

Comparison of Regulated Standing Offer Electricity Prices and of Gas Prices in Australia

August 2019



CONTACT DETAILS

Office of the Tasmanian Economic Regulator

Office hours: 8.45am to 5.00pm, Monday to Friday (except public holidays)

Street address: Level 3, 21 Murray Street, Hobart, Tasmania 7000

Postal address: GPO Box 770, Hobart, Tasmania 7001

Telephone: (03) 6166 4422 or international +61 3 6166 4422

Email: office@economicregulator.tas.gov.au

Website: www.economicregulator.tas.gov.au

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Introduction

Twice a year, the Tasmanian Economic Regulator (Regulator) compares the estimated annual expenditure a small customer¹ would face under Tasmanian standing offer (regulated) electricity prices², and retail gas prices, with the situation they would face under comparable standing offer electricity tariffs and retail gas prices across mainland Australia.

Using assumed annual electricity usage for residential customers and business customers, based on data for Tasmanian customers (Table 1 below) the Report compares outcomes for customers under standing offer products across mainland Australia with the outcomes under:

- Aurora Energy's standing offer electricity prices (as at 1 July 2019); and
- Aurora Energy's and Tas Gas Retail's gas prices (as at 1 July 2019).

Since the February 2019 report, there have been several notable changes in the retail electricity market. These changes include 1st Energy entering the Tasmanian residential electricity market and the re-introduction of some price regulation to the National Electricity Market (NEM). The Report does not compare electricity market offers. Therefore, the Regulator has not included 1st Energy's prices in this Report. A comparison of 1st Energy's prices and Aurora Energy's prices is provided on the Energy Made Easy website: <https://www.energymadeeasy.gov.au/>

In April 2019, the AER set Default Market Offer (DMO) prices that are the maximum standing offer prices for south-east Queensland, New South Wales and South Australia. The DMO prices apply from 1 July 2019.³ Previously, the prices in standing offers in those areas were not regulated. According to the AER, DMOs are designed to reduce high priced standing offers for those customers that are not engaged or are unable to engage in the market. The AER also considers that DMOs are not designed to be the cheapest offer in the market and that customers should be better off on a market offer. In May 2019, following a review which found that Victorians were paying more than they should for electricity, the Essential Services Commission (ESC) set the Victorian Default Offer (VDO) price which is to apply from 1 July 2019.⁴ In this report, the prices in DMOs and VDOs are referred to as standing offer prices.

With the introduction of DMOs and VDOs, standing offer prices in many affected areas have decreased considerably. Following this re-introduction of price regulation across the NEM, Tasmanian standing offer prices remain relatively low for residential customers with a concession and are now around the bottom one third for non-concession residential customers and business customers. The Regulator cautions that standing offers (including DMOs and VDOs) are not the cheapest offers available and that most customers in the NEM are on market offers.⁵

Gas prices for both residential and business customers in Tasmania remain slightly higher than prices in other parts of Australia. This is due, in part, to the relatively small size of Tasmania's gas market.

The Regulator periodically reviews the tariff inputs and assumptions used for the comparisons in this report. Given the changes made to standing offer prices in the NEM since the last report (February 2019), the Regulator has decided not to review or change the assumptions relating to usage and the tariffs used in this Report.

¹ A small customer is a residential or business customer consuming less than 150MWh of electricity per annum.

² Section 10C(2)(a) of the *Electricity Supply Industry Act 1995*.

³ AER's *Default Market Offer Prices 2019-20 (April 2019)*.

⁴ ESC's *Victorian Default Offer to apply from 1 July 2019*.

⁵ AER, *Annual Report on Compliance & Performance of the Retail Energy Market 2017-18*.

Electricity expenditure comparisons

For electricity expenditure comparisons, the Regulator compares estimated annual customer expenditure under Aurora Energy's tariffs with the expenditure under interstate tariffs, based on the estimated usage of a typical or representative Tasmanian residential and business customer (Typical Customer). As set out in Table 1 below, a certain proportion of usage is assumed to be for general power usage with the remainder used for off peak / controlled load purposes (space heating and hot water or hot water only). These proportions differ depending on whether the customer is residential, residential with concession or a business customer.

The comparison examines the following Aurora Energy tariffs:

- Tariff 31 Residential Light & Power Anytime (T31);
- Tariff 41 Heating and Hot Water (T41); and
- Tariff 22 General Business Anytime (T22).

Some interstate tariffs are not directly comparable to Aurora Energy's tariffs. If an off-peak / controlled load tariff is not available, this Report assumes that the total usage is on a general usage tariff. Table 1 shows the usage assumptions over a year. Appendix 1 provides a list of the tariffs used in the comparisons, including those that have had the assumptions applied.

Table 1 Annual usage assumptions

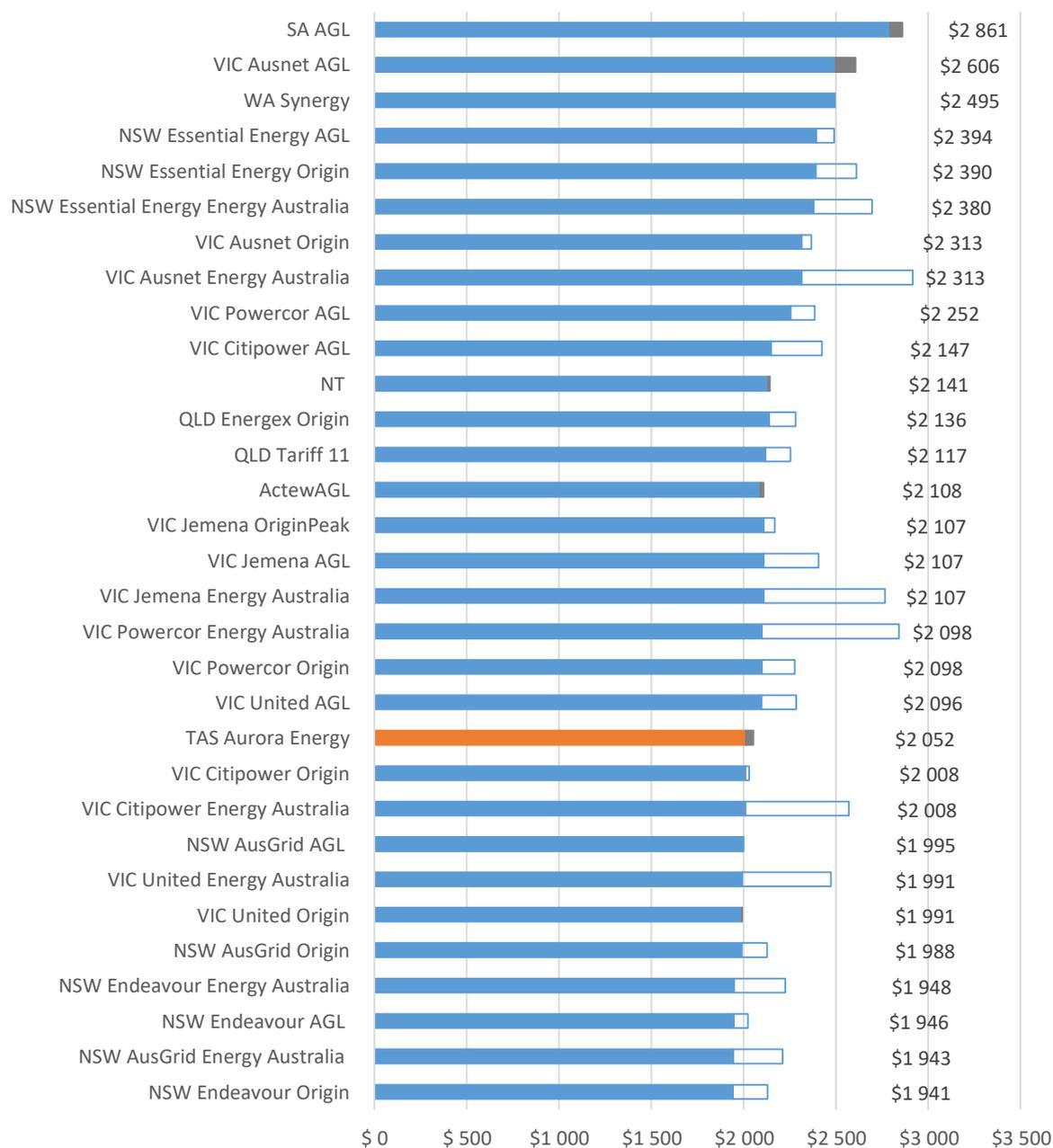
	Off-peak / Controlled load usage for space heating and hot water (kWh)	Off-peak / Controlled load usage for hot water only (kWh)
<i>Residential comparison</i>		
General usage	3 400	4 800
Off-peak / Controlled load usage	4 100	2 700
Total usage	7 500	7 500
<i>Residential Concession comparison</i>		
General usage	2 900	4 500
Off-peak / Controlled load usage	3 500	1 900
Total usage	6 400	6 400
<i>Business comparison - Total usage</i>	6 700	

Residential electricity expenditure comparison

Chart 1 compares the estimated annual expenditure under standing offer tariffs available to residential customers across Australia, assuming a total annual usage of 7 500 kWh and using prices as at 1 July 2019.

In some regions, standing offer prices change during a financial year such that customers in these regions would not face the 1 July 2019 prices for the entire 2019-20 financial year. The white component indicates a decrease in estimated annual expenditure since the previous price comparison report, the dark grey component indicates an increase.

Chart 1 Residential electricity expenditure comparison (standing offer prices as at 1 July 2019)



Based on standing offer tariffs and the residential Typical Customer medium usage, the estimated annual expenditure under Aurora Energy's tariffs is just within the bottom one third of the range of tariffs examined. The lower estimated annual expenditure under many mainland Australia standing

offers is due to the introduction of DMOs and VDOs. As stated previously, most customers in the NEM are on market contracts and are, therefore, likely to be paying less than they would pay under standing offer prices. These market contracts, however, may have less favourable terms and conditions than standing offer tariffs.

The estimated annual expenditure for customers on Aurora Energy's standing offer prices is marginally higher in 2019-20, relative to the Regulator's previous price comparison report (February 2019), due to the increase in prices of two per cent on 1 July 2019. However, changes made by the AER and by Victoria's ESC have resulted in the estimated annual expenditure under the tariffs of many retailers in other jurisdictions being lower than in the previous report.

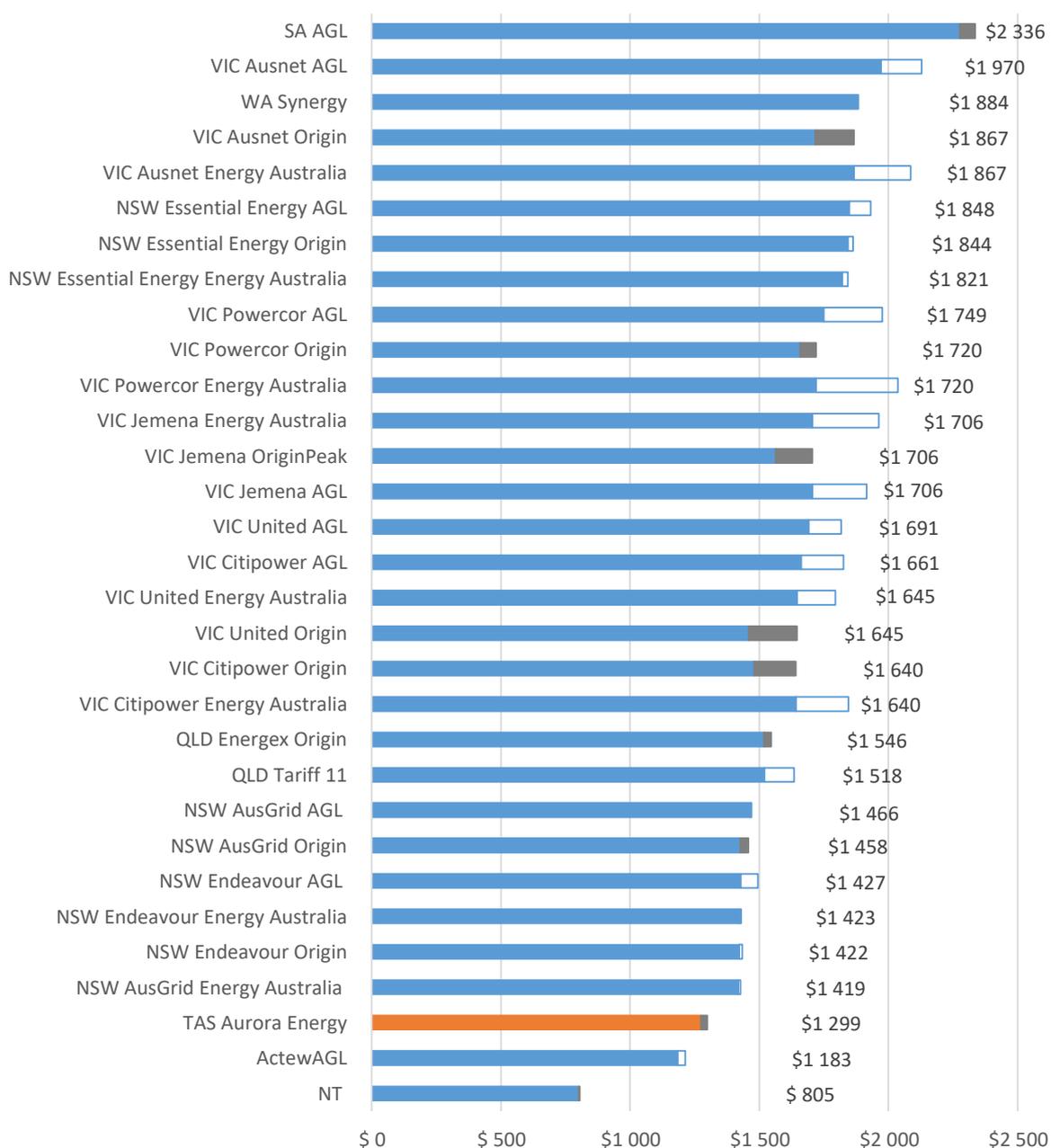
The comparison shows that, for the assumed usage, estimated annual expenditure under standing offer tariffs available in many parts of Australia, including Tasmania, is around \$2 000. With the introduction of DMOs and VDOs, the tariffs offered by some retailers in mainland Australia have been brought back to levels very similar to those offered by Aurora Energy: the difference in estimated expenditure is less than one dollar a week in many cases.

In the case of Victorian retailers, it is likely that this has occurred as the ESC applied a similar cost build-up approach in determining the VDOs as used by the Regulator in assessing Aurora Energy's costs.

Residential electricity expenditure with concession comparison

Chart 2 compares the estimated annual expenditure for residential customers receiving concession discounts using standing offer tariffs across Australia, assuming total usage of 6 400 kWh. The white component indicates a decrease in estimated annual expenditure since the Regulator's February 2019 report, the dark grey component indicates an increase.

Chart 2 Residential electricity expenditure comparison with concession (1 July 2019 prices)



Expenditure by Aurora Energy's concession customers on the relevant standing offer tariff is towards the lower end of the tariffs examined. The Regulator notes that the current concession discount available in the Australian Capital Territory is a combined utilities discount that relates to electricity, gas, water and sewerage costs. For this, and as in previous, comparisons, the Regulator has applied the full discount resulting in lower notional bills for Australian Capital Territory customers than would have otherwise been the case.

Business electricity expenditure comparison

Chart 3 compares the estimated annual expenditure for business customers using standing offer tariffs available to businesses across Australia assuming a total usage of 6 700 kWh. The white component indicates a decrease in estimated annual expenditure since the Regulator's previous report (February 2019), the dark grey component indicates an increase.

Chart 3 Business electricity expenditure comparison (1 July 2019 prices)

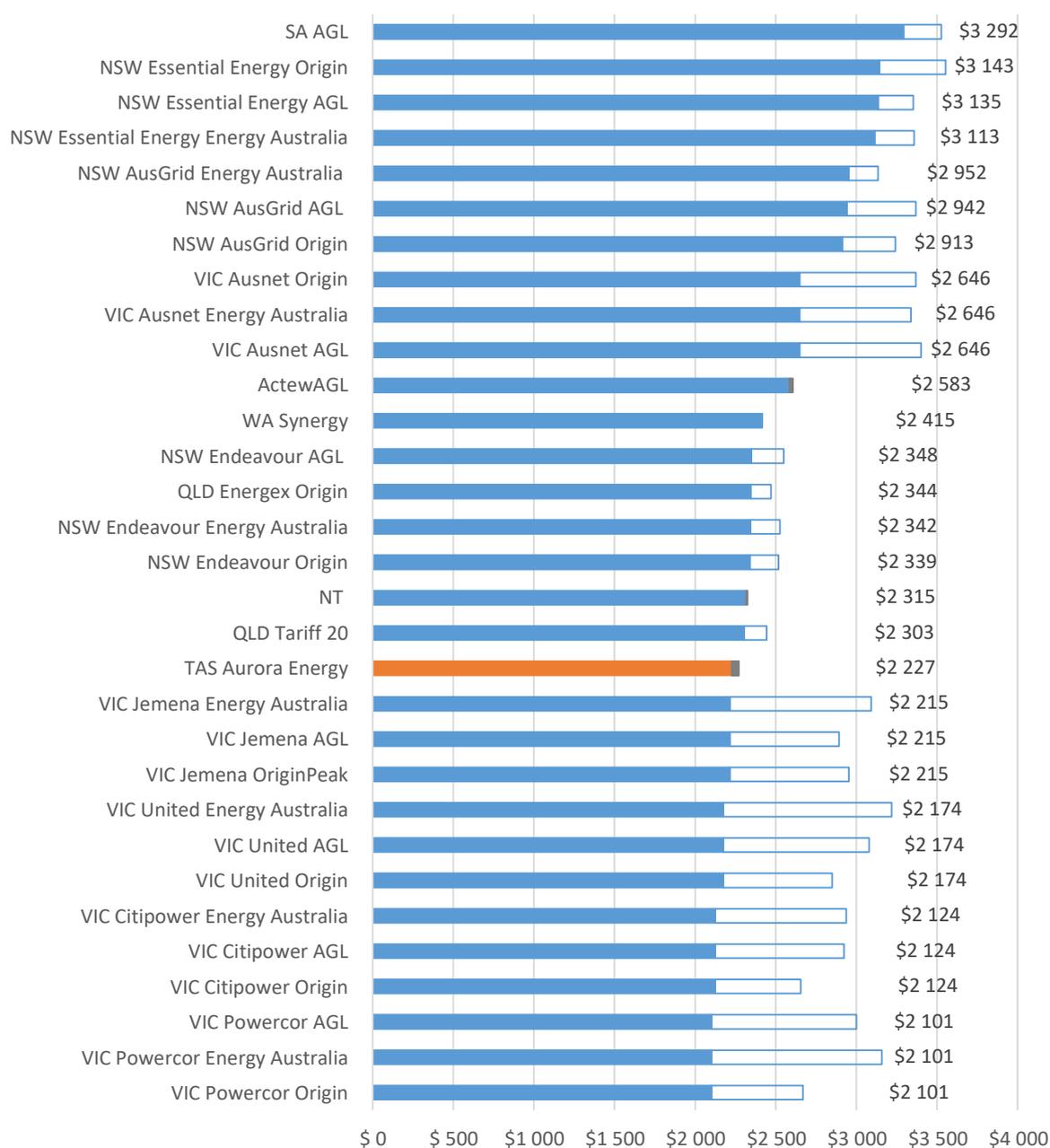


Chart 3 shows that the tariffs offered to small businesses by some retailers in mainland Australia have been brought back substantially to levels that are similar to those offered by Aurora Energy.

Estimated annual expenditure under Victorian standing offer prices is now lower than under Tasmanian standing offer prices due to the impact of the VDOs. However, many business customers in Victoria and in other jurisdictions are likely to be on market contracts rather than paying standing offer prices. Again, however, the terms and conditions of these market contracts may be less favourable to businesses than standing offer tariffs.

Estimated expenditure by Aurora Energy's business customers on the relevant standing offer tariff is just above the bottom one third of the range of tariffs examined; on a weekly basis, estimated expenditure is only just over two dollars a week more than under the lowest standing offer tariff examined for business customers.

Gas expenditure comparisons

The Tasmanian gas market is comparatively small compared to other jurisdictions, with just 13 438 residential retail customers and 996 non-residential / commercial customers as at 30 June 2019. This means the economies of scale prevalent in most jurisdictions do not exist in Tasmania.

Tasmanian gas prices are unregulated. There are only two Tasmanian reticulated gas retailers, Tas Gas Retail and Aurora Energy, each offering a single residential tariff and a single business tariff.

Appendix 2 includes links to the gas pricing information used for this comparison.

Residential gas expenditure comparison

The comparison is based on average Tasmanian residential annual gas usage of 30 000 MJ.⁶ Chart 4 compares the estimated annual expenditure on gas using gas prices offered across Australian jurisdictions and gas pricing areas as at 1 July 2019. The white component indicates a decrease in estimated annual expenditure since the Regulator's previous report (February 2019), the dark grey component indicates an increase.

Estimated annual expenditure for residential customers of both Tas Gas Retail and Aurora Energy is slightly higher than for customers of most other retailers in the comparison. Queensland customers would pay considerably more than the average amount at this usage level. However, in practice, Queensland gas customers' average usage is much lower than the usage level applied for this comparison.⁷

Business gas expenditure comparison

The comparison is based on annual gas usage by business customers in Tasmania of 430 000 MJ. Chart 5 compares the estimated annual expenditure using gas prices across Australian jurisdictions and gas pricing areas. The white component indicates a decrease in estimated annual expenditure since the Regulator's previous report, the grey component indicates an increase.

Estimated annual expenditure by Tasmanian business gas customers is relatively high when compared to expenditure using gas prices offered by mainland gas retailers, based on the same usage level.

⁶ 3.6 megajoules (MJ) is equivalent to 1 kWh.

⁷ Australian Energy Regulator (2017), *Annual Report on Compliance & Performance of the Retail Energy Market 2016–17*.

Chart 4 Residential gas expenditure comparison (1 July 2019 prices)

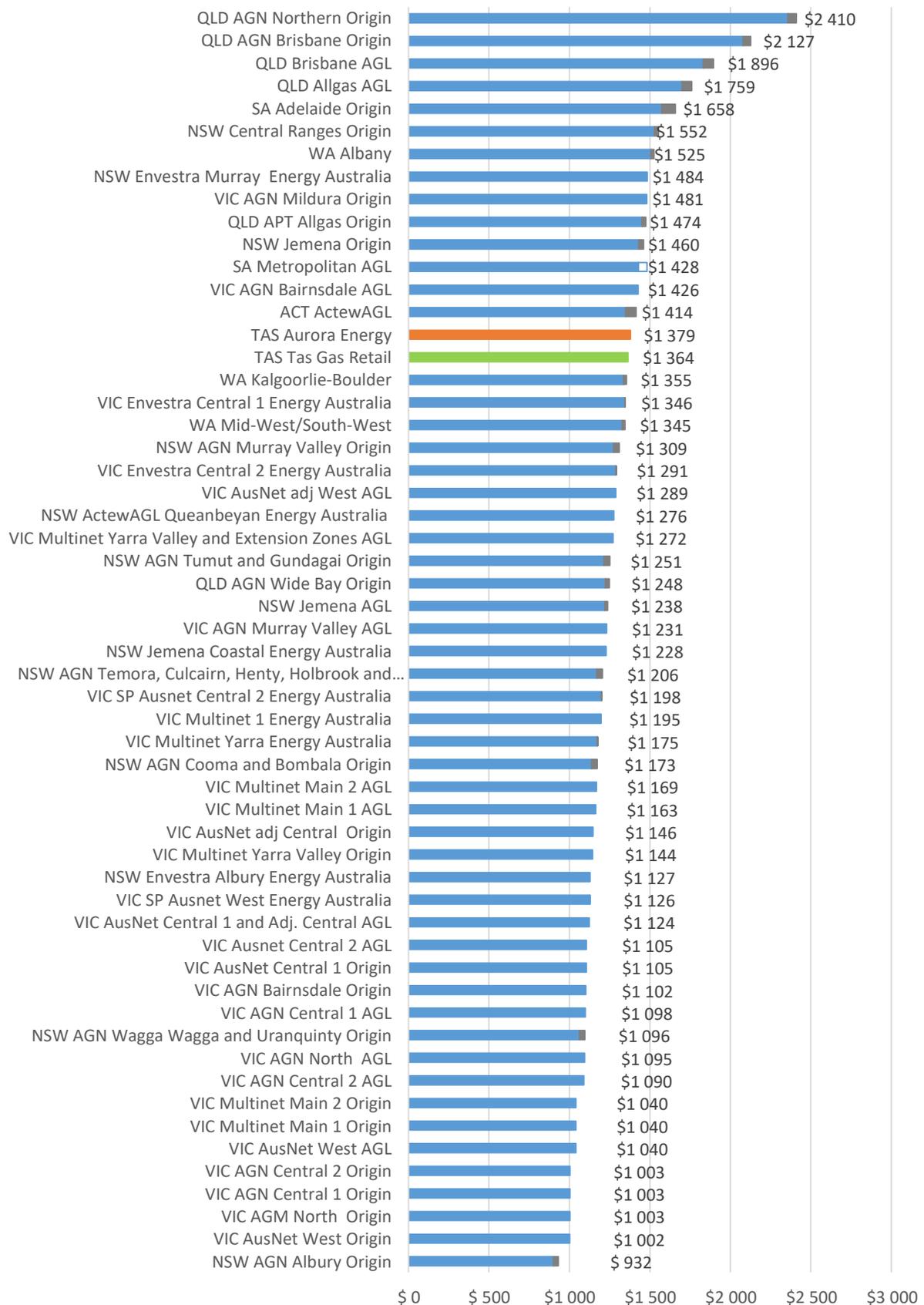
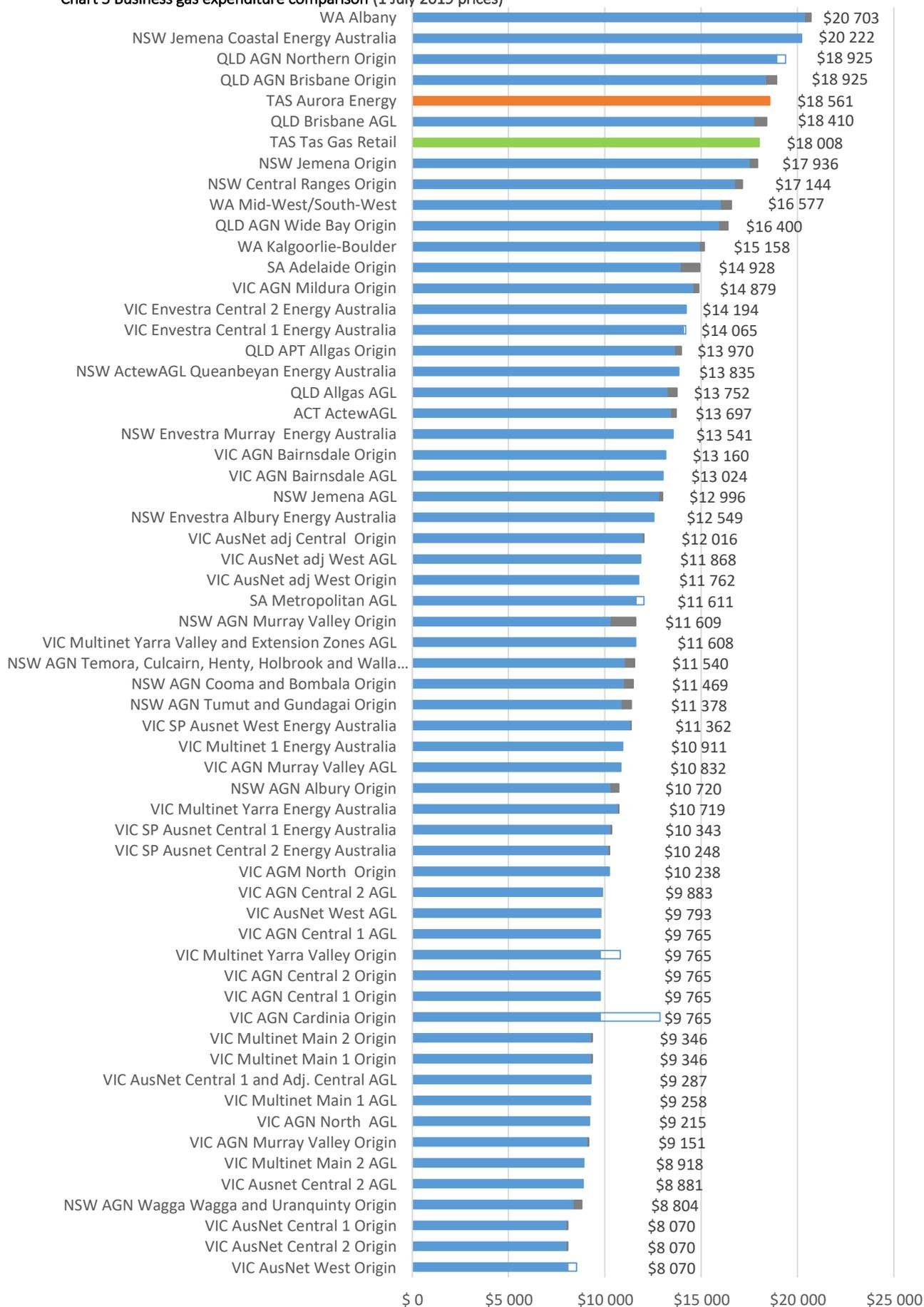


Chart 5 Business gas expenditure comparison (1 July 2019 prices)



Appendix I: Standing offer electricity tariffs used in comparisons

	General Tariff only	General Tariff with Hot water and space heating	General Tariff and Hot water only
Australian Capital Territory			
ActewAGL			✓
New South Wales			
AusGrid AGL		✓	
AusGrid Energy Australia		✓	
AusGrid Origin		✓	
Endeavour AGL		✓	
Endeavour Energy Australia		✓	
Endeavour Origin		✓	
Essential Energy AGL		✓	
Essential Energy Energy Australia		✓	
Essential Energy Origin		✓	
Northern Territory			
Standard	✓		
QLD			
Energex Origin		✓	
Ergon		✓	
South Australia			
AGL			✓
Victoria			
Ausnet AGL	✓		
Ausnet Energy Australia			✓
Ausnet Origin			✓
Citipower AGL	✓		
Citipower Energy Australia			✓
Citipower Origin Peak			✓
Jemena AGL			✓
Jemena Energy Australia			✓
Jemena Origin			✓
Powercor AGL	✓		
Powercor Energy Australia			✓
Powercor Origin			✓
United AGL			✓
United Energy Australia		✓	
United Origin		✓	
Western Australia			
Synergy	✓		

www.actewagl.com.au/Product-and-services/Prices.aspx

www.energymadeeasy.gov.au/

www.utilicom.nt.gov.au/Electricity/pricing/Pages/Electricity-Retail-Pricing.aspx

www.treasury.wa.gov.au/Public-Utilities-Office/Business-government-energy-pricing/Electricity-pricing/

www.services.dhhs.vic.gov.au/annual-electricity-concession

www.sro.tas.gov.au/pensioner-rates-remission-and-electricity-concessions/electricity-concessions

www.qld.gov.au/community/cost-of-living-support/concessions/energy-concessions/electricity-gas-rebates

www.energysaver.nsw.gov.au/households/rebates-and-discounts

www.revenue.act.gov.au/community-assistance/utilities-concession

www.sa.gov.au/topics/care-and-support/financial-support/concessions/energy-bill-concessions

www.nt.gov.au/community/seniors/nt-seniors-and-concession-schemes/concession-amounts

www.concessions.communities.wa.gov.au/Concessions/Pages/default.aspx

Appendix 2: Links to gas pricing information

www.actewagl.com.au/Product-and-services/Prices.aspx

www.auroraenergy.com.au/your-home/gas/already-with-aurora-gas/rates-and-charges

www.tasgas.com.au

www.treasury.wa.gov.au/Public-Utilities-Office/Household-energy-pricing/Gas-pricing/

www.energymadeeasy.gov.au/

