

Energy Retail Prices in South Australia: Ministerial Pricing Report 2014 - August 2014

Each year the Essential Services Commission of South Australia (**Commission**) prepares an energy retail pricing report for the Minister for Mineral Resources and Energy. The report sets out information on average energy retail price offerings which were available to residential and small business customers during the previous financial year.

The 2014 Ministerial Pricing Report (**Report**) compares electricity and gas prices that were generally available to small customers on 30 June 2013 with those available on 30 June 2014.

The key findings of the Report are that:

- Based on Market Offers available to consumers at 30 June 2013 and 30 June 2014:
 - Average price offerings available to electricity residential customers increased by 1.7%, while for small business customers average bills fell by 0.3%. The rate of inflation in South Australia for the 2013/14 Financial Year was 3.1%.
 - Average price offerings available to gas residential and small business customers increased by 14% and 12% respectively, substantially greater than the rate of inflation in South Australia of 3.1%. There are two drivers of that rise: gas distribution prices increased on 1 July 2013, adding around 8% to residential gas bills, and the wholesale cost of gas has increased.
- There were considerable variations in offers from different retailers and between offers from the same retailer. For example, if a residential electricity customer had taken up an offer available on 30 June 2014, they could have received an annual bill ranging from a minimum of \$1,641 up to a maximum of \$2,210 - a spread of \$569.
- There was potential for small customers to reduce their annual energy bills by moving from Standing Offers to Market Offers or, if already on a Market Offer, by considering alternative Market Offers. Customers can use the Australian Energy Regulator's (**AER**) *Energy Made Easy* website to compare all available offers.

CONTEXT

The Report forms part of an overall pricing and market monitoring regime, introduced by the South Australian Government at the time of deregulating energy retail prices (1 February 2013). That regime permits the Government to inform itself, as the policy-maker, of the need to review or amend regulatory controls in the energy retail market for small customers.

BASIS OF OBSERVATIONS

In preparing the Report, the Commission has used price information provided by the AER's *Energy Made Easy* price comparison website.¹

In order to explain estimated average annual costs, and to ensure that changes in energy usage do not distort pricing impacts, the Commission based its observations on an annual bill approach, using consumption estimates that are fixed from year to year.

The Report presents its observations separately in relation to both the residential and small business market segments and uses simple averages (i.e. bill and price outcomes are not weighted by the number of customers who have accepted each offer).

¹ *Energy Made Easy* may be accessed at www.energymadeeasy.gov.au.

ELECTRICITY

For the period 30 June 2013 to 30 June 2014, electricity prices have remained relatively flat.

For the residential electricity sector, the key observations are that:

- Standing Offer annual bills ranged from \$1,948 (QEnergy) to \$2,210 (Sanctuary Energy) at 30 June 2014
- The average Standing Offer annual bill rose, from \$2,007 to \$2,050 (+2.2%), during 2013/14
- Market Offer annual bills ranged from \$1,641 (M2 Energy) to \$2,156 (Lumo Energy) at 30 June 2014
- The average Market Offer annual bill rose, from \$1,837 to \$1,868 (+1.7%), during 2013/14
- The average of all retailers' lowest Market Offer annual bills was 11.5% (\$236) cheaper than the average Standing Offer annual bill (\$1,814 versus \$2,050) at 30 June 2014.

For the small business sector, the key observations are that:

- Standing Offer annual bills ranged from \$3,505 (Lumo Energy) to \$4,122 (EnergyAustralia) at 30 June 2014
- The average Standing Offer annual bill rose, from \$3,814 to \$3,867 (+1.4%), during 2013/14
- Market Offer annual bills ranged from \$3,173 (QEnergy) to \$4,187 (Lumo Energy) at 30 June 2014
- The average Market Offer annual bill fell, from \$3,563 to \$3,554 (-0.3%), during 2013/14
- The average lowest Market Offer annual bill was 12.2% (\$471) cheaper than average Standing Offer annual bill (\$3,396 versus \$3,867) at 30 June 2014.

In addition, the Report makes the following observations on the electricity retail market:

- Four new electricity retailers entered the South Australian market, bringing the total to 16²
- The market share of the largest electricity retailer, AGL, fell by around 2% to 48%³
- AGL's next largest competitor, Origin Energy, holds 20% of the market
- At 30 June 2014, the combined market share of the top four electricity retailers (AGL, Origin Energy, Energy Australia and Simply Energy) was 86%, with the remaining 14% market share held by 12 retailers
- The 12 smallest electricity retailers increased their overall market share from 12% at 30 June 2013 to 14% at 30 June 2014.

² It is noted, however, that one of the new retailers only offers a brokerage service to business customers who wish to be exposed to the wholesale electricity spot market and it may be inferred that these offers are not considered to be generally available to all small customers.

³ AGL was the regulated electricity retailer for all small customers in South Australia prior to the introduction of full retail contestability in January 2003.

GAS

For the period 30 June 2013 to 30 June 2014, gas prices increased ranging from 12% to 16% (depending on the particular offer under consideration).

For the residential gas sector, the key observations of the Report are that:

- Standing Offer annual bills ranged from \$1,013 (Origin Energy) to \$1,134 (EnergyAustralia) at 30 June 2014
- The average Standing Offer annual bill rose, from \$914 to \$1,062 (+16.2%), during 2013/14
- Market Offer annual bills ranged from \$939 (Origin Energy) to \$1,110 (Energy Australia) at 30 June 2014
- The average Market Offer annual bill rose, from \$885 to \$1,007 (+13.9%), during 2013/14
- The average of all retailers' lowest Market Offer annual bills was 8.3% (\$88) cheaper than the average Standing Offer annual bill (\$973 versus \$1,062) at 30 June 2014.

For the small business sector, the key observations are that:

- Standing Offer annual bills ranged from \$5,191 (Origin Energy) to \$5,954 (EnergyAustralia) at 30 June 2014
- The average Standing Offer annual bill rose, from \$4,702 to \$5,444 (+15.8%), during 2013/14
- Market Offer annual bills ranged from \$5,019 (Origin Energy) to \$5,804 (EnergyAustralia) at 30 June 2014
- The average Market Offer annual bill rose, from \$4,681 to \$5,256 (+12.3%) during 2013/14
- The average of all retailers' lowest Market Offer annual bills was 5.9% (\$324) cheaper than the average Standing Offer annual bill (\$5,120 versus \$5,444) at 30 June 2014.

In addition, the Report makes the following observations on the gas retail market:

- The number of gas retailers operating in South Australia (5 retailers) did not change over the past year
- The market share of the largest retailer, Origin Energy, fell by 0.5% to 46% (although it did increase its customer numbers)⁴
- Origin Energy's next largest competitor, AGL, holds 31% of the market
- At 30 June 2014, the combined market share of these two retailers was 77%, with the remaining 23% market share held by three retailers.

⁴ Origin Energy was the regulated gas retailer for all small customers in South Australia prior to the introduction of full retail contestability in July 2004.

SUMMARY OF OBSERVATIONS

A comparison of Standing and Market Offer bills is presented in the table below. The table shows the movement in average annual Standing Offer bills and average annual Market Offer bills between 30 June 2013 and 30 June 2014. The percentage increase in average Standing Offer bills for both customer types and for each fuel type has exceeded that of average Market Offer bills.

Changes in average Standing Offer bills compared with average Market Offer bills between 30 June 2013 and 30 June 2014

CUSTOMER SEGMENT	CHANGE IN AVERAGE ANNUAL STANDING OFFER BILL OVER FY 2013/14		CHANGE IN AVERAGE ANNUAL MARKET OFFER BILL OVER FY 2013/14	
	\$ var	% var	\$ var	% var
Electricity				
Residential	+\$43	+ 2.2%	+\$31	+ 1.7%
Small Business	+\$52	+ 1.4%	-\$9	- 0.3%
Gas				
Residential	+\$148	+ 16.2%	+\$123	+ 13.9%
Small Business	+\$559	+ 15.8%	+\$575	+ 12.3%

The table below shows the spread between Standing and Market Offer bills at 30 June 2013 and 30 June 2014. Across customer types and fuel types, there was a greater discount between the average Market Offer bill and average Standing Offer bill at 30 June 2014 than there was at 30 June 2013.

Differences between average Standing and average Market Offer bills

CUSTOMER SEGMENT	30 JUNE 2013		30 JUNE 2014	
	\$ var	% var	\$ var	% var
Electricity				
Residential	-\$171	- 8.5%	-\$183	- 8.9%
Small Business	-\$251	- 6.6%	-\$313	- 8.1%
Gas				
Residential	-\$29	- 3.2%	-\$55	- 5.1%
Small Business	-\$20	- 0.4%	-\$188	- 3.4%

FURTHER INFORMATION

If you have any questions or would like to discuss any matter relating to the Energy Retail Prices in South Australia: Ministerial Pricing Report 2014, please contact the Commission on 08 8463 4444.

If you would like to keep up to date with our energy industry activities and the release of papers for consultation, subscribe at <http://www.escosa.sa.gov.au/subscribe.aspx>.



The Essential Services Commission of South Australia is an independent economic regulator of water, electricity, gas, ports and rail industries in South Australia. The Commission's primary objective is the protection of the long-term interests of South Australian consumers with respect to the price, quality and reliability of essential services.

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