Murray Valley and Albury regions are supplied as part of the Victorian distribution network, and face much lower distribution costs, while Allgas in Tweed Heads faces higher distribution costs as part of the Queensland network (see page 9 for more information about the differences in costs between states).

We calculated bills based on the same level of consumption in each network. However, country customers generally have higher average consumption levels, reflecting greater demand for gas for space heating in country zones with cooler climates. This means that while prices are lower on the Victorian border, overall bills are likely to be higher than for warmer coastal regions where less gas is used.



Natural gas networks in NSW

Source: NSW Department of Planning, Industry and Environment

While small customers in the Jemena region have many retailers to choose from, some country regions only have one or two.

Where there is only one retailer, gas prices are constrained by the option of switching to electricity in the longer term.

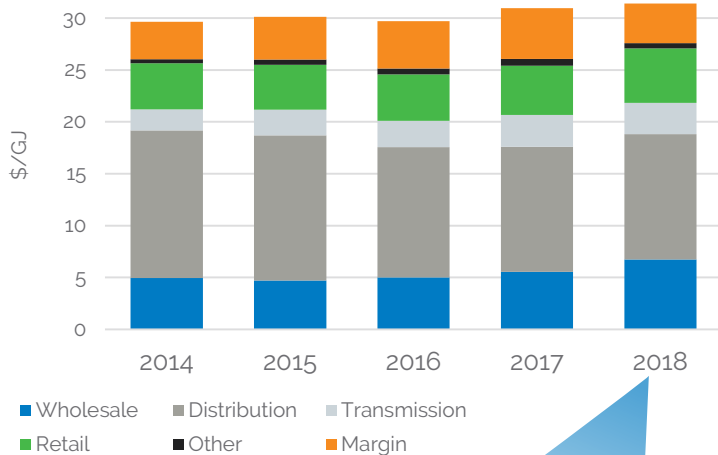




On average across NSW, gas prices for small customers have increased by less than the cost of living since 2014


The ACCC's gas inquiry 2017-2020 interim report July 2019 found that retail gas prices for **small customers** in NSW have increased by around 1.5% pa since 2014, which is less than the general increase in the cost of living.

Costs of supplying NSW small customers




In recent years, large increases in wholesale costs have been partially offset by lower retail margins.

▲ 21%




Wholesale costs

■ 0%




Network costs

▲ 11%




Retail costs

▼ -22%



Margins

The ACCC also reported that the costs of serving, acquiring and retaining customers increased by 11%.



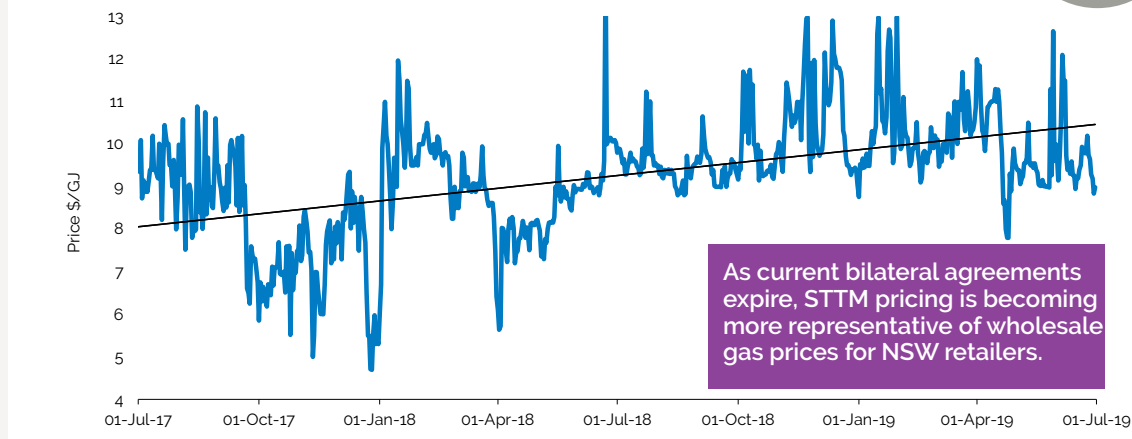
Source: ACCC gas inquiry 2017-2020 interim report July 2019

In 2018-19

Wholesale costs rose substantially



Sydney Short Term Trading Market (STTM) prices July 2017 to June 2019



Over the last two years, the Sydney STTM price has been trending upwards. The average daily price was 17.5% higher over 2018-19 compared to 2017-18.

The ACCC found wholesale gas costs for small customers were \$6.73/GJ in 2018, up 21% from 2017, and 36% from 2014. In the first half of 2018, prices offered by producers were between \$8/GJ to \$10/GJ, while from January 2019, prices were \$9/GJ to \$10/GJ.



Retail costs increased

Retail costs include the costs of serving, acquiring and retaining customers. They account for around 17% of the total gas supply costs for NSW customers. The ACCC reported that retail costs increased by 11% between 2017 and 2018.

In 2018, Oakley Greenwood also found retail costs increased, due to greater call volumes, higher costs of advertising, data analytics to support customer strategies and increased digital interactions.

Source: ACCC gas inquiry 2017-2020 interim report July 2019.

Network costs remained stable

There is no substantial NSW-based gas production, so retailers must secure agreements to transport gas produced in Victoria (Gippsland) or South Australia/Queensland (Cooper). As such, network costs (transmission and distribution) account for around half total gas supply costs for small customers, although this is likely to be lower in country areas, which are closer to production sources.

Network tariffs for the Jemena network are regulated or published and updated annually, with the ACCC's approval. Since 2017-18, there have been only minor changes in network costs. In 2018, Oakley Greenwood estimated that distribution costs decreased by 2.6% for Jemena residential customers, and 3.4% for small businesses. For country customers, distribution costs decreased in some areas by up to -4.9%, and increased in other areas by up to 4.8%. Transmission costs increased by 2.3-2.4% for all customers.

In February 2019, the ACCC remade its decision Jemena 2015-20 gas access decision, which did not affect distribution tariffs in 2018-19.

Source: Oakley Greenwood, *Efficiency of Gas Prices for Small Customers in NSW*, November 2018.

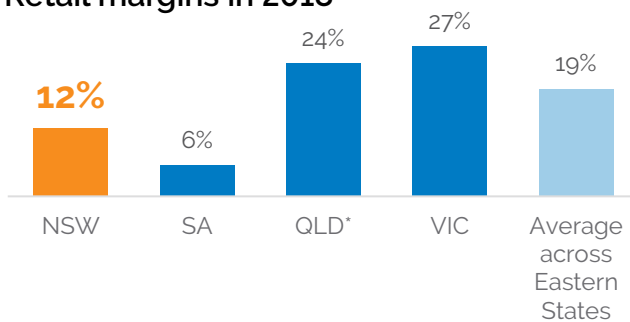
Retail margins are around half of those observed in some other states

The ACCC conducted a detailed analysis of retail margins based on actual information provided by NSW retailers. It found that margins were 12% in 2018, and averaged 14% over the last five years, which are around half the level of those in Queensland and Victoria.

These retail margins are slightly higher than for electricity, which were around 10% in 2017-18. This likely reflects that prices are constrained at levels that would be offered by a new entrant paying higher wholesale costs (around \$9/GJ-\$10/GJ), but that established retailers are paying less than this (\$6.73/GJ on average), due to existing contracts.

Source: ACCC gas inquiry 2017-2020 interim report July 2019; ACCC, *Monitoring of supply in the National Electricity Market*, March 2019.

Retail margins in 2018



QLD margins are the 2014-2018 average
Source: ACCC gas inquiry 2017-2020 interim report July 2019

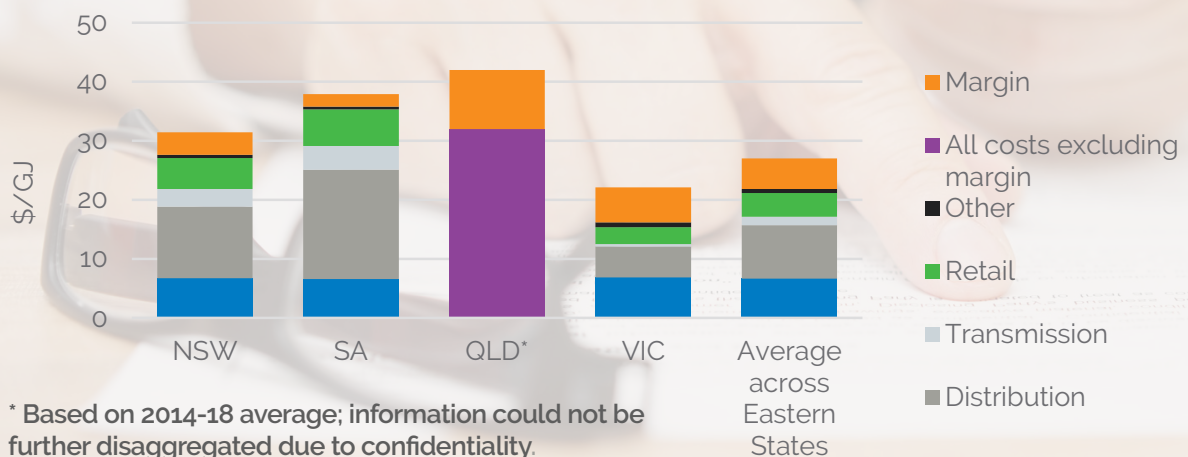
We do not recommend that IPART undertakes a review of retail costs and margins as this would duplicate the work being done by the ACCC as part of its gas monitoring role.



How does the average price in NSW compare?

The largest driver of gas price differences between states is the difference in network costs. Where gas penetration is high, like in Victoria, distribution and transmission costs are much lower per household because these network costs (which are largely fixed) are recovered over many customers. In other states, a much lower proportion of households have gas, and so per household network costs are much higher.

Average gas price in each state with cost breakdown (2018)



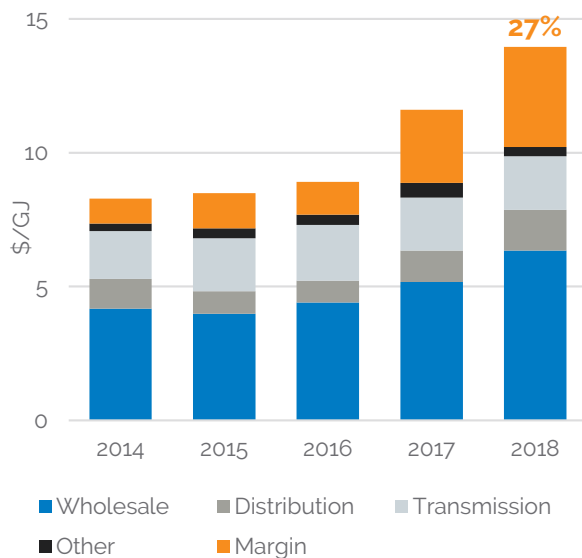
* Based on 2014-18 average; information could not be further disaggregated due to confidentiality.

Source: ACCC gas inquiry 2017-2020 interim report July 2019



The costs of supplying commercial and industrial customers increased significantly

Costs of supplying NSW commercial and industrial customers



We are only required to report on the market for small customers. For these customers we have found that prices have not increased significantly.

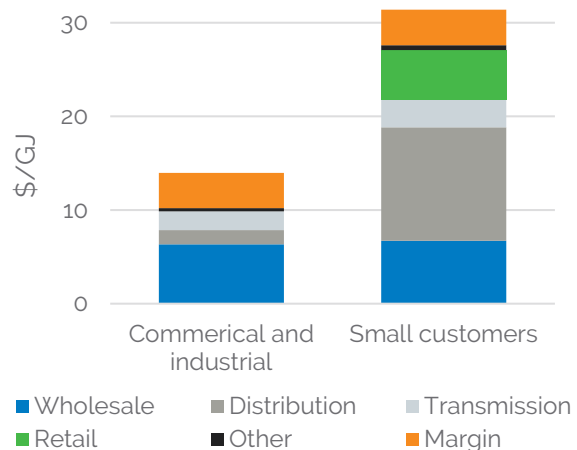
However, prices for commercial and industrial customers have risen much more rapidly in recent years. Several large East Coast manufacturers have exited the market recently, citing high gas costs as they sought to renegotiate wholesale contracts.

Unlike small customers, this price increase is also driven by an increase in margins, which were 27% in 2018, compared to around 12% for small customers.



Even though prices for large commercial customers have risen much faster than small customers, they are less than half the price for small customers.

This is because wholesale costs make up a larger proportion of total costs for commercial customers, and so have a much larger impact on the total price. This is mainly because they pay much lower distribution charges.



Comparison of the costs of supplying NSW customers in 2018



Retailers face some barriers to entry and expansion

The increase in wholesale gas prices has made it difficult for new entrants to compete while incumbent retailers hold legacy contracts. Vertical integration is less common in the gas sector than for electricity (with only Origin and AGL having upstream assets) so access to competitively priced gas contracts is necessary.

In its 2019 Retail Energy Competition Review, the AEMC reported some larger retail customers have opted for wholesale gas spot exposure and shorter contract lengths due to high gas contract prices.

Retailers are also finding it difficult to access competitively priced network contracts.

Governments have developed a number of interventions and market responses to address high wholesale costs and network access issues

- ▼ On 1 July 2017, the Australian Domestic Gas Security Mechanism came into effect to limit exports or find new gas sources in case of domestic shortfall.
- ▼ In 2017, the ACCC began quarterly reporting on gas supply arrangements in Australia, across the full supply chain, including producers, transporters and retailers.
- ▼ In 2018, the ACCC began publishing an LNG netback price series to improve price transparency in the eastern gas market and assist buyers in gas supply negotiations.
- ▼ In March 2019, a new capacity trading platform (that forms part of the Gas Supply Hub) and a day ahead auction of contracted but un-nominated capacity commenced, to facilitate more capacity trading on transmission pipelines.
- ▼ In August 2019, the Commonwealth Government announced a review of whether to establish a national prospective gas reservation scheme and remove unwarranted restrictions on gas developments.

IPART is one of several regulators that reviews the retail gas market

We consider that we can relinquish our market monitoring role with minimum risk, as the same issues are being considered and addressed by multiple other regulators. Accordingly, we recommend that this be our last market monitoring review.

<p style="font-size: 24pt; font-weight: bold; margin: 0;">AEMC</p> <p style="margin: 5px 0 0 20px;">Annual reviews of competition in retail energy markets since 2014</p>	<p style="font-size: 24pt; font-weight: bold; margin: 0;">AER</p> <p style="margin: 5px 0 0 20px;">Annual reports on the compliance and performance of the retail energy market</p>	<p style="font-size: 24pt; font-weight: bold; margin: 0;">ACCC</p> <p style="margin: 5px 0 0 20px;">Ongoing monitoring of retail and wholesale gas markets, with quarterly reporting until 2025</p> <p style="margin: 15px 0 0 20px; color: #0070C0;">Broad information gathering powers that allow it to compel information from businesses operating in the gas industry</p>
---	---	--

Market monitoring by multiple agencies increases costs for taxpayers and retailers.

© Independent Pricing and Regulatory Tribunal (2019)

With the exception of any:

- (a) coat of arms, logo, trade mark or other branding;
- (b) third party intellectual property; and
- (c) personal information such as photos of people,



this publication is licensed under the Creative Commons Attribution-NonCommercial-NoDerivs 3.0 Australia Licence.

The licence terms are available at the Creative Commons website:
<https://creativecommons.org/licenses/by-nc-nd/3.0/au/legalcode>

IPART requires that it be attributed as creator of the licensed material in the following manner: © Independent Pricing and Regulatory Tribunal 2019.

The use of any material from this publication in a way not permitted by the above licence or otherwise allowed under the Copyright Act 1968 (Cth) may be an infringement of copyright. Where you wish to use the material in a way that is not permitted, you must lodge a request for further authorisation with IPART.

Disclaimer

IPART does not guarantee or warrant, and accepts no legal liability whatsoever arising from or connected to, the accuracy, reliability, currency or completeness of any material contained in this publication.

Information in this publication is provided as general information only and is not intended as a substitute for advice from a qualified professional. IPART recommends that users exercise care and use their own skill and judgment in using information from this publication and that users carefully evaluate the accuracy, currency, completeness and relevance of such information. Users should take steps to independently verify the information in this publication and, where appropriate, seek professional advice.

Nothing in this publication should be taken to indicate IPART's or the NSW Government's commitment to a particular course of action.

ISBN 978-1-76049-376-9



The Independent Pricing and Regulatory Tribunal (IPART)

IPART provides independent regulatory decisions and advice to protect and promote the ongoing interests of the consumers, taxpayers and citizens of NSW. IPART's independence is underpinned by an Act of Parliament. Further information on IPART can be obtained from IPART's website:
<https://www.ipart.nsw.gov.au/Home>.

Tribunal members

Dr Paul Paterson, Chair

Mr Ed Willett

Ms Deborah Cope

Enquiries regarding this document should be directed to a staff member:

Brett Everett (02) 9290 8423

Melanie Mitchell (02) 9113 7743

Invitation for submissions

IPART invites written comment on this document and encourages all interested parties to provide submissions addressing the matters discussed.

We would prefer to receive them electronically via our online submission form <www.ipart.nsw.gov.au/Home/Consumer_Information/Lodge_a_submission>.

You can also send comments by mail to:

Review of the performance and competitiveness of the NSW retail gas market

Independent Pricing and Regulatory Tribunal

PO Box K35

Haymarket Post Shop, Sydney NSW 1240

Late submissions may not be accepted at the discretion of the Tribunal. Our normal practice is to make submissions publicly available on our website <www.ipart.nsw.gov.au> as soon as possible after the closing date for submissions. If you wish to view copies of submissions but do not have access to the website, you can make alternative arrangements by telephoning one of the staff members listed above.

We may choose not to publish a submission - for example, if it contains confidential or commercially sensitive information. If your submission contains information that you do not wish to be publicly disclosed, please indicate this clearly at the time of making the submission. However, it could be disclosed under the Government Information (Public Access) Act 2009 (NSW) or the Independent Pricing and Regulatory Tribunal Act 1992 (NSW), or where otherwise required by law.

If you would like further information on making a submission, IPART's submission policy is available on our website.





Appendices

A Retailers competing in each distribution region

Table A.1 Gas retailers in NSW by network area (residential)

Retailer / Region	Jemena	Wagga Wagga	Albury	Murray Valley	Tamworth	Shoal-haven	Queanbeyan	Temora	Gundagai	Cooma Bombala	Tweed Heads
Origin Energy	x	x	x	x	x		x	x	x	x	x
Energy Australia	x	x	x	x			x				
AGL	x	x	x	x				x	x		x
ActewAGL	x					x	x				
Red Energy	x								x	x	
Lumo Energy	x										
Alinta Energy	x										
Amaysim	x										
Click Energy	x										
Dodo Power and Gas	x										
CovaU	x										
Simply Energy	x										
Total	9	3	3	3	1	1	3	2	3	2	2

Note: ActewAGL, Lumo Energy and Click Energy are subsidiary brands of other retailers.

Source: Energy Made Easy.

Table A.2 Gas retailers in NSW by network area (business)

Retailer / Region	Jemena	Wagga Wagga	Albury	Murray Valley	Tamworth	Shoal-haven	Queanbeyan	Temora	Gundagai	Cooma Bombala	Tweed Heads
Origin Energy	x	x	x	x	x		x	x	x	x	x
Energy Australia	x		x	x			x				
AGL	x	x	x	x				x	x		x
ActewAGL	x					x	x				
Red Energy	x								x	x	
Lumo Energy											
Alinta Energy											
Amaysim											
Click Energy	x										
Dodo Power and Gas											
CovaU	x										
Simply Energy	x										
Total	8	2	3	3	1	1	3	2	3	2	2

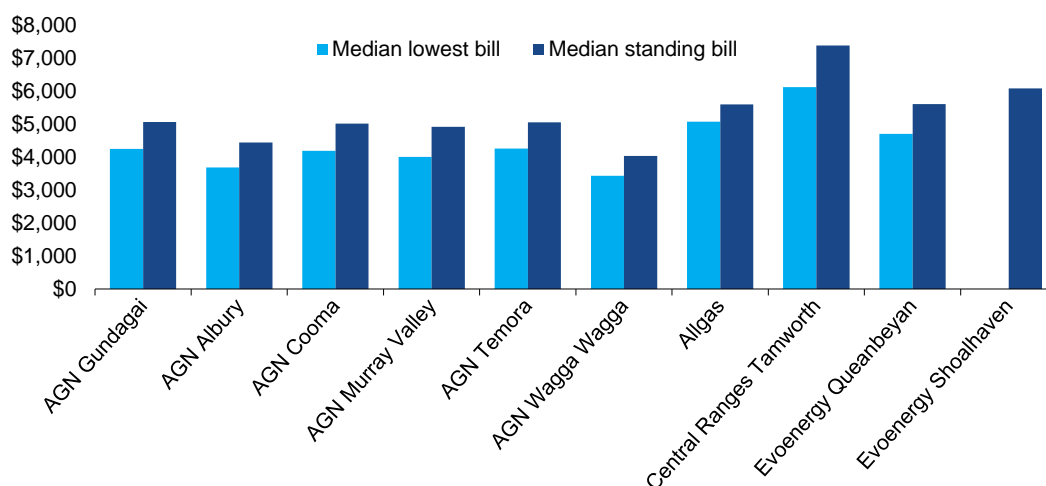
Note: ActewAGL, Lumo Energy and Click Energy are subsidiary brands of other retailers.

Source: Energy Made Easy.

B Business bills in country regions

Gas prices varied for small business customers between NSW distribution regions. In general, standing offers were higher than market offers.

Figure B.1 Median of annual bills for small business customers in NSW gas regions (\$)

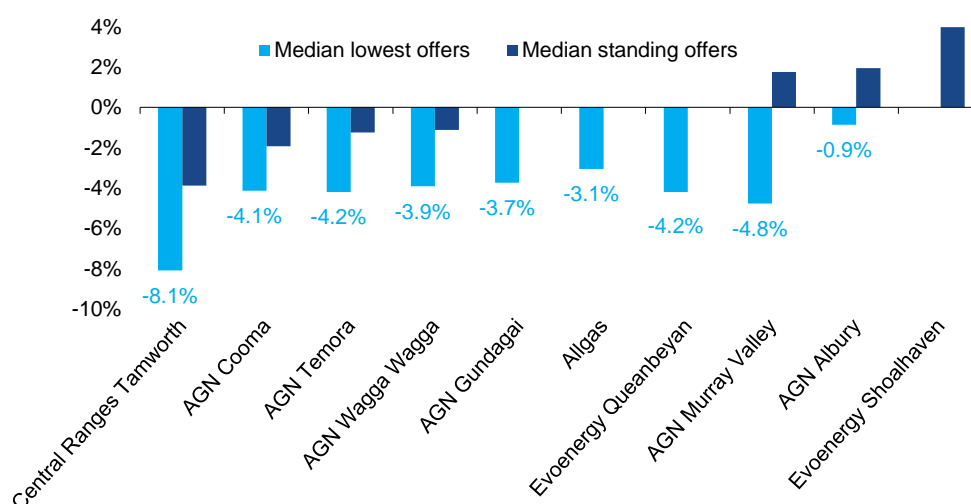


Note: Residential annual bill for June 2019 based on 20GJ per year (GST-inclusive)

Data source: Energy Made Easy.

For small business customers in the smaller gas regions in NSW, the change in **standing offers** ranged from a 4% increase in Evoenergy Shoalhaven to a 4% decrease in central Ranges Tamworth. For small business customers on **market offers**, prices decreased between -1% in AGN Albury to -8% in the Central Ranges Tamworth region.

Figure B.2 Price changes for NSW small business customers between June 2018 and June 2019 (%)



Note: Residential annual bill for June 2019 based on 184GJ per year (GST-inclusive)

Data source: Energy Made Easy.

C How we estimated bills

For this report, we obtained price data from Energy Made Easy and estimated bills using the prices of the median lowest offer and the median standing offer across all retailers. We have reported on these for each distribution network separately. This is a change from how we have estimated bills in past market monitoring reports, where we estimated an average bill for each network area, by weighting prices by the number of customers on standing and market offers, by retailer market share.¹

We have changed our approach because:

- ▼ We consider that it is more important to report on the prices available in the most competitive segment of the market, because retailers mostly compete on price
- ▼ Reporting on the median offers for defined categories is more precise and less reliant on assumptions. In our 2017-18 report, we used a number of assumptions to weight different types of market offers (including lowest offers, most common offers as reported by retailers, expired offers, and other offers), based on our best estimates of data where it was available. Although the assumptions we used were reasonable and provided reasonable bill estimates when cross-checked with other sources, headline numbers were subject to some variation
- ▼ The prices and price changes in each distribution area are very different. Therefore aggregating these numbers into one representative 'country' region is not meaningful for customers, who do not face these average price changes
- ▼ We do not have information about how many customers there are in each distribution network. Therefore, for our 2017-18 review, we took the simple average across these networks. This overestimated the contribution of very small networks like Shoalhaven and Tamworth, which are likely to have several hundred customers only, and attributed less weight to regions like Albury and Wagga, where there are likely to be many thousands of customers.

This year, we have also reported on prices based on a gas residential customer using 20 GJ of gas per year and gas business customer using 184 GJ per year. This is different to our approach last year, where we used 20 GJ for Jemena residential customers, and 40 GJ for residential customers in other networks. We made this change, because our primary role is to monitor price rather than bill changes (which also depend on consumption levels). We have calculated all residential bills in this report using 20 GJ so the prices are comparable between regions. However, we note that average bills are likely to be double the estimates in this report for some colder climate regions, which use an average of 40 GJ (mainly due to more space heating). This is consistent with the approach taken in electricity market monitoring.

¹ For further details see IPART, *Review of the performance and competitiveness of the NSW retail energy market – From 1 July 2017 to 30 June 2018*, Final Report, November 2018, p 66.

D How costs changed in 2018-19

As part of our market monitoring review for 2017-18, the Minister asked IPART to undertake a special review on whether the changes in prices reflected the efficient change in costs in a competitive market. We engaged Oakley Greenwood to provide expert advice on the efficient costs of providing gas in coastal (Jemena) and country regions, and changes in 2018-19.

This year we relied primarily on the ACCC's July 2019 Gas Inquiry Interim Report to estimate the changes in costs in 2018-19. There are some slight differences between the ACCC and Oakley Greenwood estimates, because of differences in methodologies. The ACCC looked at the actual costs of existing retailers in the market using their information gathering powers, whereas Oakley Greenwood calculated the change in costs for a new entrant retailer based on publicly available information. This led to two main differences:

- ▼ Because the ACCC used retailers' actual wholesale costs, the wholesale cost component was smaller, as it took into account the legacy contracts that existing retailers had on foot. On the other hand, Oakley Greenwood relied on the costs that would be faced by a new entrant retailer, which included higher spot prices from the Sydney Short Term Trading Market (STTM).
- ▼ Similarly, while the ACCC used observed retail costs and margins, Oakley Greenwood imputed gross retail costs (ie, the sum of retail operating costs and net margin) by using the prices that are available, and subtracting all other costs.

Despite the different methodologies, the results were broadly similar: wholesale costs rose significantly, network costs were largely unchanged, and retail margins reduced as retailers absorbed the cost changes.

E National Energy Retail Law (NSW) No 37a

234A—Market Monitor

(1) In this Part, the Market Monitor is the person prescribed by the NSW regulations as the Market Monitor for the purposes of this Part.

(2) The Market Monitor is to monitor the performance and competitiveness of the retail electricity market and the retail gas market in New South Wales for small customers.

(3) The Market Monitor is to report annually to the Minister on the performance and competitiveness of each of the retail electricity market and the retail gas market in New South Wales for small customers, including on the following matters –

(a) the participation of small customers in each market and, if the Market Monitor thinks it appropriate, particular groups of small customers;

(b) prices of electricity or gas for small customers in regional areas;

(c) any barriers to entry to or exit from, or expansion, in each market;

(d) the extent to which retailers are competing to attract and retain small customers;

(e) whether price movements and price and product diversity in each market are consistent with a competitive market;

(f) if the Market Monitor is of the opinion that it is required, steps necessary to improve the competitiveness of each market;

(g) whether there is a need for a detailed review of retail prices and profit margins in each market;

(h) any other matters the Market Monitor thinks appropriate.

(4) An annual report is to be prepared for each year commencing on 1 July.

(4A) The first annual report for the retail gas market is to be for the year commencing 1 July 2017.

(5) The annual report is to be provided to the Minister not later than 30 November following the end of the year to which the report relates.

(6) The Minister is to lay the annual report or cause it to be laid before both Houses of Parliament of this jurisdiction not later than 30 days after receiving the report.

(7) In preparing an annual report, the Market Monitor is to have regard only to the following –

(a) information provided by the AEMC and the AER;



(b) any publicly available information;

(c) information provided by a retailer under subsection

(8) The Market Monitor may, by notice in writing served on a retailer, require the retailer to provide particulars to the Market Monitor of the number of market offer customers of the retailer, the market offer prices of those customers, the number of customers on each standing offer price offered by the retailer that has been publicly advertised and those standing offer prices.