

MONITORING THE
GAS RETAIL MARKET
2019–2020



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The Independent Pricing and Regulatory Tribunal (IPART)

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Contents

Tribunal Members	ii
1 Executive Summary	1
1.1 Gas markets have been significantly affected by COVID-19	1
1.2 Competition continued to develop in the NSW retail gas market	3
1.3 Future focus areas for our retail gas market review	4
1.4 Better data sharing amongst regulators would improve our role	5
1.5 Our recommendation	5
1.6 Structure of this report	5
2 Context for our review	6
2.1 COVID-19 is having a significant impact on the gas market	6
2.2 The ACCC's ongoing inquiry is focussing on domestic gas prices	8
2.3 New gas supply has been committed under the NSW Energy Package	9
2.4 Information constraints for this review should be removed	9
3 Structure of the gas market: barriers to entry, expansion and exit	11
3.1 Structure of the gas market	11
3.2 Barriers to entry are relatively higher for gas compared to electricity	13
3.3 New retailers are entering the market, but concentration remains high	14
3.4 Fewer retailers in smaller regional network areas	15
4 Retailer behaviour and outcomes	17
4.1 Assessing annual price changes	17
4.2 Gas costs and retail margins	26
5 Consumer behaviour and outcomes	29
5.1 Switching between retailers is broadly consistent with previous years	29
5.2 More gas customers moving on market offers	30
5.3 Gas customers have reported increased satisfaction with their service	30
5.4 Gas complaints have been trending down over the past few years	32
A Referral from the Minister	34
B IPART's statutory role	36
C Retailer offers in regional areas – June 2018 to July 2020	38
Glossary	41

1 Executive Summary

The Independent Pricing & Regulatory Tribunal (IPART) is responsible for reporting annually on the performance and competitiveness of the retail electricity and gas market in NSW. This report outlines our findings and recommendations on the NSW retail gas market during 2019-20. Our findings and recommendations on the retail electricity market are in an accompanying report.

We published a Draft Report in September and received one submission, which is available on our website.

We have seen improvements in several indicators of retail gas market performance and competition over 2019-20. However, our assessment this year has been overshadowed by the unprecedented health and economic crisis caused by the COVID-19 pandemic from March 2020. The pandemic has shifted the focus of energy regulators to protecting consumers and ensuring the financial stability of retail markets.

1.1 Gas markets have been significantly affected by COVID-19

1.1.1 Some gas consumers are experiencing financial stress

Many consumers of gas are in financial stress due to a combination of loss of income, increased energy use at home, and business closures. These consumers may have difficulty paying their energy bills. The AER is collecting data from energy retailers on the effect of COVID-19 on the retail energy market. While it is still too early to draw conclusions from this data, the AER has observed rising levels of residential energy debt.¹

¹ AER, *COVID-19 retail market dashboard*, 19 October 2020. The AER states that datasets are incomplete, debt levels have a lag time of over 90 days, and payment plan and hardship data does not pick up alternative deferred payment options being offered by some retailers. The AER's reporting is available [on its website](#).

1.1.2 Retailers have been asked to provide additional support to customers

To support energy consumers the Australian Energy Regulator (AER) released a Statement of Expectations of energy businesses in April 2020 (updated in July and November). This places an expectation on retailers not to disconnect residential and small business customers who may be in financial stress if residential customers make contact with the retailer in relation to their debt or are accessing retailer support, and if business customers continues to adhere to a payment plan or to an agreed payment arrangement; and to offer these customers a payment plan or hardship arrangement.²

COVID-19 has created risks for the ongoing financial viability of energy retailers. Energy retailing is a relatively low-margin industry and retailers bear the credit risk for the entire supply chain. The pandemic has resulted in energy retailers facing rising operating and debt expenses while revenues are falling. The AEMC's recent rule change, initiated by the AER, will support retailers by allowing them to defer payment of network charges.³

In our accompanying report on the retail electricity market, we have recommended that the NSW Government take action to implement the AEMC's recommendations to support the financial stability of retail energy markets. This includes amendments to Retailer of Last Resort (ROLR) arrangements as well as improvements to protections for electricity and gas consumers.

1.1.3 Global gas prices are falling

Across the globe, gas markets are experiencing what the International Energy Agency expects to be the largest demand shock on record in 2020 brought on by COVID-19. All major global gas markets are experiencing declines or, at best, sluggish growth in demand, pushing major gas market prices down to historic lows.⁴ We expect this to put some downward pressure on retail gas prices in NSW in 2020-21.

The ACCC recently observed some softening of domestic wholesale gas prices relating to the impacts of COVID-19. However, it is concerned that there is a widening divergence between domestic gas prices and export parity liquid natural gas (LNG) netback prices.⁵ This will be a focus of the ACCC's forward work program.

² AER, *Statement of Expectations of energy businesses: Protecting customers and the market during COVID-19*, November 2020 accessed 16 November 2020.

³ AEMC, *Rule Determination National Electricity Amendment (deferral of network charges) Rule 2020*, 6 August 2020, (accessed 23 September 2020).

⁴ International Energy Agency, *Gas 2020*, June 2020.

⁵ ACCC, *Gas Inquiry 2017-2025 Interim Report*, July 2020, p 11.

1.2 Competition continued to develop in the NSW retail gas market

Even with the impact of COVID-19, we have seen improvement in several retail gas market indicators over 2019-20.

1.2.1 More gas consumers are on market offers, and report increased satisfaction

During 2019-20 more gas consumers in NSW moved away from standing offers to more competitively priced market offers.⁶ Around 89% of residential, and 79% of small business gas consumers are now on market offers in NSW (both up around one percentage point from last year). Over the past five years gas consumers have been switching between retailers at an annualised rate of around 15%. Only Victoria has a higher rate of switching.

Based on a recent Energy Consumers Australia (ECA) survey, NSW gas consumers reported increased levels of satisfaction with their service. However, only around half of energy consumers reported being confident there is enough easily understood information available.⁷ Reflecting rising customer satisfaction, the number of gas related complaints to the Energy and Water Ombudsman (NSW) has continued a downward trend over 2019-20.

1.2.2 New retailers are entering, and smaller retailers are gaining market share

Over 2019-20 three new retailers entered the NSW gas market and are competing for customers. This has increased the total number of active gas retailers to 12. We have also seen an increase in the number of active retailers in several regional gas network areas. With gas considered a secondary energy source to electricity in NSW, these new retailers have generally retailed gas as part of a dual fuel offering.

Smaller gas retailers are gradually taking market share away from the largest three retailers (AGL, Origin Energy and EnergyAustralia).⁸ However, the retail gas market remains concentrated among these three retailers who together service around 90% of small gas consumers.

⁶ A standing offer is a basic gas plan with prices set by the retailer with no discounts and with standard terms and conditions. A market offer usually has prices that are more competitive, and with different terms and conditions.

⁷ Energy Consumers Australia, *Energy Consumer Sentiment Survey*, June 2020, pp 69-70.

⁸ Hereafter we refer to these retailers as the 'big three'.

1.2.3 Price changes are broadly in line with changes in costs for most customers

We undertook a high-level assessment of how costs for providing gas have changed over 2019-20 and found that overall these costs have been fairly steady. We then compared this to price changes based on two approaches. The first was based on actual billing data for customers eligible for NSW energy rebates (around 20% of all gas NSW customers). This data provides the best indication of how prices have actually changed for customers over 2019-20. We also assessed the change in prices generally available on the Australian Government's EnergyMadeEasy price comparison website between June 2019 and June 2020.⁹ This provides an indication of the change in prices that are generally available, but not necessarily what most customers have paid.

In Jemena's gas network area, where around 95% of gas customers are located, we found that price changes over 2019-20 using the two approaches above were broadly in line with cost changes. In smaller regional gas areas, the two approaches for assessing price changes showed quite different results. The rebate customer data showed either price falls or at most 3.6% increases for 2019-20. The rebate data reflects what gas customers actually paid and includes changes in consumption. EnergyMadeEasy data showed that some regional areas had considerable increases in prices available; up to around 11% for residential and 19% for small business customers. This data reflects offers available and does not necessarily reflect what gas customers paid. While our analysis indicates that changes in regional gas prices are more modest when considered over a two-year period, we will continue to monitor this issue in future reviews. We do not consider that price change should diverge from cost changes for an extended period. In our review next year we will also consider whether there is a need for a detailed review of prices and margins in regional areas.

1.3 Future focus areas for our retail gas market review

Most of the impact of COVID-19 on consumers and retailers is likely to be felt over the current financial year (2020-21). The focus of our 2020-21 report will therefore extend beyond the standard indicators of performance and competition, to also consider leading indicators of retailer and consumer distress.

The fall in international gas prices should put some downward pressure on retail gas prices in 2020-21. As noted above, the ACCC's priorities for its ongoing Gas Inquiry include the widening divergence between domestic gas prices and export parity LNG netback prices, as well as the competitiveness of supply across the East Coast gas market.¹⁰ The ACCC will continue its inquiry until 2025 and this will provide important information for our reviews.

The ACCC has also reported that there is a relatively tight supply-demand balance for gas in the East Coast market and we will monitor this situation in next year's review. In this regard in January 2020 the NSW and Australian Governments entered into the NSW Energy Package Memorandum of Understanding (MoU) which includes a commitment to develop options to increase gas supply for NSW and improve gas infrastructure.¹¹

⁹ EnergyMadeEasy, accessed June and July 2020.

¹⁰ ACCC, *Gas Inquiry 2017-2025 Interim Report*, July 2020, p 15.

¹¹ NSW Government, *Memorandum of Understanding – NSW Energy Package*, accessed 24 September 2020.

1.4 Better data sharing amongst regulators would improve our role

In last year's report, we recommended that the NSW Government remove the requirement for IPART to monitor the retail energy market in NSW. This was primarily because a number of other agencies monitor the same market (the AER, AEMC and ACCC) and these agencies have stronger information gathering powers and a greater role in the energy supply market including wholesale and network arenas. IPART's report therefore becomes duplicative, adding to costs to both taxpayers and energy businesses. However, the NSW Government has indicated that there is value in IPART continuing to monitor the market to identify NSW-specific outcomes and trends following price deregulation.

This year we gained access to valuable billing data collected by DPIE, however, we are unable to access the raw data, instead only using the published aggregate data. The AER is also collecting a valuable dataset of bills, although we would only be able to use published data in our report.

We consider that there would be benefits to the NSW Government taking greater steps to facilitate the sharing of information across NSW bodies and national regulators. Greater data sharing amongst the regulators would improve the breadth of analysis undertaken and limit the regulatory burden on the entities providing the data.

1.5 Our recommendation

We are making one recommendation:

Recommendation

- 1 The Department of Planning, Industry and Environment take steps to facilitate better sharing of de-identified bill data for this energy market monitoring role. This will enhance monitoring of retail electricity and gas markets, while limiting regulatory burden from data collection. 10

1.6 Structure of this report

This report is structured as follows

- ▼ Chapter 2 provides the context for our review, including how COVID-19 has affected the gas market and recent developments in the market.
- ▼ Chapter 3 discusses market structure, including the number of retailers and level of concentration.
- ▼ Chapter 4 looks at retailer behaviour and outcomes, including prices and retail margins.
- ▼ Chapter 5 looks at consumer behaviour and outcomes, including engagement and satisfaction with the market.

The appendices provide supporting information.

2 Context for our review

As context for our review, this chapter sets out recent developments in the gas market. We outline the impact of the COVID-19 pandemic on gas markets commencing from the last quarter in the 2019-20 monitoring period. We expect the impacts of the pandemic to largely manifest during 2020-21 and potentially beyond and this will be a focus of our review next year.

2.1 COVID-19 is having a significant impact on the gas market

2.1.1 Financial stress for some gas consumers

Some consumers of gas are in financial stress due to a combination of loss of income, increased energy use at home, and business closures. These consumers may have difficulty paying their energy bills.

The AER is collecting data from energy retailers on the effect of COVID-19 on the retail energy market. The weekly data includes the number of residential and small business customers paying debt and the total debts. Since March 2020, there has been an increase in the number of customers paying debt and the amount of debt. The data is focussed on electricity accounts, however many of these customers will also have gas accounts.¹² The AER notes that the data does not yet allow us to draw any specific conclusions on the effect of COVID-19 because, amongst other things, the datasets are incomplete, debt levels have a lag time of over 90 days, and payment plan and hardship data does not pick up alternative deferred payment options being offered by some retailers.¹³

¹² AER, *COVID-19 retail market dashboard*, 19 October 2020. Weekly reports are available on [the AER website](#).

¹³ AER, '[Weekly retail market dashboards - COVID-19](#)' accessed 26 November 2020.

2.1.2 Additional costs and obligations may affect the financial viability of retailers

The AER moved quickly to support energy consumers who were vulnerable to the impacts of COVID-19. The AER's Statement of Expectations asks retailers not to disconnect residential and small business customers who may be in financial stress and to offer these customers a payment plan or hardship arrangement.¹⁴

Energy retailers are facing increased costs and falling revenues arising from COVID-19. Additional costs may include 'onshoring' workers, closing call centres and transitioning workforces to a working from home arrangement.¹⁵ There are also substantial customer-related costs including an increased focus on hardship programs and bad and doubtful debt expenses. In response to our Draft Report, AGL – a gas and electricity retailer – stated it had reported credit loss due to COVID-19 in FY20 of \$20 million. It has forecast double this for 2020-21, although notes significant uncertainty.¹⁶ These combined pressures may affect the ongoing financial viability of some retailers.

A recent rule change from the AEMC will provide relief to some retailers from payment of network charges for a period of six months. In addition, the AEMC made several recommendations in its June 2020 Retail Competition Review to support the financial stability of the retail market. These are in relation to the Retailer of Last Resort arrangements and granting the AER more powers to identify risks to retailer financial stability.¹⁷

2.1.3 Global gas prices falling

The international gas market was already cooling over 2019 and now the International Energy Agency expects the largest demand shock on record in 2020, brought on by COVID-19. All major global gas markets are experiencing declines or at best sluggish growth in demand, pushing natural gas prices down to historic lows.¹⁸

This trend is shown in the ACCC's LNG netback price series (Figure 2.1). When adjusted for certain factors, the LNG netback price represents the price that a gas producer would expect to receive from a domestic gas buyer to be indifferent between selling the gas domestically or exporting it. The figure below shows that the LNG netback price¹⁹ was trending downward during 2019, and then fell significantly following the COVID-19 outbreak in March 2020.

¹⁴ AER, *Statement of Expectations of energy businesses: Protecting customers and the market during COVID-19, November 2020* (accessed 16 November 2020).

¹⁵ For example, see the [submission from Simply Energy to the AER's review of the Default Market Offer](#), April 2020, (accessed 23 September 2020).

¹⁶ [AGL submission to IPART Draft Report](#), p 2. This is in addition to regular loss which historically has averaged around \$80 million. [AGL, Full year results](#), 13 August 2020, p 25.

¹⁷ AEMC, *2020 Retail Energy Competition Review Final Report*, June 2020, pp vi – vii.

¹⁸ International Energy Agency, *Gas 2020*, June 2020.

¹⁹ An LNG netback price is a measure of an export parity price that a gas supplier can expect to receive for exporting its gas. It is calculated by taking the price that could be received for LNG and subtracting or 'netting back' the costs incurred by the supplier to convert the gas to LNG and ship it to the destination port.

Figure 2.1 ACCC LNG netback prices – updated November 2020 (\$/GJ)



Source: ACCC, LNG Netback Price Series, accessed 23 November 2020.

We expect this to put some downward pressure on retail gas prices in NSW in 2020-21. However, as discussed below the ACCC is concerned about the widening divergence between domestic prices and LNG netback prices.

2.2 The ACCC's ongoing inquiry is focussing on domestic gas prices

On 19 April 2017 the Australian Government directed the ACCC to conduct a wide-ranging inquiry into the supply of, and demand for, wholesale gas in Australia, as well as publish regular information on the supply and pricing of gas for the next three years. In 2019, the Australian Government extended the ACCC's inquiry into the gas market until December 2025.²⁰

The ACCC has published two interim reports since our previous market monitoring report was completed in November 2019. The January 2020 interim report noted that the supply-demand balance for gas in southern states in the East Coast Gas Market was tight, but that there should be sufficient gas to meet domestic and LNG export demand in 2020. The ACCC considers that the long-term supply and demand outlook for the East Coast Gas Market remains tight and uncertain.²¹

The ACCC's report also includes quantity-weighted gas prices expected to be paid by retailers for supply in 2020 under Gas Supply Agreements (GSAs) entered into by retailers. The GSAs were entered into between 1 January 2018 and 22 August 2019. For retailers in NSW, gas commodity prices ranged from \$9.54 to \$11.57/gigajoule (GJ). The ACCC noted that there was a slight increase in prices from the July 2019 interim report.²²

²⁰ See the ACCC's *Gas Inquiry review page* for more information.

²¹ ACCC, *Gas inquiry 2017-2025, Interim report, January 2020*, pp 17, 19-20.

²² ACCC, *Gas inquiry 2017-2025, Interim report, January 2020*, pp 66-67.

The July 2020 interim report addressed the twin impacts of COVID-19 and the significant falls in oil and LNG prices. The ACCC's examination of prices in late 2019 and early 2020 suggests that reductions in LNG prices may have been at least partially flowing through to the domestic East Coast Gas Market ahead of COVID-19. However, the ACCC notes that the slight softening in domestic prices compares unfavourably with the level of reductions seen in LNG markets. It questions the degree of competition that currently exists in the supply of gas in East Coast Gas Market, at both the producer and retailer levels. The divergence between LNG netback prices and domestic prices will be a focus of the ACCC's future reports.²³

2.3 New gas supply has been committed under the NSW Energy Package

The NSW Energy Package MoU between the NSW and Australian Governments commits to increase gas supply for NSW and improve gas infrastructure. The NSW Government has set a target of an additional 70 petajoules (PJ) of gas into the NSW market per year. Priority projects identified in the MoU include:

- ▼ Port Kembla Gas Import Terminal (up to 100 PJ) which was granted planning approval in April 2019
- ▼ Port of Newcastle Gas Import Terminal (approximately 110 PJ) which was declared NSW Critical State Infrastructure in August 2019, and
- ▼ Narrabri gas project (approximately 70 PJ) to be determined by the NSW Independent Planning Commission.

If the projects above do not proceed, or do not inject 70 PJ of gas into the East Coast Gas Market by 2022, the NSW and Australian Governments will conduct a review to address barriers to bringing on new gas supply and to identify how the target can be achieved.²⁴

2.4 Information constraints for this review should be removed

In our 2019 energy market monitoring review, we recommended that the NSW Government remove the requirement to monitor the performance and competitiveness of the retail energy market in NSW.²⁵ However, the Minister indicated a preference that IPART complete the report for 2019-20.²⁶ Notwithstanding this, we are still of the view that much of the analysis into the performance of the retail market duplicates work undertaken by other agencies with greater information gathering powers.

²³ ACCC, *Gas inquiry 2017-2025, Interim Report, July 2020*, p 6.

²⁴ *Memorandum of Understanding – NSW Energy Package*, 31 January 2020, Schedule C, accessed 24 September 2020.

²⁵ IPART, *Review of The performance and competitiveness of the retailer electricity market 2018-19*, November 2019, p 60.

²⁶ *Letter* from the Honourable Matt Kean, MP, Minister for Energy and the Environment to IPART, August 2020.

Our role, completed under section 234A of the *National Energy Retail Law (NSW)*, is limited by constraints on the data that we can collect and use to inform the report. We are therefore largely reporting work that is undertaken by other agencies, albeit adding a NSW specific lens. This year we gained access to valuable billing data collected by DPIE. However, we only received this data in aggregate form. Ideally, we would be able to receive the raw data and conduct our own analysis. Also, the AER now has a valuable data set available, although we understand that legal constraints prevent the sharing of the data.

Greater data sharing would improve the breadth of analysis undertaken and limit the regulatory burden on the entities providing the data.

Recommendation

- 1 The Department of Planning, Industry and Environment take steps to facilitate better sharing of de-identified bill data for this energy market monitoring role. This will enhance monitoring of retail electricity and gas markets, while limiting regulatory burden from data collection.

3 Structure of the gas market: barriers to entry, expansion and exit

This chapter describes the structure of the gas market in NSW including the key components of the gas supply chain from producers to retailers. We then discuss our findings on the barriers to entering, expanding and exiting the market for a gas retailer and how this has affected the market share and level of concentration in the NSW retail market.

We found that barriers to entering the retail gas market are not excessive, evidenced by the increasing number of retailers in the NSW market. While smaller retailers are gradually taking market share from the 'big three', overall the market remains highly concentrated. There are fewer retailers active in smaller regional network areas, although we have seen an increase in the number of retailers in some of these areas over 2019-20.

3.1 Structure of the gas market

The gas industry on the East Coast of Australia has undergone a structural change over the last decade. The Queensland-based LNG export industry has increased the demand for gas and linked East Coast gas prices to international prices.

The main components of the gas supply chain include:

- ▼ **Gas production** – gas wells and coal seam gas wells source natural gas and ship to a processing plant to meet technical specifications. NSW produces little of its own gas, so is highly dependent on gas from other states.
- ▼ **Gas transmission** – high pressure pipelines transport gas to large industrial customers, LNG plants, gas powered electricity generators and city gates.
- ▼ **Gas distribution** – at city gates, gas pressure is lowered and injected into local distribution networks for transport to customers. There are six authorised natural gas network operators in NSW.
- ▼ **Gas retailers** – buy gas from producers and pipeline capacity from gas transmission and distribution businesses to supply gas to residential and business customers.

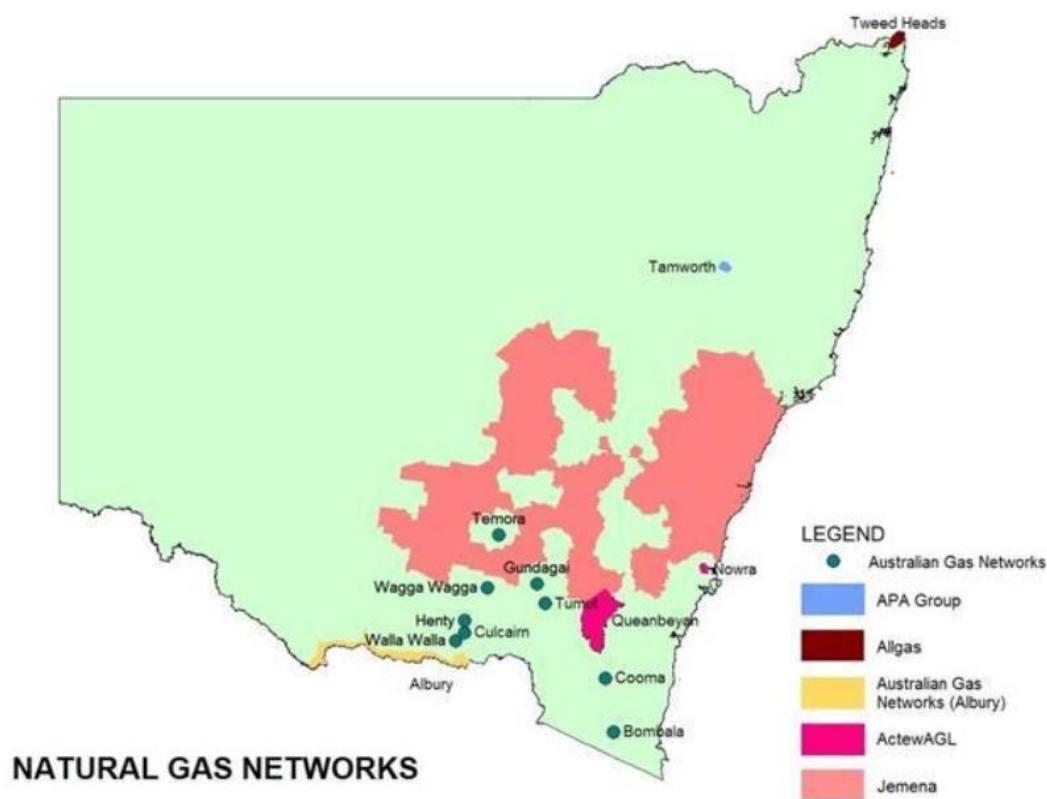
Retailers provide gas to around 1.43 million residential gas customers and 50,000 small business gas customers in NSW. This compares to around 3.26 million residential electricity and around 328,000 small business electricity customers.²⁷ Gas is generally considered a secondary product to electricity, rather than a stand-alone service.

²⁷ Australian Energy Regulator, *Q3 2019-20 Retail Energy Performance Update*, July 2020, Schedule 2, accessed 15 August 2020.

Retailers buy wholesale gas from two markets. Most is purchased from producers under confidential bilateral GSAs. Traditionally GSAs have locked in prices, terms and conditions for long periods (15-20 years), however more recently there has been a trend to shorter contracts. The other market for wholesale gas is the spot market. The spot market is mainly used by retailers to balance their contract positions.

As noted above, there are six authorised natural gas network operators in NSW and the distribution networks are shown in Figure 3.1 below. Note that in this report, Australian Gas Networks (Albury) is generally presented as part of Australian Gas Networks. Around 95% of residential and small business gas consumers in NSW are located in Jemena’s gas distribution network area.

Figure 3.1 Natural gas distribution networks in NSW



Source: NSW Government, 'Gas network operators', accessed 24 September 2020.

3.2 Barriers to entry are relatively higher for gas compared to electricity

For a potential retailer entering the NSW gas market, the ability to access wholesale gas and pipeline capacity to move it from its source to major population centres is essential. Retailers need to separately negotiate GSAs for wholesale gas, and for capacity on transmission and distribution pipelines.

These factors make entering the retail gas market relatively more difficult than the retail electricity market. Given the need to contract for capacity on regional pipelines where there are fewer customers located, we generally see a smaller number of retailers in these network areas.

In its 2019 review, the AEMC noted that some retailers claimed it was difficult to access reasonably priced wholesale gas and pipeline capacity, and that this was a barrier for entry/expansion.²⁸ The ACCC has noted that uncertainty around the gas supply-demand outlook over the immediate and longer term may act to inhibit a potential supplier from entering the retail gas market and the lack of sufficient supply and diversity of suppliers may also make it more difficult to access gas at reasonable prices.²⁹

Despite these challenges there have been new entrants into the retail gas market during 2019-20 and more retailers active in several regional areas. We also note that recent gas market reforms may support improved trade of pipeline capacity for retailers (and other market participants) going forward. These include:

- ▼ Introducing new ways to trade unused pipeline capacity (secondary trading) including a day-ahead auction where it is compulsory for unused capacity to be offered for sale.³⁰
- ▼ Setting up a new electronic platform for secondary trading to make it easier for buyers and sellers to interact.³¹
- ▼ Harmonising the start time of the gas day used in each of the east coast facilitated gas markets to 6:00 am (designed to reduce cost and complexities for market participants).³²

The ACCC's reporting on gas supply arrangements, including outcomes from contract negotiations and price outlooks, should help to improve market transparency and assist retailers with gas supply negotiations moving forward. The ACCC is due to continue its Gas Inquiry reporting until 2025.

²⁸ The AEMC did not provide any further commentary on this issue in its 2020 report released in June 2020.

²⁹ ACCC, *Gas Inquiry 2017-2025 – Interim Report*, January 2020, p 134.

³⁰ For more information, see AEMO, '[About Pipeline Trading Capacity \(PCT\)](#)' and AEMO, '[Gas reforms helping keep electricity prices down](#)'. Accessed 20 November 2020.

³¹ For more information, see AEMO, '[About Pipeline Trading Capacity \(PCT\)](#)' and AEMO, '[Gas reforms helping keep electricity prices down](#)'. Accessed 20 November 2020.

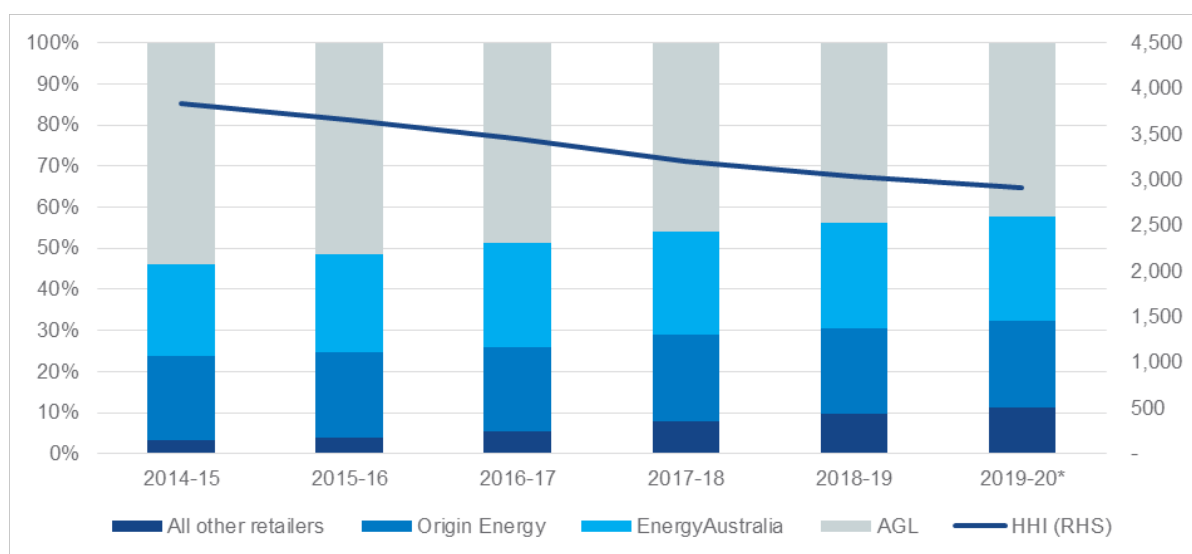
³² For more information, see AEMC, '[Gas harmonisation day](#)', accessed 20 November 2020.

3.3 New retailers are entering the market, but concentration remains high

There were up to 12 retailers marketing to gas customers during 2019-20, an increase from nine retailers active in 2018-19.

In Figure 3.2 below, we show how market share for small customers has been changing in the NSW gas market. The ‘big three’ retailers continue to dominate market share. Particularly since the removal of retail price regulation for gas from 1 July 2017, there has been a gradual increase in market share for smaller, second tier retailers for residential customers.

Figure 3.2 Market share for small gas customers in NSW



Note: Data is up to the third quarter in 2019-20.

Data source: AER, *Q3 2019-20 Retail Energy Performance Update*, July 2020, Schedule 2, accessed 15 August 2020.

The retail gas market can be considered highly concentrated as measured by the Herfindahl-Hirschman Index (HHI).³³ However, Figure 3.2 shows this has been on a downward trend in line with the increasing market share of smaller retailers. In response to our Draft Report, AGL, the incumbent gas distributor in the Jemena distribution area, submitted that its customer base reduced by 8,000, continuing a downward trend over several years.³⁴

Box 3.1 provides some more information about the HHI.

³³ The HHI is defined as the sum of the squares of the market shares of the firms within the market. An index greater than 2,500 generally indicates a highly concentrated market.

³⁴ AGL submission to IPART Draft Report, September 2020, p 1.

Box 3.1 The Herfindahl-Hirschman Index (HHI)

The HHI is a common measure of market concentration. The results can range from close to zero for a highly competitive market, to 10,000 which represents a monopoly market.

The information below assists interpretation of the result:

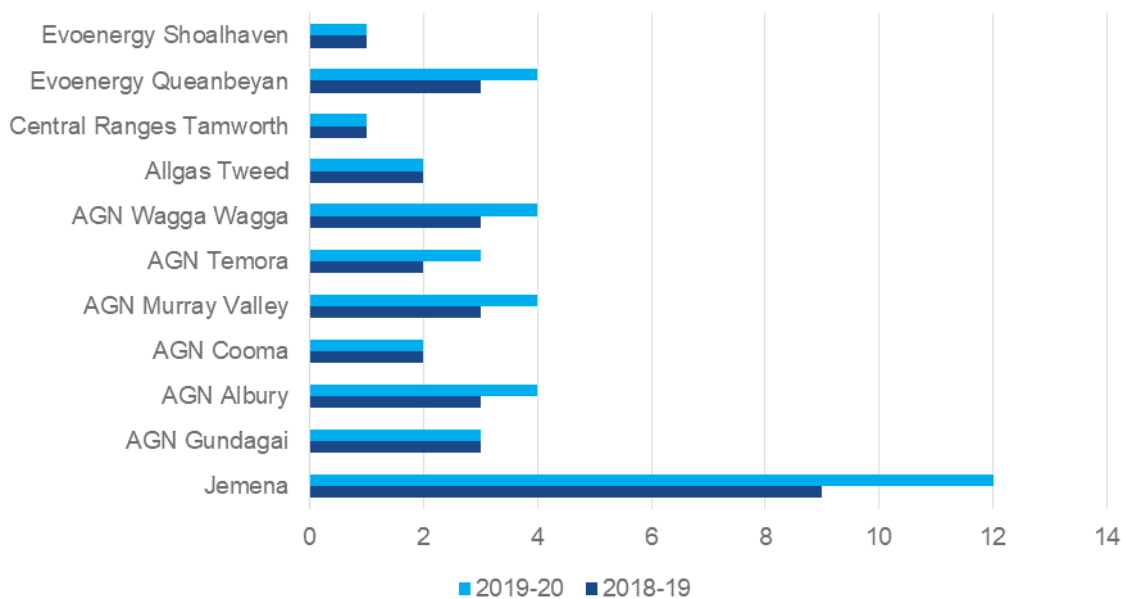
- ▼ The ACCC considers a post-merger industry with a HHI of 2,000 or less is less likely to raise competition concerns (used when considering the impact of mergers).
- ▼ An ACCC review of the mobile telecommunications market found a HHI of around:
 - 3,100 for mobile services
 - 3,500 for fixed broadband services
 - 4,500 for fixed voice services.
- ▼ The United States Department of Justice and Federal Trade Commission considers market concentrations below 1,500 are competitive and above 2,500 are highly concentrated.

Source: ACCC, *Merger Guidelines 2008, updated 2017*, p 35; ACCC, *Communications Sector Market Study Final Report*, April 2018, p 23; U.S. Department of Justice and the Federal Trade Commission, *Horizontal Merger Guidelines*, 19 August 2010, p 19.

3.4 Fewer retailers in smaller regional network areas

While around 95% of gas consumers in NSW are located in Jemena’s gas network area, there are far fewer consumers in regional gas network areas. The largest of these networks are the AGN Wagga Wagga (around 23,000 customers) and AGN Albury areas (around 28,000) customers.³⁵ In these areas there are far fewer active retailers (Figure 3.3).

Figure 3.3 Number of active retailers (residential or small business) by network area



³⁵ For customer numbers see AER ‘Wagga Wagga – gas distribution network’ and AEMC, ‘NSW: AGN Albury Gas Distribution Network’, accessed 24 September 2020.

Source: IPART analysis of data in [EnergyMadeEasy](#), accessed June 2019 and June 2020.

The smaller gas network areas are less likely to attract a large number of retailers. This is because retailers would need to recover the fixed costs of entering these areas from a relatively small customer base. However, we note there has been an increase in the number of active retailers in the Wagga Wagga, Temora and Murray Valley regions. We also note that a subsequent review of EnergyMadeEasy in August 2020 indicated there were two retailers active in Tamworth.

4 Retailer behaviour and outcomes

This section discusses our findings on retailer behaviour and retailer outcomes in the retail gas market in 2019-20. We focus on how retailers have changed their prices and on retail margins.

We found that in Jemena's gas network area, where around 95% of gas customers are located, price changes over 2019-20 were broadly in line with cost changes. In smaller regional gas areas, the results are less clear and we will continue monitoring these trends in future reviews and consider whether there is a need for a detailed review of prices and margins in regional areas. We do not consider that price changes should diverge from cost changes for an extended period.

4.1 Assessing annual price changes

We have assessed annual price changes (converted into annual bills) over 2019-20 using two approaches:

- ▼ Actual billing data provided by retailers to the NSW Government for the NSW Energy Rebate Program - this indicates changes in actual bills for these rebate customers.³⁶ Since our Draft Report, we have updated the analysis to include data for the whole of 2019-20.
- ▼ Median standing offers and median lowest market offers available on the Australian Government's EnergyMadeEasy website (www.energymadeeasy.gov.au) (June 2019 and June 2020) - this provides an indication of changes in prices generally available in the market.

This is the first time we have used the billing data in our analysis as well as the EnergyMadeEasy data. There are limitations with the underlying consumption and customer numbers in each dataset. These limitations are explained in Table 4.1.

³⁶ Gas customers in NSW who hold a health care card, pensioner Concession card or a DVA Gold Card can receive a rebate on their gas bill as part of the NSW Energy rebate program. Approximately 20% of total residential customers across all regions in NSW currently receive a rebate. Actual billing data for this group of customers has been published by the Department of Planning, Industry and Environment (DPIE).

Table 4.1 Contrasting the actual billing data with EnergyMadeEasy data.

	Billing data	EnergyMadeEasy data
Consumption	Uses actual consumption which changes each year. This means the total bill can change if prices don't; or be lower even if prices increase. Our analysis used total bill amounts. We cannot adjust for the impacts that changes in ratio of the fixed to variable charge makeup have on the total bill when consumption changes.	Uses a set consumption (for each distribution area) and number of days. This means it can better reflect actual change in price.
Timing	Data covers bills issued throughout the year.	This is point-in-time data for June of each year.
Customer numbers	Shows bills actually incurred by about 20% of NSW customers. However, this is a subset of customer demographics as they must be eligible for the rebate.	We do not have information about how many consumers, if any, are on the EnergyMadeEasy offers. This data is informative of the retailers' behaviour.

4.1.1 Actual bill data from residential rebate customers

To gain an understanding of customer bill changes over 2019-20 we have assessed changes in actual bill data for customers who currently receive a rebate.

Gas customers in NSW who hold a health care card, Pensioner Concession Card or a Department of Veterans' Affairs Gold Card can receive a rebate on their gas bill as part of the NSW Energy rebate program.³⁷ Approximately 20% of gas residential customers across all regions in NSW currently receive a rebate.

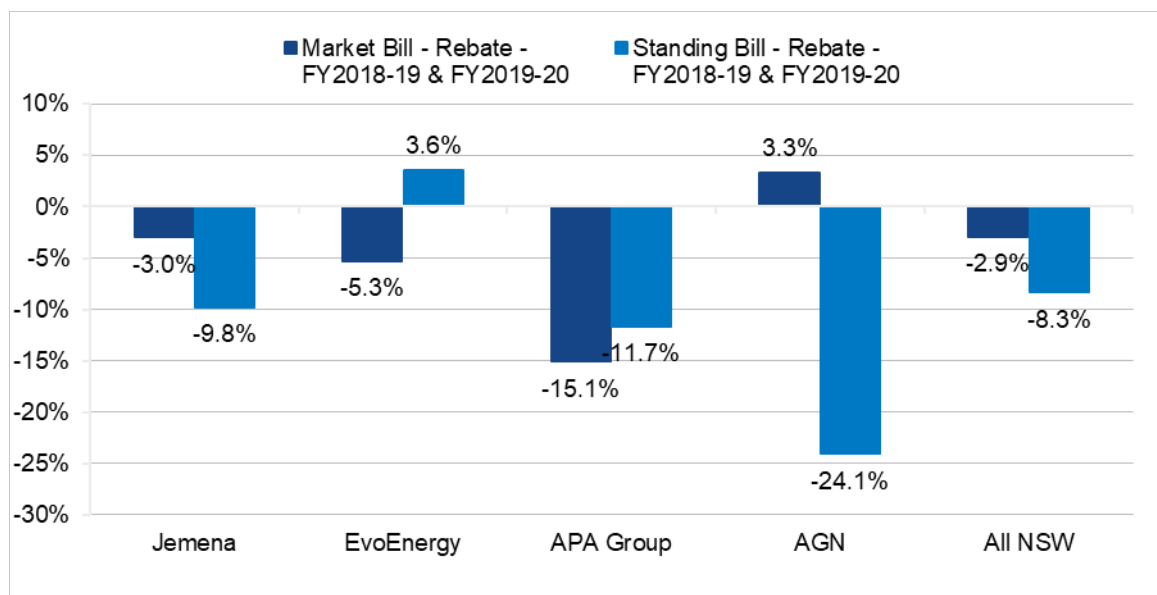
Actual billing data for this group of customers has been published by the Department of Planning, Industry and Environment (DPIE). The rebate customer data shows:

- ▼ Reductions in median bills for both standing and market offer customers in the Jemena, and APA group regions.
- ▼ A small increase in market offer median bills in the Evoenergy area; and standing offer median bills in Australian Gas Network areas (Figure 4.1).

We note that the median bill changes mostly moved in the same direction as changes in consumption, albeit to a different magnitude. For most categories, the underlying consumption moved by a greater proportion than the total bills (by 2.9 to 14.1 percentage points). The difference could reflect actual price changes, as well as the combination of fixed and variable charges in each customer's offer. (See Box 4.1 for an example of how changes in consumption are greater than corresponding changes in bills.) The exception is market offer customers in the AGN area, where median consumption fell by 0.9% but the median bill increased by 3.3%. In this case, it is likely that the customers faced price increases.

³⁷ NSW Government, 'Apply for the Gas Rebate (retail customers)', accessed 24 September 2020.

Figure 4.1 Median bill changes for residential rebate customers (2018-19 to 2019-20)



Source: NSW Department of Planning, Industry and Environment, *NSW Energy Rebates Trend Analysis*; IPART analysis.

Note: Evoenergy includes Shoalhaven and Queanbeyan regions; APA Group includes Central Ranges Tamworth; Australian Gas Network includes Gundagai, Wagga Wagga, Temora, Albury and Murray Valley and; All Gas Networks includes Tweed Heads.

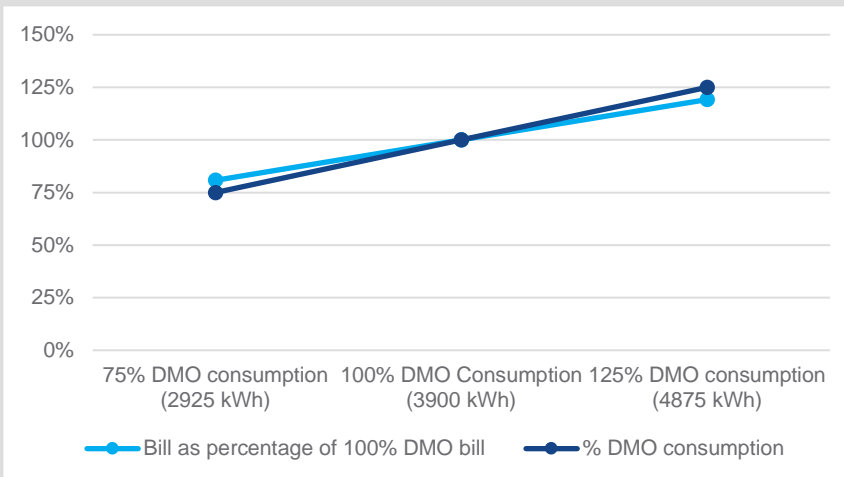
Box 4.1 Impact of consumption on bills

We have not been provided with individual bill data. Instead, we accessed aggregate bill data published by the DPIE. Using aggregate data presents some limits to the analysis we can do. Aggregate bill data is complicated by changes in consumption and the ratio of fixed to variable charges that apply under each offer. The bills in the data we collect are likely to have a variety of different fixed and usage charges that exist under different offers.

Generally, a change in consumption is not likely to be met with as great a change in the bill, because bills typically contain a fixed charge which stays the same regardless of usage.^a

The chart below shows three (electricity) bills with the same offer but different consumption:

- ▼ The middle dot is a bill based on (electricity) usage of 3,900 kWh.
- ▼ The dots on the left show a bill with 25% less usage – the bill (pale blue) has not fallen as much as the usage (dark blue).
- ▼ The dot on the right is calculated with 125% of the usage, in this case the bill (pale blue) has not increased by as great a proportion as the usage (dark blue).



We also note that an offer with relatively high fixed charge and low usage charge means that changes in consumption will have less impact on the total bill than an offer with low fixed charges but relatively high variable charges. Different offers can benefit different customer types, depending on their usage habits and whether they prefer bill certainty or the ability to reduce their usage to reduce their bill.

^a The exceptions would be if a customer's offer is entirely made up of a fixed charge, or entirely of a variable charge – both of which are unlikely. In the former case, the bill would not change with consumption, in the latter case the bill would change exactly in line with consumption.

Source: IPART calculations.

4.1.2 Prices available on EnergyMadeEasy

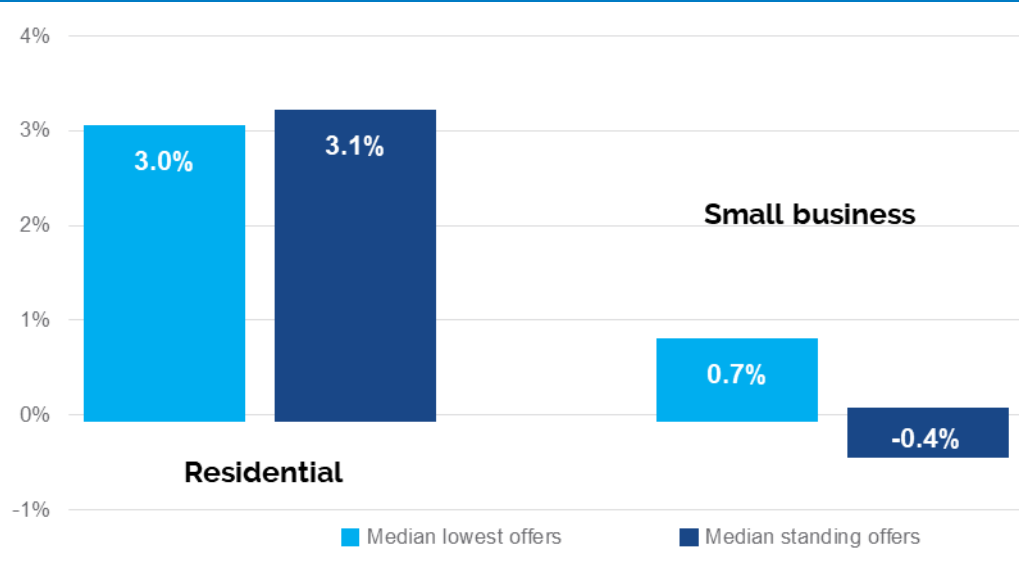
To assess movements in customer prices over 2019-20, we have also assessed changes in EnergyMadeEasy standing and market offers between June 2019 and June 2020. These price changes are point in time comparisons of available offers in the market.

As noted above, changes in prices available in the market may not be representative of price changes that consumers have experienced over the same period. Only around 15% of consumers switch between retailers each year and the rest generally remain with their existing retailer either on the same or a new offer (see Chapter 5 for further information on switching).

Modest price increases for consumers in the Jemena network area

Based on EnergyMadeEasy, the median of the lowest market offers in June 2020 in the Jemena region increased by 3.0%, compared with June 2019. The median standing offer increased by 3.1% over the same time period. For business customers the variation was less material, with only a 0.7% increase on the median lowest offer and 0.4% reduction for the median standing offer (Figure 4.2).

Figure 4.2 Retail price changes in Jemena region – June 2019- June 2020 (%)



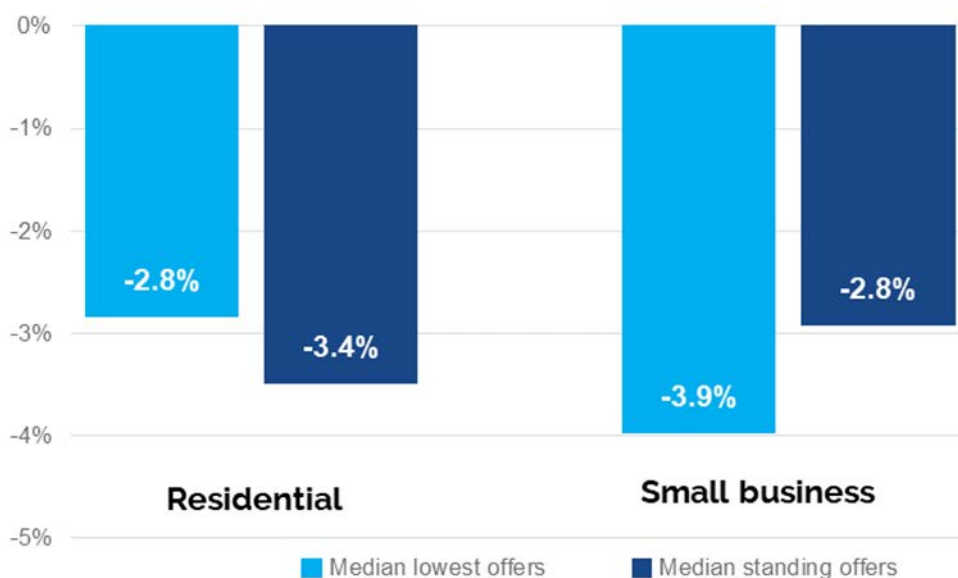
Note: We used annual consumption of 24.4 GJ for residential customers and 184 GJ for small business customers.

Source: IPART analysis of data in EnergyMadeEasy, accessed June 2019 and June 2020.

We also compared retail offers in July 2020 to June 2020. It showed a decline in July 2020 compared with 30 June 2020 in both median standing offers and median lowest market offers for all customers in the Jemena network area (Figure 4.3). This is likely to be due to reductions in Jemena network prices, implemented from July 2020 and potentially reductions in wholesale costs.³⁸

³⁸ AER, Jemena Gas Networks Access Arrangement 2020-25.

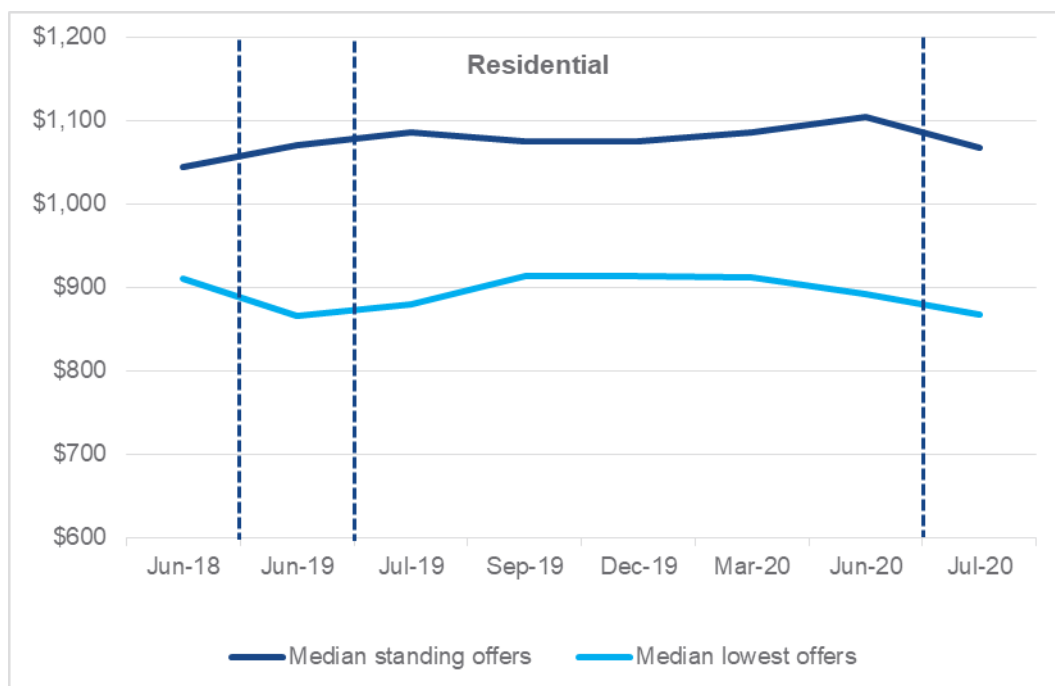
Figure 4.3 Retail price changes in Jemena region – June 2020 to July 2020



Note: We used annual consumption of 24.4 GJ for residential customers and 184 GJ for small business customers.

Source: IPART analysis of data in [EnergyMadeEasy](#), accessed June and July 2020. Over the past two years, median residential standing and lowest market offers in the Jemena region have remained relatively stable in nominal terms, as reflected in Figure 4.4 below.

Figure 4.4 Residential annual bill offers in the Jemena region – June 2018 to July 2020

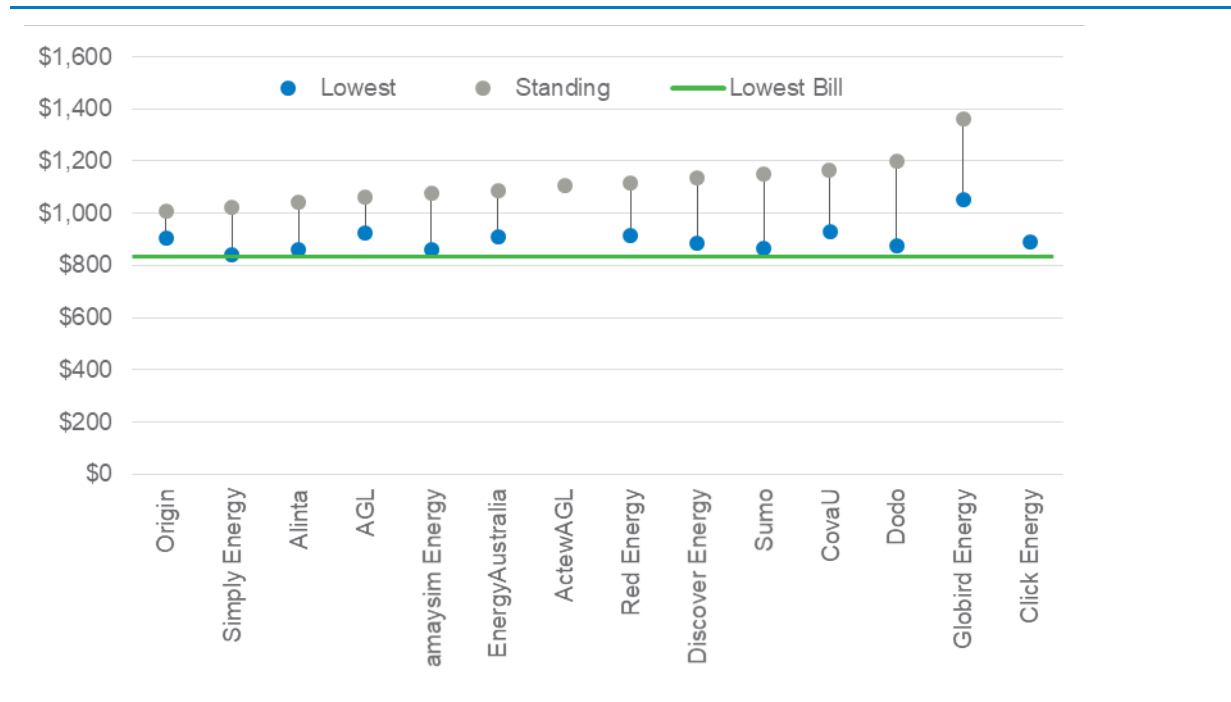


Note: We used annual consumption of 24.4 GJ for residential customers. Time on the x-axis is not even and the dashed vertical lines show the breaks in the timeline.

Source: IPART analysis of data in [EnergyMadeEasy](#), accessed June 2018, June 2019, June 2020 and July 2020.

For residential customers in the Jemena network region, the gap between the lowest market offer and the standing offer averaged 24% at June 2020. This is broadly consistent with the average gap between standing and lowest market offers at June 2019. This suggests there are considerable savings on offer, on average around \$215 per year, from switching from the standing offer to the lowest market offer (Figure 4.5).

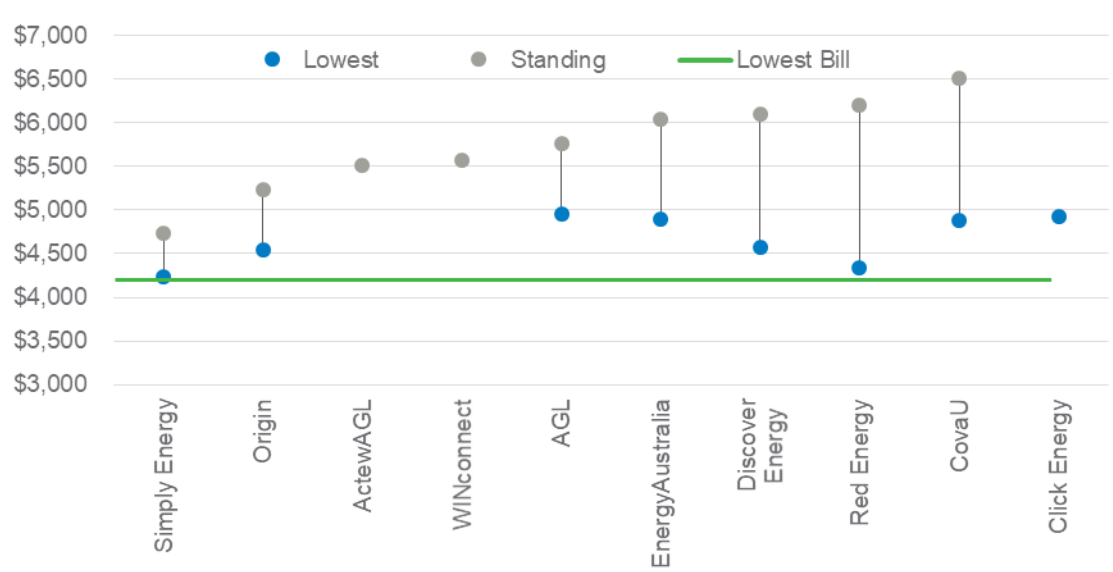
Figure 4.5 Residential annual lowest and standing offer bills by retailer Jemena region – June 2020



Source: IPART analysis of data in [EnergyMadeEasy](#), accessed June 2020.

For small business customers in the Jemena region, the average spread between the lowest and standing median offers was 25% in June 2020 (Figure 4.6). This was consistent with the spread of retail offers in June 2019. On average, small business consumers could save \$1,165 per year by switching from the standing offer to the lowest market offer.

Figure 4.6 Business annual lowest and standing offer bills by retailer Jemena region – June 2020



Source: IPART analysis of data in EnergyMadeEasy, accessed June 2020.

4.1.3 Mixed outcomes for changes in retail offers in regional areas over 2019-20

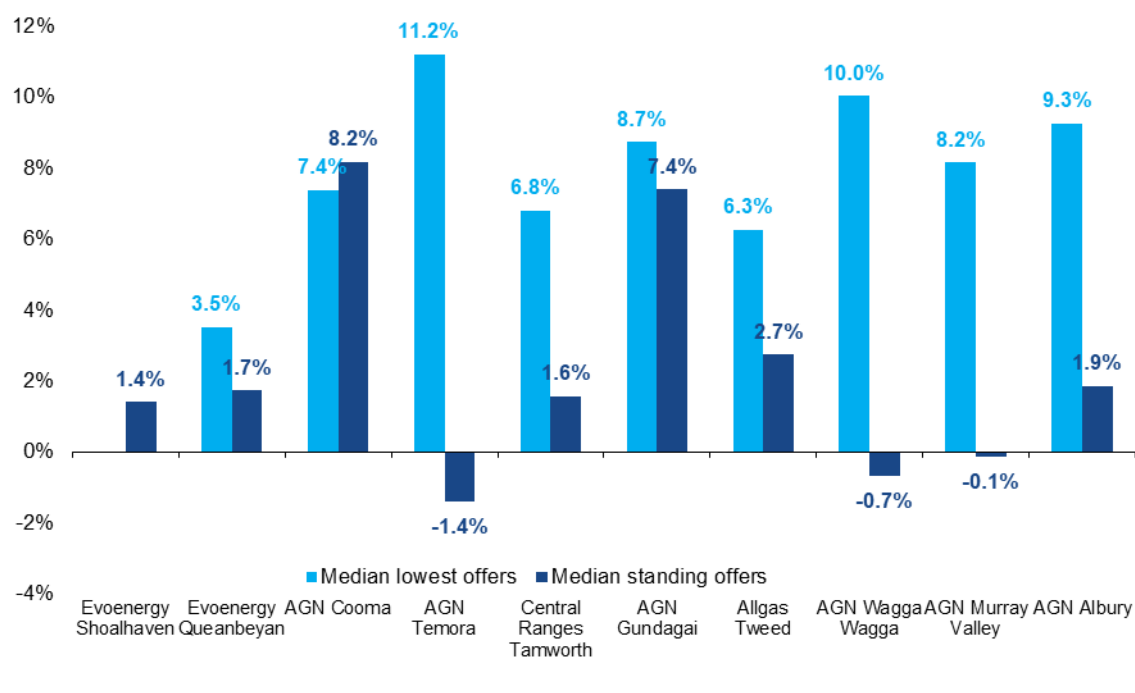
In regional areas there are far fewer offers available on EnergyMadeEasy. Of the residential offers available, there were increases across most of the median lowest offers and median standing offers between June 2019 and June 2020.

The bill changes for residential customer market offers ranged from:

- ▼ Median standing offers: 1.4% reduction in the AGN Temora area to a 7.4% increase in the AGN Gundagai region.
- ▼ Median lowest offers: 3.5% increase in the Evoenergy Queanbeyan region to 11.2% increase in the AGN Temora area.

The large price increases in areas like Wagga Wagga and Temora, shown in Figure 4.7 below, are considerably higher than the 2% increases in the Australian Gas Networks area based on actual rebate customer data (see Figure 4.1).

Figure 4.7 Retail bill offer changes in regional areas for residential customers – June 2019 to June 2020



Note: We used annual consumption of 41 GJ for residential customers in all regional areas, except for Central Ranges Tamworth where we used 24.4 GJ per annum. This reflects the different use of gas in these areas.

Source: IPART analysis of data in [EnergyMadeEasy](#), accessed June 2019 and June 2020.

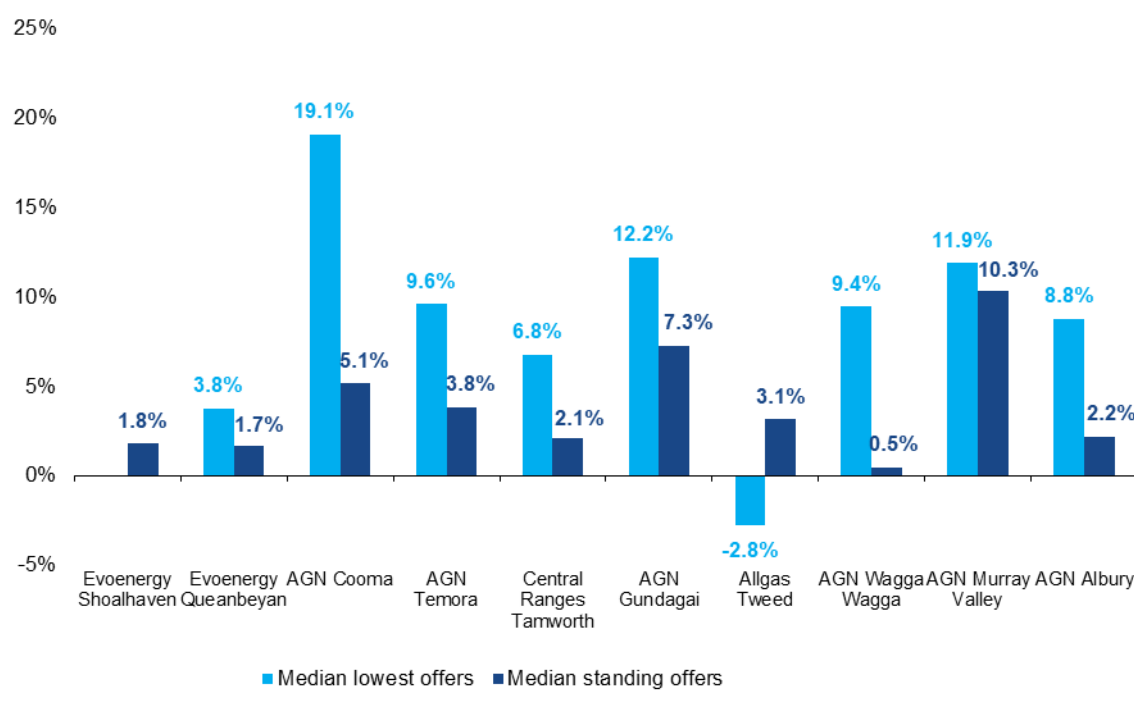
While there have been some large increases in retail offers available on EnergyMadeEasy over 2019-20, the increases are more modest when considered over a longer timeframe. In **Appendix C** we have provided our analysis of median lowest and median standing offers from June 2018 to July 2020 across each regional area for residential and business customers. For example we observed that:

- ▼ the median lowest market offer in Temora increased by 11.2% in 2019-20, though from June 2018 to July 2020 it increased by only 1.5%
- ▼ the median lowest market offer in Wagga Wagga increased by 10% in 2019-20, though from June 2018 to July 2020 it increased by 1.5%
- ▼ the median lowest offer in Albury increased by 9% in 2019-20, though increased by 3.4% from June 2018 to July 2020.

Most median standing offers and median lowest market offers for small business customers increased in June 2020 when compared with June 2019 (Figure 4.8). The change in business customer retailer offers ranged from:

- ▼ Median standing offers – 0.5% increase in the AGN Wagga Wagga to 10.3% increase in AGN Murray Valley.
- ▼ Median lowest offers – 2.8% reduction in the Allgas Tweed area to 19.1% increase in the AGN Cooma area.

Figure 4.8 Retail bill changes based on offers in regional areas for small business customers – June 2019 to June 2020



Note: We used an average annual consumption of 212 GJ for business customers for the AGN Gundagai, AGN Albury, AGN Cooma, AGN Temora, AGN Wagga Wagga and Allgas Tweed Heads regions. For business customers in the Evoenergy Queanbeyan and Shoalhaven areas we used an annual consumption of 246 GJ per annum; and 346 GJ per annum for the AGN Murray Valley area.

Source: IPART analysis of data in [EnergyMadeEasy](#), accessed June 2019 and June 2020.

As with residential customer retail offers, changes in offers for small business customers have generally not been as significant when compared over a longer time period (see Appendix C). For example:

- ▼ lowest market offers in the AGN Cooma region increased by 19.1% in 2019-20, though increased by 14% when comparing June 2018 to July 2020
- ▼ lowest market offers in the AGN Gundagai region increased by 12.2% in 2019-20, though only increased by 5% when comparing June 2018 to July 2020
- ▼ lowest market offers in the AGN Murray Valley region increased by 11.9% in 2019-20, though only increased by 7% when comparing June 2018 to July 2020.

4.2 Gas costs and retail margins

To assess retail margins, we have undertaken a high-level assessment of how retailers' costs have changed over 2019-20 compared to retail prices. We have also had regard to the ACCC's commentary on gas retail margins. Given the ACCC is monitoring retailer margins we are not proposing to undertake a special review of margins at this time.

4.2.1 Overall costs have been relatively stable over 2019-20

To assess the costs of gas retailing over 2019-20 we have referred to the ACCC's monitoring of gas wholesale contract costs for NSW retailers and retailer margins as part of its Gas Inquiry. We have also observed changes in gas network prices from the AER or gas distributor's websites.

We found that:

- ▼ Gas network prices increased by between 1.3% (Jemena) and 3.5% (Australian Gas Networks Albury) between 2018-19 and 2019-20. Network costs comprise around half of a typical customer gas bill.
- ▼ Wholesale gas costs make up around one-third of a typical gas bill. The ACCC's January 2020 report showed prices agreed under a GSA for supply in 2020 for NSW retailers were relatively stable at around \$10.95/GJ,³⁹ while the July 2020 report showed price reductions of around \$1/GJ to \$9.76/GJ.⁴⁰
 - GSA's for supply in 2020 were signed between the beginning of 2018 and February 2020 (i.e. before the impacts of COVID-19)
 - Recently executed contracts are reported to be less flexible than earlier contracts, meaning retailers may incur additional costs to serve customers (e.g. reserving gas at the expense of extra sales, using storage facilities, and maintaining sufficient processing and pipeline capacity).⁴¹
- ▼ NSW gas spot prices on the Sydney Short Term Trading Market have fallen over 2019-20,⁴² with the spot market generally used by retailers to balance their contract positions.
- ▼ While we do not have any specific information on retail operating costs, the impact of COVID-19 will have likely increased retailing costs towards the end of 2019-20 (e.g. bad debt expense and other operating costs). AGL and Origin Energy have both indicated this in recent investor presentations.^{43,44}

Overall, we consider that costs have been relatively stable over 2019-20.

4.2.2 Price and cost changes broadly align in Jemena's network area

Price changes in the Jemena network area over 2019-20 appear broadly in line with costs. Based on actual billing data from rebate customers over 2019-20, prices fell in Jemena's network area while, based on median offers available on EnergyMadeEasy, there was a moderate increase between June 2019 and June 2020.

³⁹ ACCC, *Gas Inquiry 2017-2025 – Interim Report*, January 2020, p 67.

⁴⁰ ACCC, *Gas Inquiry 2017-2025 – Interim Report*, August 2020, p 66.

⁴¹ Load factors and take or pay multipliers are key terms and conditions in GSAs that may influence the cost of supplying gas and the value to a gas user of the gas supplied under a GSA. These non-price terms and the flexibility they can provide may be valued differently depending on the customer and may influence the gas prices that are ultimately agreed. The ACCC has not sought to adjust for these factors in its reporting.

⁴² AEMO, 'About the Short Term Trading market (STTM)', accessed 24 September 2020.

⁴³ AGL, *ASX and Media Release*, p 34 accessed 24 September 2020.

⁴⁴ Origin Energy Media Release, 'Origin expects to recognise non-cash charges in FY2020', 15 July 2020 accessed 24 September 2020.

4.2.3 More data is needed for regional areas

At this stage we consider the comparison of changes in costs and prices in regional areas is less clear. Some regional areas showed considerable increases in median offers available on EnergyMadeEasy between June 2019 and June 2020, albeit more modest when considered over a slightly longer period. In contrast, the rebate customer bill data shows some material falls or at worst 3.6% price increases in regional areas over 2019-20.

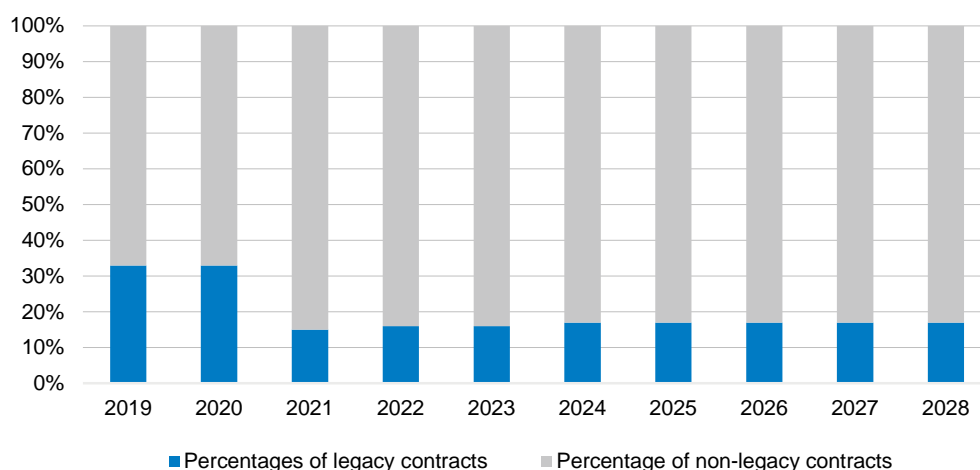
We do not consider that price change should diverge from cost changes for an extended period. We will monitor this issue in our review next year and consider whether there is a need for a detailed review of prices and margins in regional areas.

4.2.4 The largest retailers' profit margins are falling as legacy contracts expire

In its July 2019 Gas Inquiry report, the ACCC found that the major retailers in eastern states were achieving high average margins. In its January 2020 report, the ACCC reported further that these high margins were largely due to legacy GSAs entered into before 2010 at prices of \$3-4/GJ. From late 2010, around the time Queensland's three LNG projects were being developed, gas prices across the east coast began to increase.

While the largest three retailers have been exposed to increasing wholesale market prices when seeking to enter into new GSAs over recent years, their gas supply portfolios still include significant quantities of gas supplied under legacy contracts. This has the effect of lowering their average commodity costs relative to market prices. The ACCC found that legacy contracts will contribute less than 20% to retailers' gas portfolios from 2021 onward (see Figure 4.9).

Figure 4.9 The proportion of gas sourced from legacy contracts is declining (big three retailers)



Source: ACCC, *Gas Inquiry 2017-2025 – Interim Report*, January 2020, p 124.

5 Consumer behaviour and outcomes

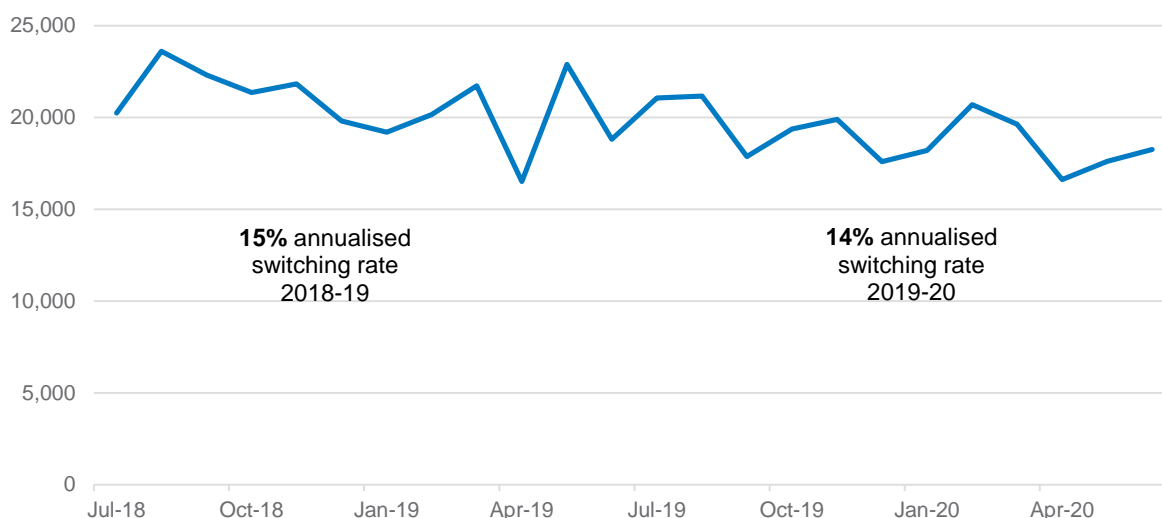
This section discusses our findings on consumer behaviour in the retail gas market in 2019-20, and consumer perceptions on market outcomes. To assess the performance and outcomes of the market from a customer's perspective, we have considered several indicators including engagement in the market (switching and proportion of consumers on market offers), customer satisfaction, confidence in the market and the number of gas related complaints.

We found that the rate of switching for gas consumers over 2019-20 has remained similar to previous years. More consumers have switched from standing offers onto market offers. There has been an increase in reported satisfaction with gas retail service over 2019-20, and the number of gas-related complaints to the Energy & Water Ombudsman NSW (EWON) continued on a downward trend.

5.1 Switching between retailers is broadly consistent with previous years

The level of switching in NSW has declined marginally in 2019-20 compared with 2018-19. The proportion of customers that switched as a proportion of total customers decreased from 15% in 2018-19 to 14% in 2019-20 (Figure 5.1). Customer switching between gas retailers in NSW has been stable at around 14-15% over the past five years. The AEMC noted that consumer satisfaction with gas has improved in recent years, which may have contributed to a decrease in switching across the National Electricity Market (NEM).⁴⁵

Figure 5.1 Gas consumers switching (number of customers switching)



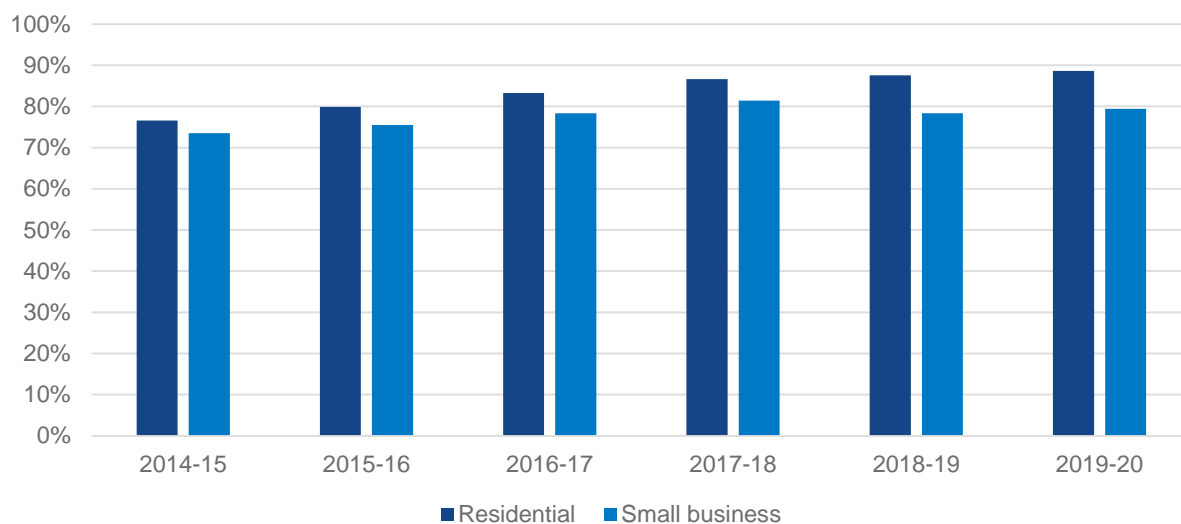
Source: AEMO Gas Retail Market Monthly Statistics.

⁴⁵ AEMC, *2020 Retail Energy Competition Review Final Report*, 30 June 2020, p 105.

5.2 More gas customers moving on market offers

As small gas consumers switch between offers, an increasing proportion are moving from standing offers onto market offers. Figure 5.2 shows that around 89% of residential and 79% of small business gas consumers have moved onto market offers. The equivalent figures five years ago were 77% for residential and 74% for small business.

Figure 5.2 Proportion of gas consumers on market contracts (%)



Source: AER, *Q3 2019-20 Retail Energy Performance Update*, July 2020, Schedule 2, accessed 15 August 2020.

5.3 Gas customers have reported increased satisfaction with their service

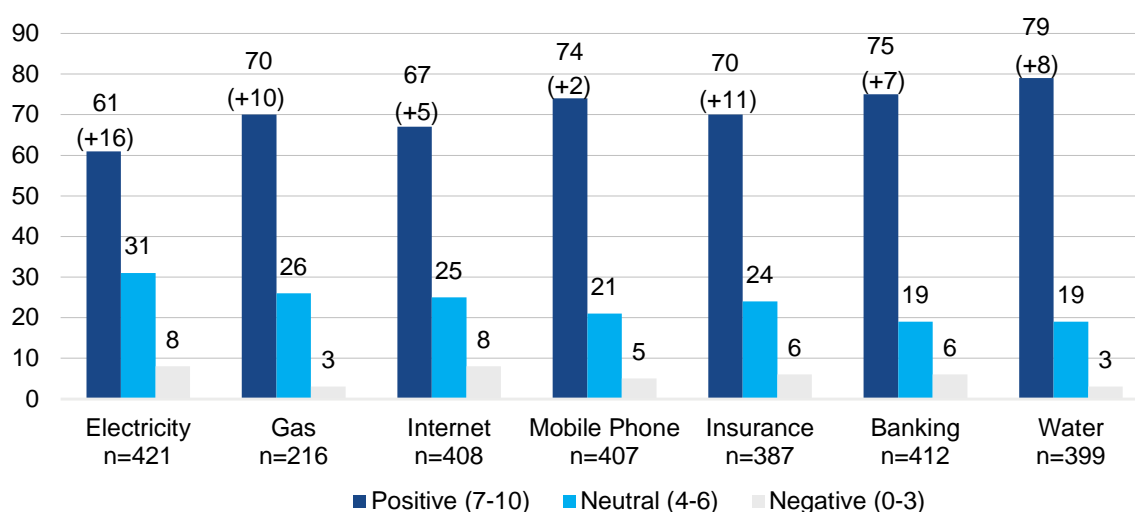
A useful way to gauge consumer satisfaction is through surveys. ECA conducts sentiment surveys assessing the attitudes and activity of residential and small business energy consumers across Australia. The June 2020 survey of NSW gas customers found that⁴⁶:

- ▼ 70% are satisfied with the value for money of their gas service (up 10% from the previous year).
- ▼ 76% are satisfied with their gas company's customer service (up 10% from the previous year).
- ▼ 75% are satisfied with their billing and account options (up 6% from the previous year).
- ▼ 79% are satisfied with reliability of their service.

Relative to other utilities, NSW consumers consider that overall value for money for their gas service is on par with insurance, better value than electricity and internet, but behind banking, water and mobile phone services (Figure 5.3).

⁴⁶ Energy Consumers Australia, *Energy Consumer Sentiment Survey*, June 2020, p 67.

Figure 5.3 NSW consumer satisfaction with utilities and services (%) (June 2020)



Note: Figures in brackets are change from previous year.

Source: Energy Consumers Australia, *Energy Consumer Sentiment Survey*, June 2020, p 68.

5.3.1 However, less than half of energy consumers consider the market is working in their long-term interests

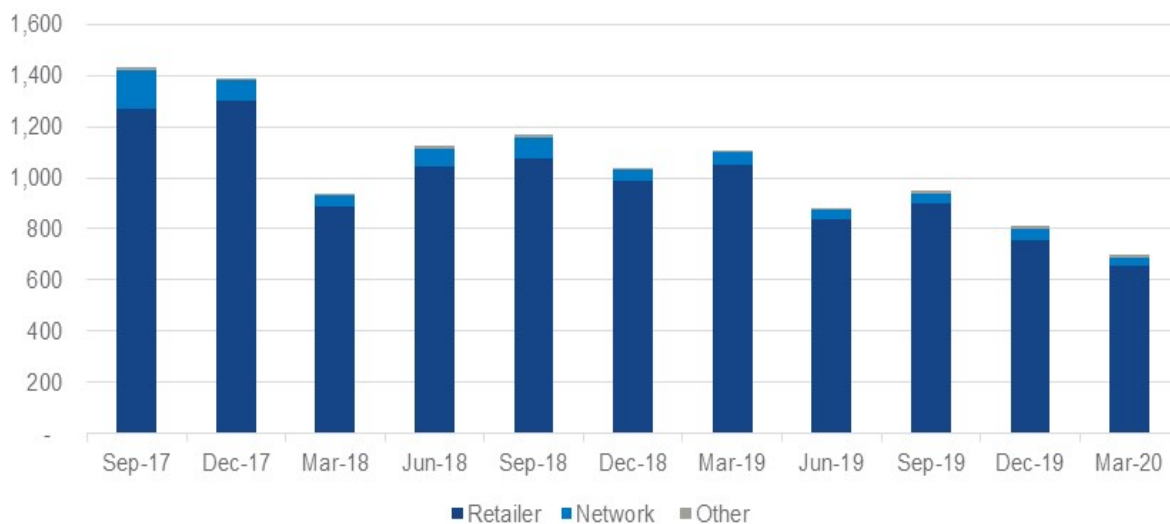
While satisfaction with gas service is relatively high, most energy (electricity + gas) consumers do not consider that the market is working in their long-term interests. In addition, only around half of energy customers are confident there is enough easily understood information available. According to ECA’s survey:

- ▼ 38% of NSW energy customers are confident that the overall market is working in their long-term interests (up 7% from the previous year).
- ▼ 67% are confident in their personal ability to make choices about energy products and services, and 56% are confident there is enough easily understood information available (both up 6% from the previous year).
- ▼ 64% are confident in their ability to get problems resolved, and 51% are confident there are tools and assistance to help consumers manage their energy usage.

5.4 Gas complaints have been trending down over the past few years

The EWON publishes quarterly statistics on the number of complaints for electricity, gas and water. Over the past few years, the number of gas complaints have been falling (Figure 5.4).

Figure 5.4 Quarterly number of gas complaints reported by EWON



Source: EWON, [EWON Insights](#), accessed 15 August 2020.

As shown in Figure 5.4 above, most complaints relate to retailers. Of these retailer complaints, most relate to billing and customer service.⁴⁷ EWON have reported that the drop in energy complaints relates to improved customer service by retailers. The drop in complaints for the most recent quarter also coincides with the impact of COVID-19. In response to our Draft Report, EWON suggests that complaints are likely to increase during 2020-21, particularly in response to COVID-19 when the temporary regulatory responses protecting energy customers finish.⁴⁸

⁴⁷ Energy & Water Ombudsman NSW, *EWON Insights Complaints Analysis 1 January 2020 - 31 March 2020*, p 7, accessed 20 November 2020.

⁴⁸ EWON submission to IPART Draft Report, September 2020, p 7.



Appendix

A Referral from the Minister



The Honourable Matt Kean MP
Minister for Energy and Environment

IRF20/1776

Ms Liz Livingstone
Chief Executive Officer
Independent Pricing and Regulatory Tribunal
PO Box K35
HAYMARKET POST SHOP NSW 1240

Dear Ms Livingstone *Liz*

The NSW Government recognises the valuable contribution made by the Independent Pricing and Regulatory Tribunal's (IPART) annual reviews of retail energy market performance and competition. These reviews provide an important benchmark to monitor competition and pricing in the NSW retail energy sector.

I note IPART's recommendation in its 2018-19 report that IPART no longer undertake an annual review and report on the performance and competitiveness of the retail energy market. The NSW Government considers that there is value in retaining the annual energy retail market monitor review to identify NSW-specific outcomes and trends following price deregulation, including changes in average customer bills over time.

The market monitor role is particularly valuable at present given the impact of the COVID-19 pandemic on the NSW energy retail market, as well as the impact of the first year of the Commonwealth Government's Default Market Offer. I request that IPART include specific analysis of how these two issues have affected the performance and competitiveness of the NSW retail energy market in the 2019-20 review.

At this stage, I do not request a special review by IPART as part of its market monitoring process for 2019-20.

If you have any questions about this matter, please do not hesitate to contact Ms Sophia Vincent, Acting Director, Energy Consumers and Competition Policy, Department of Planning, Industry and Environment on 8229 2927 or at sophia.vincent@planning.nsw.gov.au.

Yours sincerely

Matt Kean MP
Minister for Energy and Environment

2.6.20

B IPART's statutory role

We provide this report under our obligations as a Market Monitor under part 9A of the National Energy Retail Law (NSW), set out below.

Section 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 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).

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.

Our assessment

Our assessment of the retail gas market follows a traditional structure-behaviour-outcomes approach. Table B.1 maps the legislative requirements to the relevant sections in this report.

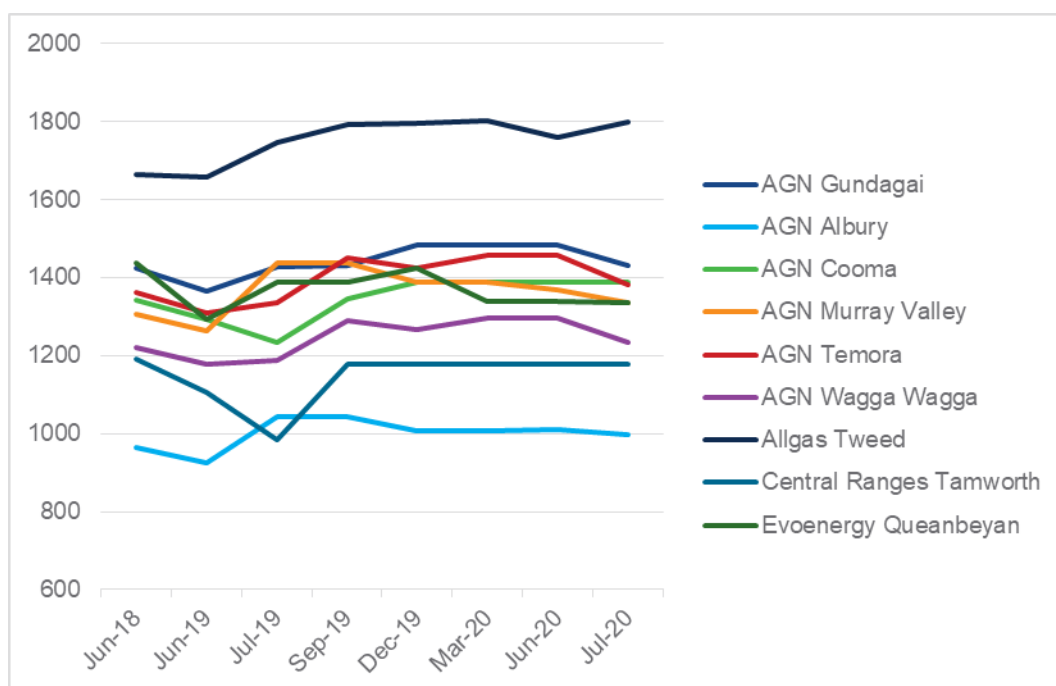
Table B.1 Legislative requirements and the structure of our assessment

Factor in National Energy Retail Law (NSW) (s 234A (3))	Chapter in this report
a) The participation of small customers in the market and, if the Market Monitor thinks it appropriate, particular groups of small customers	Chapter 5
b) Prices of electricity or gas for small customers in regional areas;	Chapter 4
c) Any barriers to entry or exit from, or expansion in the market	Chapter 3
d) The extent to which retailers are competing to attract and retain small customers	Chapter 4
e) Whether price movements and price and product diversity in the market are consistent with a competitive market	Chapter 4
f) If the Market monitor is of the opinion that it is required, steps necessary to improve the competitiveness of each market	NA
g) Whether there is a need to for a detailed review of retail prices and profit margins in each market.	Chapter 4

C Retailer offers in regional areas – June 2018 to July 2020

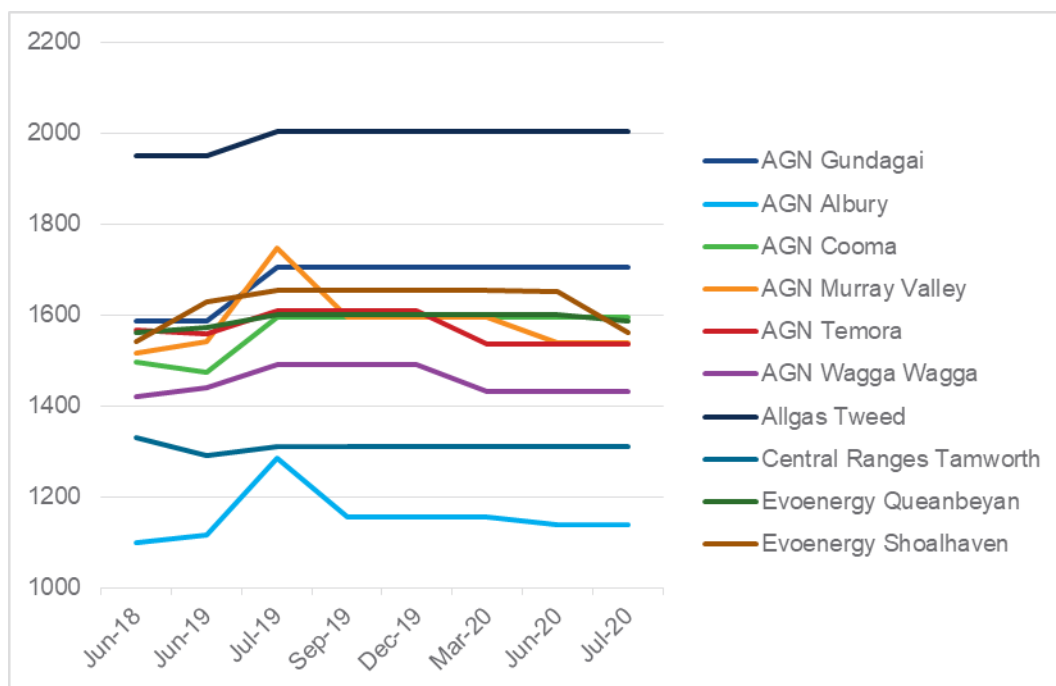
The following charts provide the lowest and standing median offers for residential and business customers in regional areas, from June 2018 to July 2020.

Figure C.1 Median lowest offers in regional areas for residential customers – June 2018 to July 2020, \$nominal



Source: IPART analysis of data in EnergyMadeEasy.

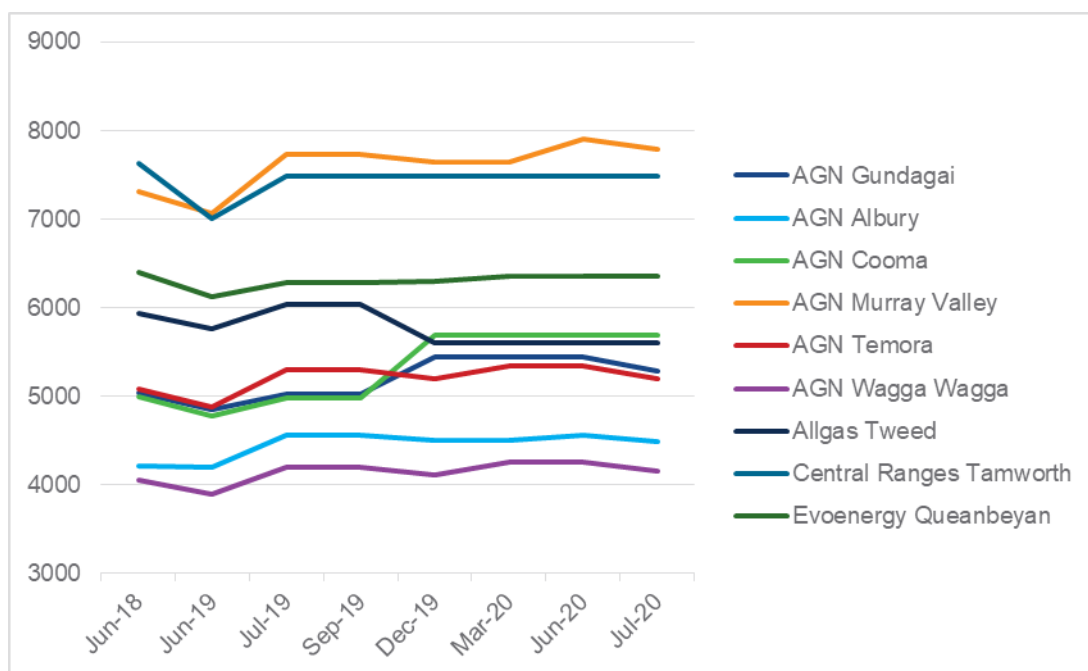
Figure C.2 Median standing offers in regional areas for residential customers – June 2018 to July 2020, \$nominal



Note: We used annual consumption of 41 GJ for residential customers in all regional areas, except for Central Ranges Tamworth area which we used 24.4 GJ per annum. This reflects the different use of gas in these areas.

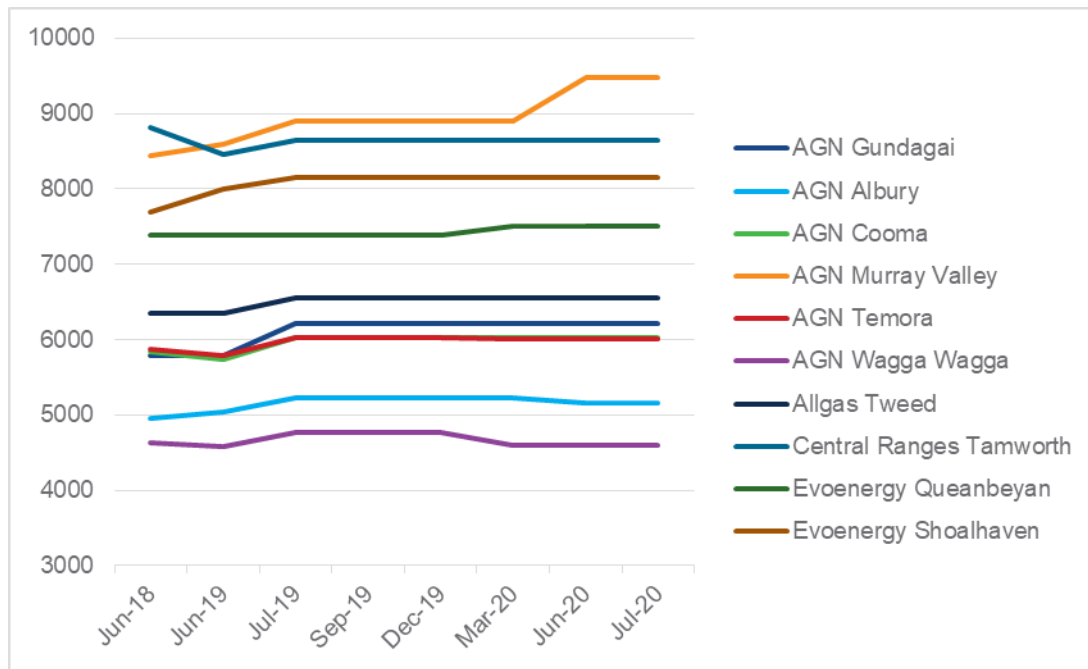
Source: IPART analysis of data in [EnergyMadeEasy](#).

Figure C.3 Median lowest offers in regional areas for small business customers – June 2018 to July 2020, \$nominal



Source: IPART analysis of data in [EnergyMadeEasy](#).

Figure C.4 Median standing offers in regional areas for small business customers – June 2018 to July 2020, \$nominal



Note: We used an average annual consumption of 212 GJ for business customers for the AGN Gundagai, AGN Albury, AGN Cooma, AGN Temora, AGN Wagga Wagga and Allgas Tweed Heads regions. For business customers in the Evoenergy Queanbeyan and Shoalhaven areas we used an annual consumption of 246 GJ per annum; and 346 GJ per annum for the AGN Murray Valley area. This reflects the different use of gas in these areas.

Source: IPART analysis of data in [EnergyMadeEasy](#).

Glossary

ACCC	Australian Competition and Consumer Commission.
AER	Australian Energy Regulator.
AEMC	Australian Energy Market Commission.
Big three retailers	The largest three retailers in NSW (Origin Energy, EnergyAustralia and AGL Energy).
Distribution pipeline	Delivers gas from points along transmission pipelines to industrial customers, and from gate stations to customers in cities and towns. A distribution network typically consists of high, medium and low pressure pipelines.
Domestic gas demand	The quantity of gas demanded by users located in Australia.
East Coast Gas Market	The interconnected gas market covering Queensland, South Australia, New South Wales, the Australian Capital Territory, Victoria and Tasmania.
ECA	Energy Consumers Australia.
Export demand	The quantity of Australian gas demanded by overseas buyers.
EWON	Energy and Water Ombudsman (NSW).
GSA	Gas supply agreement.
Liquefied natural gas (LNG)	Natural gas that has been converted to liquid form for ease of storage or transport.
LNG netback price	A pricing concept based on an effective price to the producer or seller at a specific location or defined point, calculated by taking the delivered price paid for gas and subtracting or 'netting back' costs incurred between the specific location and the delivery point of the gas.

Load factor	Measures the extent to which a buyer can take more than the average daily contract quantity throughout the year, subject to the cap imposed by the annual contract quantity.
Spot market	One-off transactions, as distinct from transactions occurring under supply contracts.
Transmission pipeline	Transport natural gas from processing or storage facilities over long distances to domestic markets. The pipelines typically have wide diameters and operate under high pressure to optimise shipping capacity.
Units of Energy	<p>Joule—a unit of energy in the International System of Units</p> <ul style="list-style-type: none"> ▼ Gigajoule (GJ)—a billion (10^9) joules ▼ Terajoule (TJ)—a trillion (10^{12}) joules ▼ Petajoule (PJ)—a quadrillion (10^{15}) joules ▼ Million British Thermal Units (MMBtu).