



The Victorian energy market works for some electricity and gas customers, but others pay more than they need to, up to hundreds of dollars a year in some cases.

This report aims to help customers understand how the energy retail market works, and what they need to do to get the best out of it.

An appropriate citation for this paper is:

Essential Services Commission 2017, *Victorian Energy Market Report 2016–17*.

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Commentary on the Victorian energy market

Our chair, Dr Ron Ben-David, provides a commentary on the Victorian energy market in 2016-17.



Dr Ron Ben-David

Chairperson

Dr Ben-David has chaired the Essential Services Commission of Victoria since 2008. He previously served as deputy secretary in the Department of Premier and Cabinet and a senior executive in the Department of Treasury and Finance.

This is our second *Victorian Energy Market Report*. Once again, it provides an in depth account of customers' experiences in the Victorian electricity and gas markets.

The report focuses on overall outcomes for 2016-17, which means individual customers may have had experiences that differ from those reported here. That said, some of our headline findings include:

- **Medium-sized and small retailers have shown solid growth in the last year.** While some of this increase came at the expense of a few large retailers, the rest reflects medium-sized and small retailers benefiting from population growth.
- **There is a continuing trend away from fixed-term to ongoing contracts in the retail electricity and gas markets.** This is an interesting development. Traditionally, the end of a contract has acted as a prompt for

customers to re-engage with the market in search of a better offer. The shift by retailers towards ongoing contracts mutes the effectiveness of this prompt and potentially facilitates greater customer inertia (or customer's disinterest in engaging with the market).

- **An electricity customer who looks online for a new electricity deal will typically find themselves facing a list of over 230 generally available offers.** The prices, tariff structures, terms and conditions of these contracts can vary significantly. Energy bills can vary by many hundreds of dollars and there is no consistent basis for how discounts are offered. As a result, the advertised discount rate is a poor measure of the amount a customer can expect to pay for their electricity or gas. It is possible to find offers with a 10 per cent discount that provide

cheaper energy than other offers with discounts of over 30 per cent.

- **Electricity and gas prices increased in 2016-17. Standard contracts for electricity and gas increased by 5 per cent and 16 per cent, respectively.** Market offers increased by similar amounts. It has also become more expensive for a customer if they fail to meet the conditions attached to their discounts. For example, a typical electricity customer who consistently fails to meet the conditions of their discount could find themselves paying \$314 more than they expected (over a year).
- Payment plans are the most widely used measures offered by retailers to customers who may be facing difficulty paying their bills. Only a quarter of customers on a payment plan will also be enrolled in a retailer's hardship program. **It is concerning that retailers are expecting hardship customers on payment plans to repay higher levels of debt than other customers on payment plans of similar lengths.** This is despite hardship customers self-evidently facing more profound levels of payment difficulty.
- **While the number of customers entering retailers' hardship programs continues to grow, more customers are also failing these programs.** Overall, the number of customers who were on a hardship program who were subsequently disconnected almost doubled in the last year. This seems to suggest retailers' hardship programs are becoming increasingly ineffective.

In large part, this is because retailers are waiting too long before offering customers access to their hardship programs. In 2016-17, the average level of debt accumulated by a customer before gaining access to a retailer's hardship program was \$1,241. Some retailers only provided access when the customer had debts of around \$2,000.

- **In 2016-17, around 50,000 customers were disconnected from their electricity or gas supply.** This was a notable decline on the

previous year. A closer look at the data reveals that while disconnections steadily declined in 2015-16, the reverse was true this year with disconnection rates steadily increasing toward their previous levels (particularly for electricity). There were also 726 reported wrongful disconnections last year. This represents an increase of 28 per cent on the previous year.

In addition to these headline results, this *Victorian Energy Market Report* also provides a report card showing how each retailer performed in 2016-17 and how they measured against their competitors.

Is the market working for consumers?

It is hardly a secret that the retail energy market has become extremely complicated. The recent *Independent Review of the Electricity and Gas Retailer Markets in Victoria* and a preliminary report from the ACCC's *Retail Electricity Pricing Inquiry* highlight just how profoundly complex the market has become for customers.

Retailers' headline discounts are getting bigger, but the relationship between advertised discounts and the bill a customer can expect to pay is getting weaker. In other words, bigger discounts don't necessarily mean cheaper bills. Customers need more information than just the headline discount. Certainly the Victoria Energy Compare website provides a very handy starting point for customers but as my own household discovered recently, access to 'generally available' offers can easily be restricted by details buried in the fine print.

Traditional economics would suggest that the burgeoning array of offers available in the energy market represents retailers' efforts to match their service offerings to different customers' preferences. On the other hand consumer psychologists and behavioural economists have shown the adverse impact of giving customers too much choice – price structures with two or three components have been shown to dissuade many customers from actively engaging with the market. In such situations, customers either avoid making a decision and stick with what's already in place

(status quo bias) or they make decisions based on simple rules (heuristics) rather than careful consideration of the options. These latter theories suggest that the complexity of engaging with the retail energy market will see many customers enter or remain on contracts that do not necessarily serve their best interests.

As this report finds, Victorian customers can be faced with hundreds of options. This means customers who are on poorly priced contracts can lower their energy costs by hundreds of dollars by shopping around. However, finding the right offer can be a daunting task. The complexity created by so many offers means customers may choose discounts they can't afford. For example, customers enter contracts with very attractive headline discounts without paying sufficient attention to the fine print. As this report shows, the cost of failing to meet these conditions continues to increase. Two years ago, 'bill shock' from not meeting the conditions of an electricity contract averaged \$193 (on an annualised basis). By last year, this had increased by over 60 per cent to \$314. This is just an average. We've found examples where failure to meet the retailer's conditions could see a customer pay \$652 more than they may have been expecting, if they don't meet the conditions for a full year.

The combined impact of generally rising prices and bill shock sees many customers struggling to pay for their energy. Retailers have various arrangements they can offer customers to help them repay any unmet bills. All retailers must also have hardship programs to assist customers who may need additional support. In 2016-17, access to these hardship programs was only offered when customers had already accumulated energy debts averaging \$1,241. By comparison, an average discounted market contract would have cost a typical household \$1,172 for electricity and \$1,263 for gas in 2016-17.

These findings are alarming. They suggest retailers are often intervening to support customers with hardship assistance only after the customer has gone for over a year without paying

their bills. In other words, customers are already a year behind before they even enter a retailer's hardship program. Perhaps we should not be surprised at the increasing rate of hardship program failure reported in this year's *Victorian Energy Market Report*.

Change is coming to the Victorian energy market

In October, we released our final decision on how we are reforming the way energy retailers operating in Victoria must assist customers in payment difficulty. The new payment difficulty framework establishes new and clear customer entitlements to minimum standards of assistance from their energy retailers. At the same time, it holds retailers to account for providing timely, flexible and meaningful assistance to customers who are facing payment difficulty. The new framework represents a 'once in a generation' overhaul of the energy rules. It comes into effect on 1 January 2019.

In the meantime, we will monitor developments in the Victorian energy market including retailers' readiness for the new framework. We will publish our findings in our quarterly updates to this report.

The Victorian government has indicated it will respond to the recommendations of the *Independent Review of the Electricity and Gas Retailer Markets in Victoria* by the end of this year. This may affect our functions and powers in relation to the Victorian energy market. We will use our quarterly updates to report on any relevant developments.

Our goal is to make the *Victorian Energy Market Report* a definitive and trusted source of information for all Victorians. We welcome any feedback on this year's report and whether there are any particular matters readers would like us to explore in future reports.

I commend this year's *Victorian Energy Market Report* to all Victorians.

Dr Ron Ben-David
Chairperson

Key findings in 2016–17

Prices going up

up to **5%**

average electricity price increases

up to **19%**

average gas price increases

Discounts galore

≈80%

percentage of energy market offers that have discounts; almost all come with conditions

\$314

average electricity bill increase for failing to meet all discount conditions for a full year

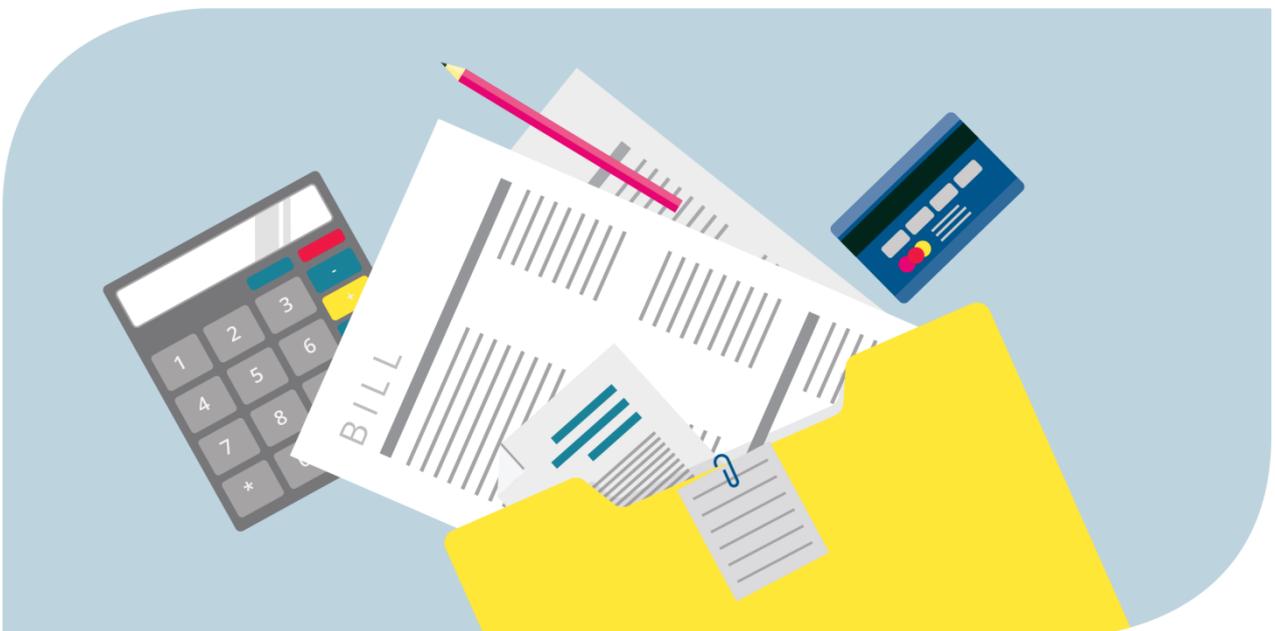
\$189

average gas bill increase for failing to meet all discount conditions for a full year

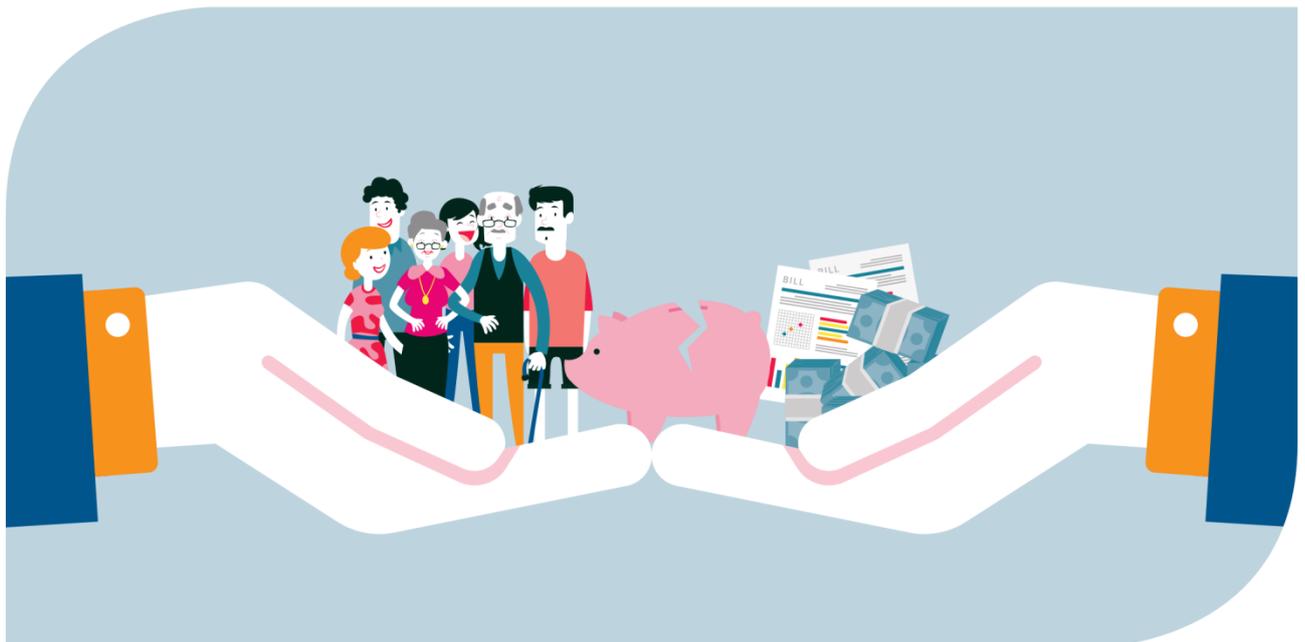
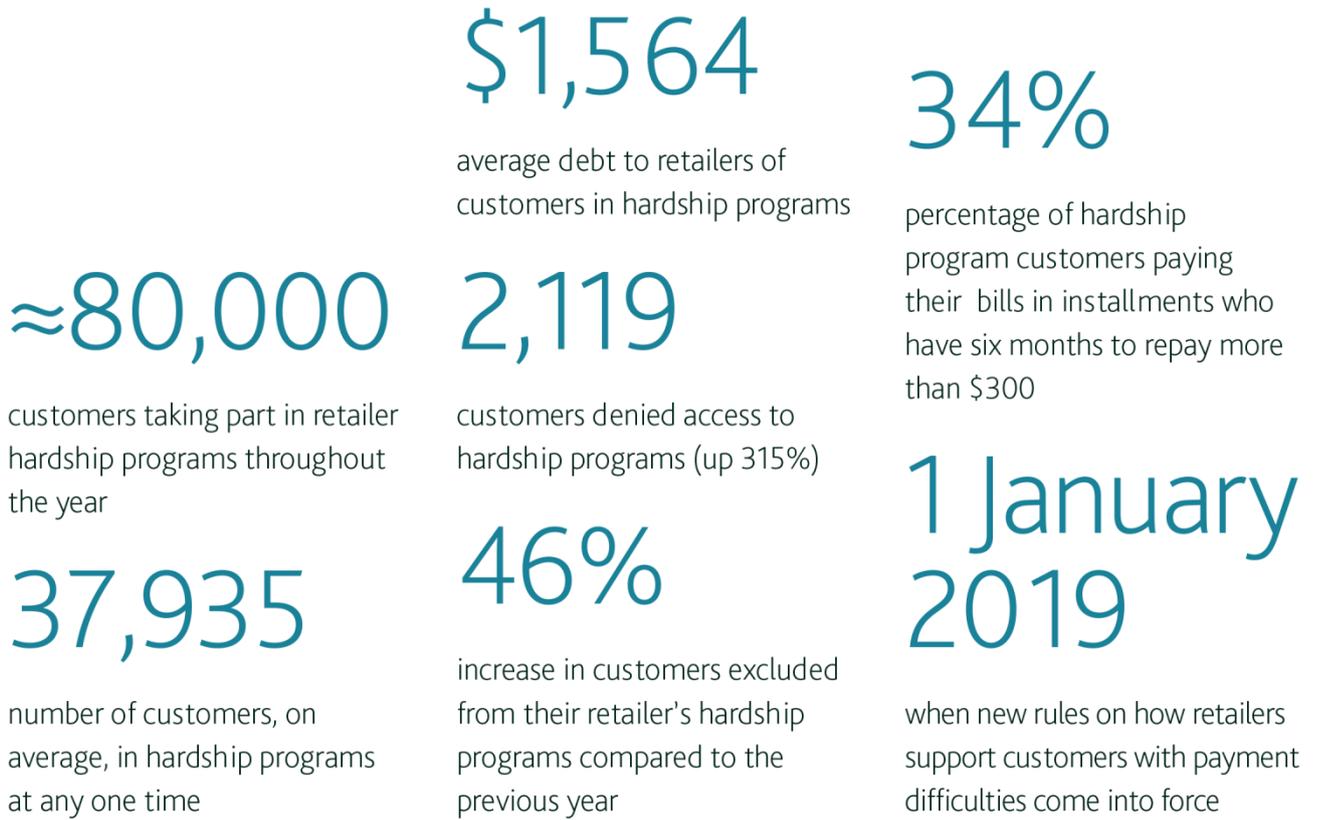
Discount confusion

10% = 37%

a 10% discounted electricity offer resulted in lower bills than another offering 37% off



Hardship programs



Disconnections

≈50,000

number of customers disconnected for not paying their electricity or gas bills (down 19% but increasing each quarter in 2016-17)

6,432

customers disconnected after leaving retailers' hardship programs (up 92% from 2015-16)

726

number of customers reported as being wrongfully disconnected from their energy supply (up 28% from 2015-16)

\$1,037,682

amount paid to customers who were wrongfully disconnected

Utility relief

The Victorian Government pays grants to customers who qualify for help in paying energy bills

29,942

number of people who received Utility Relief Grants of up to \$500



Rule breaking

23%

increase in the number of times retailers reported breaches of the rules

10,322

customers affected by retailer reported breaches of the rules (down from 131,652 in 2015-16)

Customer service

2.8

complaints on average per 100 electricity customers

75%

percentage of calls answered in 30 seconds after being forwarded to an operator of a retailer

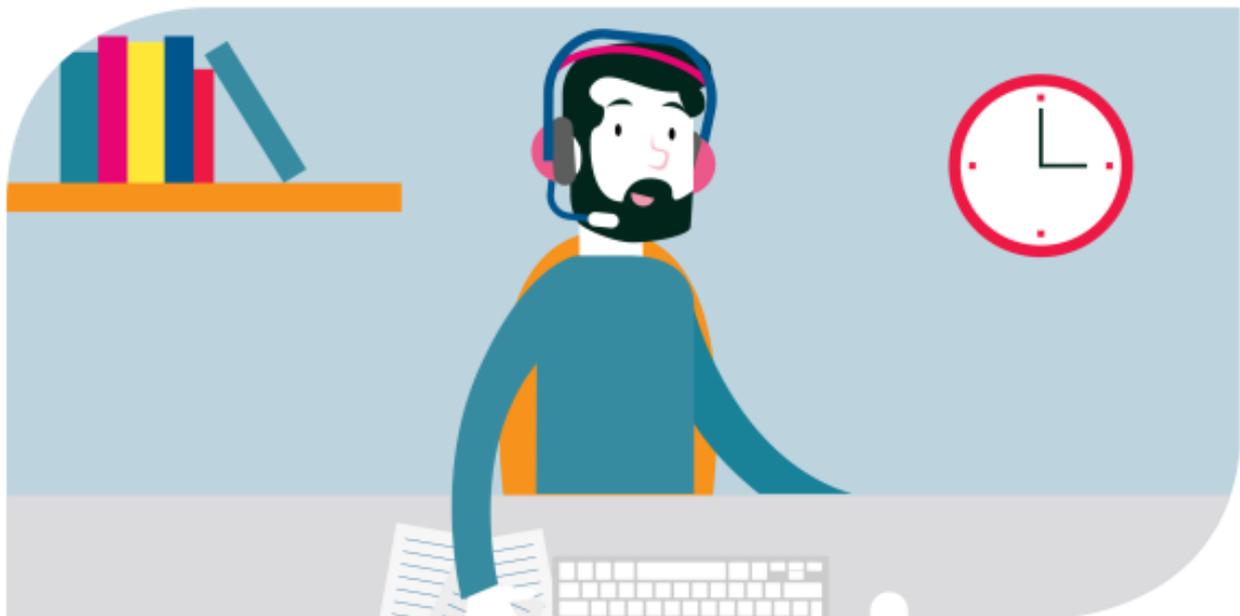
Service interruptions

2.3

unplanned electricity supply interruptions on average per customer

1,342

customers not given notice or sufficient notice of a planned outage by their distributor



10 tips to get the best out of competition between energy retailers

1

Be an active customer – regularly compare your gas and electricity contracts with other ones on offer. It could lower your energy bills by hundreds of dollars a year.

2

There are up to 230 energy offers to choose from. It's easy to get confused so visit Victorian Energy Compare, the only government comparator website.

3

Don't automatically choose what appears to be the biggest discount in percentage terms. Check how much you can expect to pay.

4

If your offer includes discounts with conditions, make sure you can meet them before you sign up – you could pay much more if you can't.

5

If you have a complaint or question about your bill, ring your retailer. Be clear about what you need to find out or want to resolve. Keep records of your conversations with the retailer.

6

If you can't resolve an issue with your retailer, call the Energy and Water Ombudsman Victoria (EWOV) on 1800 500 509.

EWOV will only investigate your complaint if you have tried to resolve it with your retailer.

7

As well as price, consider:

- Terms and conditions of the contract – do you understand them?
- How long do your benefits (such as discounts) last?
- Are there termination fees or other charges to pay if you transfer to another retailer?
- Are you allowed to pay your bill using different methods, for example, direct debit or via Centrepay?
- What is the length of the contract?
- Whether the retailer has given you enough time and information to decide if the offer suits you
- How long do your benefits (such as discounts) last for?

8

If you're having trouble paying your bills, ask if you can pay by installments or ask about your retailer's hardship program.

9

Check out the profile for your energy retailer and their performance on our website.

10

Check out our quarterly updates to this *Victorian Energy Market Report* at <https://esc.vic.gov.au>.



Contents

Commentary about the Victorian energy market.....4

An overview of the energy market

Who can sell me gas and electricity?12

How is your energy supplied?14

Who delivers my energy?16

Which retailers gained the most customers?.....18

How do I choose an energy retailer?21

Energy retail products and prices

Which products can I choose from?24

How can I compare products?28

How have energy prices changed?32

Do discounts reduce my bill?.....34

Performance of energy companies

Can you participate in the energy market with confidence?41

Are energy companies following the rules?43

How well did my retailer provide customer service?47

What if I can't pay my energy bill?50

What is the experience of customers facing payment difficulty?51

How many customers were disconnected?59

Can I rely on my energy supply?63

Energy of the future65



An overview of the Victorian energy market

This chapter explains how energy is supplied to you and features our insight into the state of the Victorian energy market in 2016–17.



Who can sell me gas and electricity?

You can choose from a number of licensed energy retailers to buy your gas and electricity. Depending on where you live in Victoria, you can expect to have up to 26 electricity retailers and 13 gas retailers competing to sell you energy.

In Victoria, you have been able to choose your electricity and gas retailer since 2002. Before then, your energy came from an energy company assigned to the area in which you lived. Prices were regulated until 2009. Now, the price you pay for your energy is set by retailers. New retailers can enter the market, if they are granted a licence by the commission.



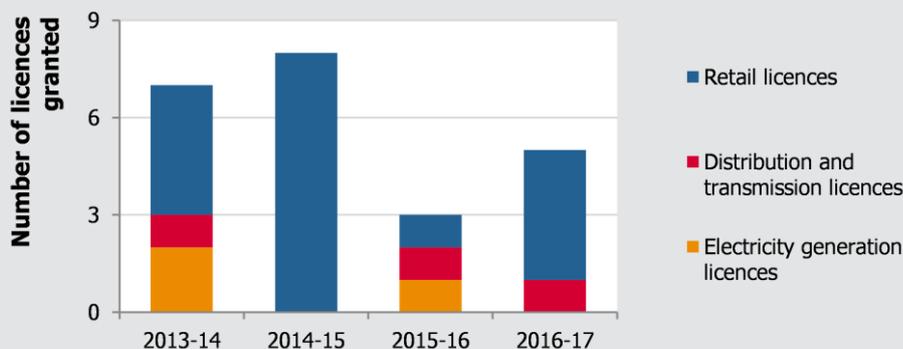
Victorian energy licences granted in 2016-17

Five new energy licences were granted in 2016-17. Three electricity retailers were granted licences to enable them to sell gas – Globird, Sumo Power and Powershop.

Enwave Victorian Networks was granted a licence to distribute gas in eleven postcode areas in western Victoria. These areas previously did not have access to gas. Tas Gas Retail was also granted a gas retail licence to sell gas in these specific areas.

In 2016-17, OzGen Retail and Energy Brix voluntarily gave up their licences. They both had no customers at that time. Also, Hazelwood power station applied to revoke its licence to generate electricity.

Figure 1.1 Energy licences granted in Victoria since 2013-14



We received a total of 17 new licence applications since January 2017, which included eight retail applications, five energy distribution or transmission applications, and four generation applications.



The Victorian energy licensing system

In Victoria, all businesses involved in the supply of energy are required to hold a licence. Businesses operating power stations and high voltage transmission lines, and those that deliver gas and electricity through pipes and wires, operate under licence. Businesses that sell you energy – energy retailers – are also required to hold a licence.

We grant licences to businesses that can demonstrate that they are financially viable, technically capable and are ‘fit and proper’ to hold a licence. Licences are granted on a range of conditions and obligations to comply with codes and guidelines we publish.

Some businesses are exempt from holding a licence, such as caravan parks or embedded networks. An embedded network is a privately-owned electricity network servicing customers in a specific site, like an apartment complex or shopping centre.



Case-study – licensing for innovation

In 2016-17, we extended the energy retail licence of Onsite Energy Solutions to enable it to continue its ‘virtual power plant’ trial in Victoria. The trial is in partnership with United Energy and involves solar panels, battery storage and control systems for residential homes.

The licence allows Onsite Energy Solutions to sell electricity to the small group of 20 customers who are participating in the trial.



How is your energy supplied?

Your energy is supplied by three different types of energy companies; generators and producers, transmission and distribution businesses, and energy retailers.

You buy energy from your energy retailer. Every energy customer has a contract with a retailer. But many retailers don't generate the electricity or produce the gas that their customers actually use. They don't deliver electricity or gas to customers' homes, businesses or other premises either.

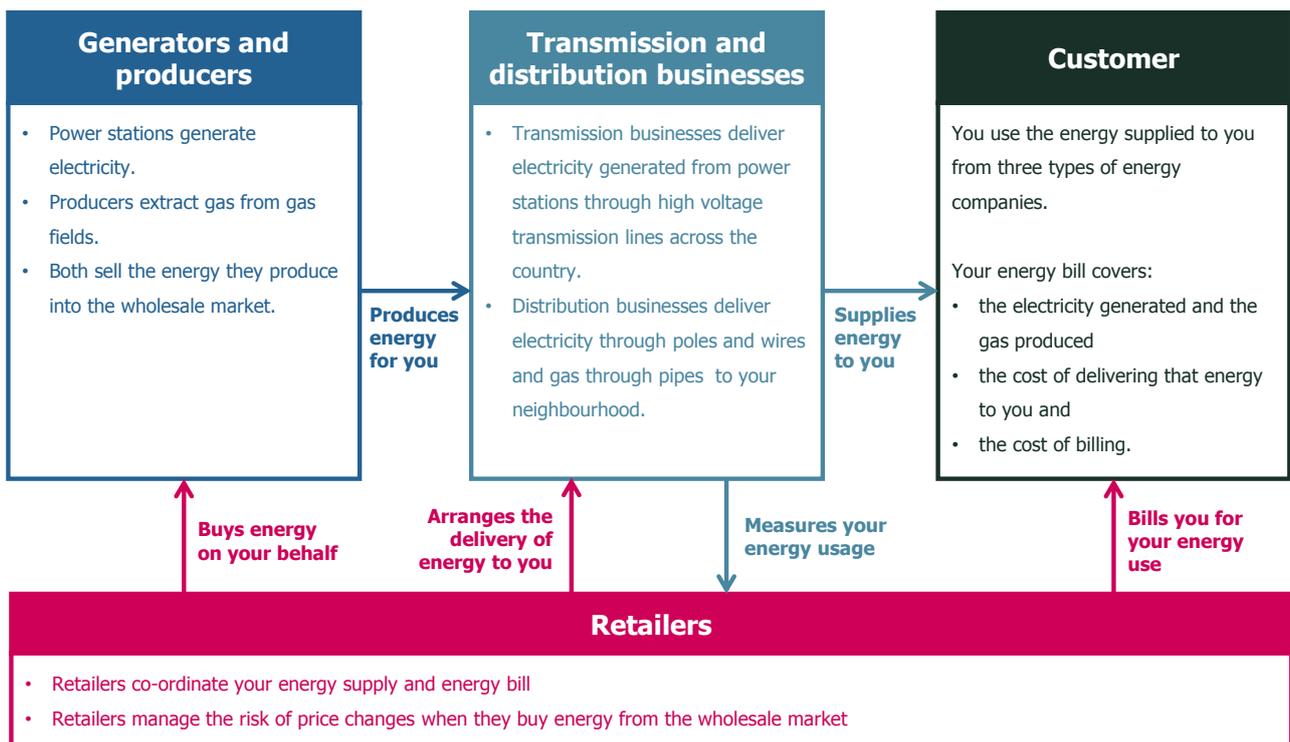
Retailers buy energy from the wholesale market. They also make arrangements with distribution companies that deliver the energy – electricity through poles and wires, and gas through pipelines. Distribution companies also measure the amount of energy each customer uses and pass that information on to the retailers. The retailers use this information to calculate and issue your bill.

The price your retailer charges you covers the wholesale cost of energy, the cost of delivering it to you, and the cost of government policy obligations to buy a proportion of renewable energy and energy efficiency services.

The price also covers the retailers' cost of billing and customer service and their profit margin. When retailers set their prices, they have to estimate how much they expect to pay for wholesale energy and its delivery to their customers (the cost of distribution).

The figure below illustrates how energy companies interact to provide you with energy.

Figure 1.2 An illustration of how energy is supplied to you



Total number of energy retailers in Victoria in 2016-17

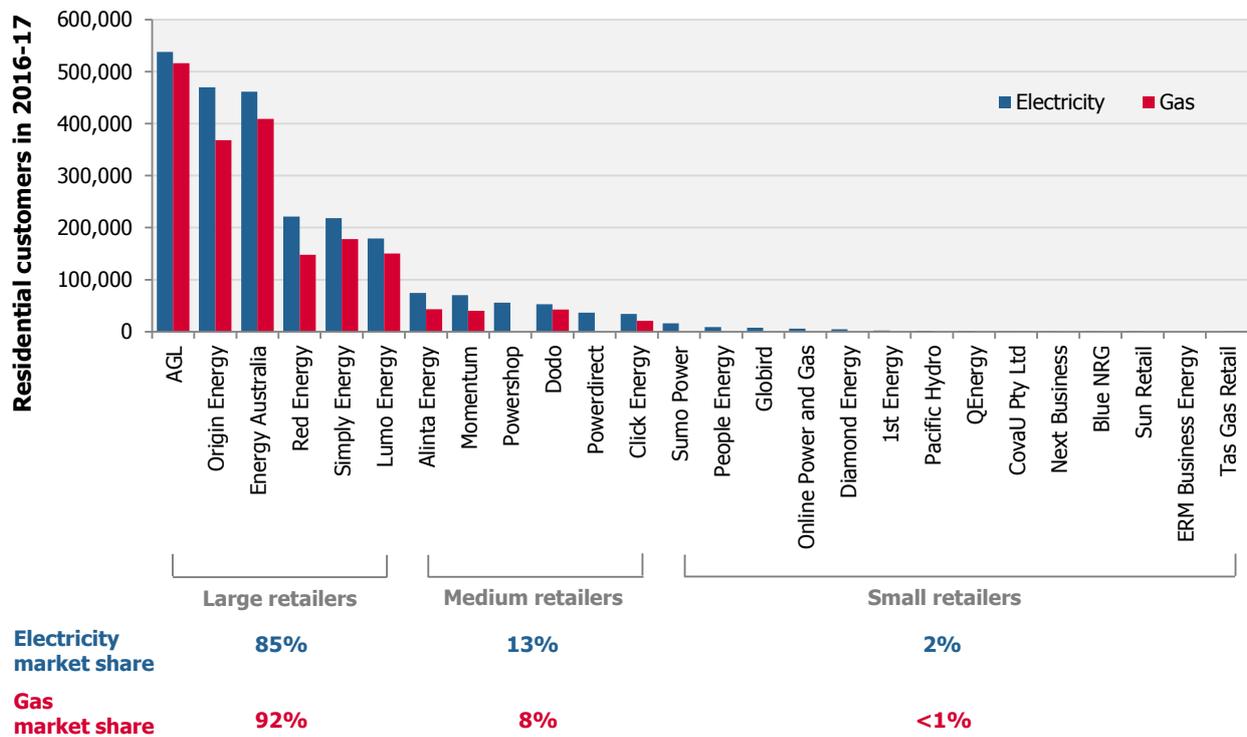
There were 26 retailers selling electricity and 13 retailers selling gas to Victoria residential and small business customers in 2016-17.

85 per cent of electricity residential customers and 92 per cent of gas residential customers were with six large retailers. These large retailers are AGL, Origin Energy, EnergyAustralia, Red Energy, Simply Energy and Lumo Energy, each with over 150,000 residential energy customers.

There were six medium sized retailers who have between 30,000 and 150,000 customers. They are Alinta Energy, Momentum, Powershop, Dodo, Powerdirect and Click Energy.

There were also 14 smaller retailers who sold energy to residential and small business customers.

Figure 1.3 Electricity and gas retailer market share of residential customers, by retailer





Who delivers my energy?

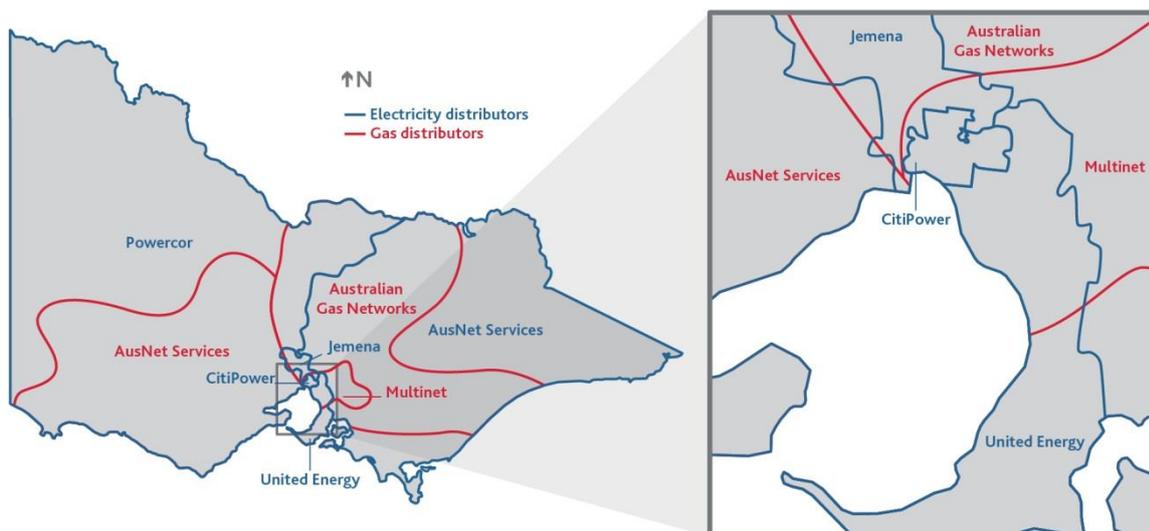
Energy is supplied to your home by a different business to the one that bills you for energy. The business delivering your energy through pipes, poles and wires are called distributors.

There are five electricity distributors and three gas distributors who own and operate the energy network in Victoria. These distributors operate in different parts of the state, as shown in the figure below.

Distributors charge your retailer for the cost to deliver energy to your home – this makes up approximately 30 per cent of your energy bill.¹ You are unlikely to see the cost itemised on your bill.

Figure 1.4 Electricity and gas distribution areas in Victoria

Distribution areas for gas and electricity in Victoria



You can find out who your electricity distributor is by visiting <https://www.energy.vic.gov.au/electricity/electricity-distributors> or checking your electricity bill. You can also find out who your gas distributor is on your latest gas bill.

¹ Independent Review into the Electricity and Gas Retail Markets in Victoria, August 2017, p 11



The cost of delivering the energy you used

The amount that you pay to have the energy you use delivered to you is set by a national body, the Australian Energy Regulator.

Because distributors operate in specific geographic areas across Victoria, your distribution charges depend on where you live.

In 2016-17, electricity distribution charges changed. If you live in western Victoria (the Powercor area) or central metropolitan Melbourne (the CitiPower area), we estimate that your distribution charges decreased by nine per cent. If you live in the rest of metropolitan Melbourne or eastern Victoria, your estimated annual charges increased between four to eight per cent.

We also estimate that gas distribution charges increased between four to six per cent across the state.

Table 1.1 Estimated annual energy distribution charges (for a typical residential customer)

Electricity distributor	2016	2017	change	Gas distributor	2016	2017	change
Powercor	\$411	\$375	-9%	AusNet (west zone)	\$306	\$321	+5%
Citipower	\$323	\$296	-9%	AusNet (central zone)	\$414	\$438	+6%
Jemena	\$395	\$410	+4%	AGN (central zone)	\$399	\$416	+4%
United Energy	\$293	\$312	+7%	AGN (north zone)	\$357	\$379	+6%
Ausnet Services	\$435	\$468	+8%	Multinet (metro zone)	\$364	\$381	+5%

Electricity distribution charges are based on residential single-rate flat Distribution Use of System (DUoS) charges, except for United Energy which has summer and winter period flat tariffs, estimated assuming 4,000kWh p.a. usage. Gas distribution charges are based on a residential single-rate flat network tariff, estimated assuming 54.4 GJ p.a. usage. Distribution tariffs are approved by the Australian Energy Regulator on a calendar year basis.



Wholesale energy prices in Victoria in 2016-17

The price of wholesale electricity is determined every half an hour on what is called the spot market. Spot market prices can fluctuate significantly across a day, a week or a month.

In 2016-17, the average annual spot market price went up by 45 per cent to \$67 per MWh, with a monthly average price of between \$30 to \$108 per MWh. The highest spot price for wholesale electricity in Victoria during the year was \$1,533 per MWh.

Across the year, wholesale gas prices in Victoria averaged \$8.60 per GJ, an increase of 72 per cent, with a quarterly average price of between \$6.86 and \$9.55 per GJ.



Which retailers gained the most customers?

In 2016-17, Simply Energy and Momentum gained the most residential energy customers, each gaining 30,000 more energy customers.

Additionally, Click Energy gained more than 13,000 gas and electricity customers in 2016-17 and Powershop and Sumo Power each gained more than 10,000 residential electricity customers.

EnergyAustralia and Origin Energy lost the most residential energy customers in 2016-17. Each business recorded between 25,000 to 26,000 fewer electricity and gas customers compared to the previous year.

Table 1.2 Change in energy residential customers, ranked by retailer (by size)

Size	Retailer	Electricity (residential)				Gas (residential)			
		2015-16	2016-17	change in customer numbers	% change from previous	2015-16	2016-17	change in customer numbers	% change from previous
Large	Simply Energy	202,646	218,420	+15,774	+8%	160,001	178,159	+18,158	+11%
	Red Energy	216,877	221,483	+4,607	+2%	140,748	147,972	+7,224	+5%
	AGL	533,231	537,819	+4,587	+1%	517,856	516,570	-1,286	0%
	Lumo Energy	188,517	181,033	-7,484	-4%	153,426	150,067	-3,358	-2%
	Origin Energy	484,353	470,254	-14,099	-3%	378,709	367,990	-10,719	-3%
	EnergyAustralia	477,011	461,761	-15,250	-3%	420,435	409,406	-11,029	-3%
Medium	Momentum	59,409	69,933	+10,524	+18%	20,726	40,018	+19,292	+93%
	Click Energy	29,777	34,375	+4,599	+15%	12,114	21,076	+8,962	+74%
	Powershop	44,872	55,794	+10,922	+24%	0	0	0	-
	Dodo	49,948	52,585	+2,637	+5%	38,601	42,365	+3,764	+10%
	Powerdirect	34,863	36,643	+1,780	+5%	0	0	0	-
	Alinta Energy	74,199	74,362	+164	+0%	42,187	43,392	+1,206	+3%
Small	Sumo Power	4,086	15,764	+11,678	+286%	0	0	0	-
	Globird	1,347	7,750	+6,403	+476%	0	0	0	-
	1st Energy	0	2,360	+2,360	-	0	0	0	-
	People Energy	6,980	8,952	+1,972	+28%	0	0	0	-
	Online Power and Gas	3,910	5,556	+1,646	+42%	0	0	0	-
	Pacific Hydro	459	1,506	+1,047	+228%	0	0	0	-
	Diamond Energy	3,975	4,667	+691	+17%	0	0	0	-
	Next Business	79	191	+112	+142%	0	0	0	-
	CovaU Pty Ltd	159	229	+70	+44%	43	143	+101	+234%
	Sun Retail	2	3	+0	+14%	0	0	0	-
	ERM Business Energy	0	0	0	-	0	0	0	-
	Tas Gas Retail	0	0	0	-	0	1	+1	-
	Blue NRG	85	71	-14	-16%	0	0	0	-
TOTAL		2,417,650	2,462,268			1,884,844	1,971,158		

The most successful retailers in gaining small business customers in 2016-17 were Lumo Energy, Online Power and Gas and Origin Energy. These retailers each gained more than 2,200 small business customers compared to the previous year.

Momentum and Alinta Energy lost the most small business customers in 2016-17, losing 5,481 and 1,473 energy customers respectively.

Five retailers gained more than 1,000 small business customers in 2016-17. They were Simply Energy, AGL, Sumo Power, ERM Business Energy and EnergyAustralia.

Table 1.3 Change in energy small business customers, ranked by retailer (by size)

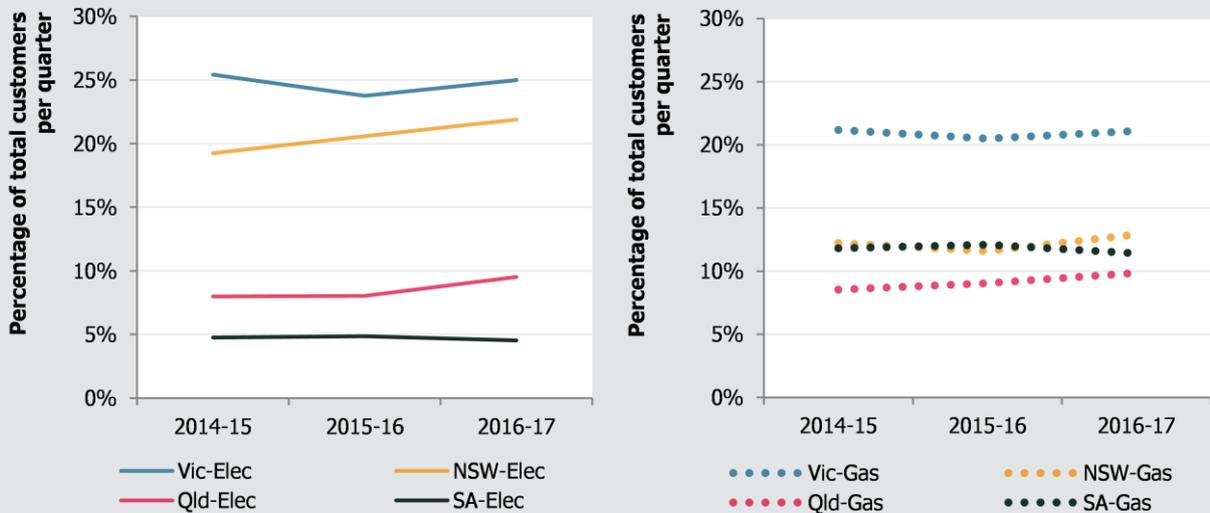
Size	Retailer	Electricity (residential)				Gas (residential)			
		2015-16	2016-17	change in customer numbers	% change from previous	2015-16	2016-17	change in customer numbers	% change from previous
Large	Lumo Energy	14,034	17,004	+2,970	+21%	2,264	2,689	+425	+19%
	Origin Energy	70,714	71,381	+667	+1%	18,526	20,097	+1,571	+8%
	Simply Energy	22,283	23,506	+1,223	+5%	9,092	9,582	+490	+5%
	AGL	38,276	38,396	+121	+0%	14,793	16,002	+1,209	+8%
	EnergyAustralia	40,089	41,822	+1,734	+4%	11,548	10,861	-688	-6%
	Red Energy	7,597	7,638	+40	+1%	3,156	2,638	-518	-16%
Medium	Click Energy	525	894	+369	+70%	25	154	+130	+530%
	Dodo and Commander	2,492	2,698	+206	+8%	0	0	0	-
	Powershop	2,994	3,192	+198	+7%	0	0	0	-
	Powerdirect	13,009	12,108	-901	-7%	0	0	0	-
	Alinta Energy	2,437	967	-1,470	-60%	6	4	-3	-42%
	Momentum	36,819	30,004	-6,815	-19%	1,903	3,237	+1,334	+70%
Small	Online Power and Gas	2,230	4,810	+2,579	+116%	0	0	0	-
	ERM Business Energy	6,641	7,987	+1,346	+20%	0	0	0	-
	Sumo Power	68	1,355	+1,287	+1887%	0	0	0	-
	Blue NRG	7,344	8,114	+770	+10%	0	0	0	-
	Globird	203	830	+627	+308%	0	0	0	-
	1st Energy	0	564	+564	-	0	0	0	-
	Next Business	1,044	1,559	+515	+49%	0	0	0	-
	CovaU Pty Ltd	372	424	+52	+14%	105	326	+222	+211%
	People Energy	218	334	+116	+53%	0	0	0	-
	Pacific Hydro	337	439	+102	+30%	0	0	0	-
	AGL (Qld)	-	19	+19	-	0	0	0	-
	Diamond Energy	196	207	+11	+5%	0	0	0	-
	Sun Retail	27	16	-11	-40%	0	0	0	-
	QEnergy	4,233	3,610	-623	-15%	0	0	0	-
TOTAL		274,183	279,878			61,417	65,589		



Customer switching in 2016-17

Our analysis of customer transfer data shows that 25 per cent of domestic and small business electricity customers and 21 per cent of gas customers changed retailer in 2016-17. This is similar to the last two years and Victorian transfer rates remain higher than other states. A proportion of these transfers will be customers who have moved house but have not necessarily changed energy retailer.

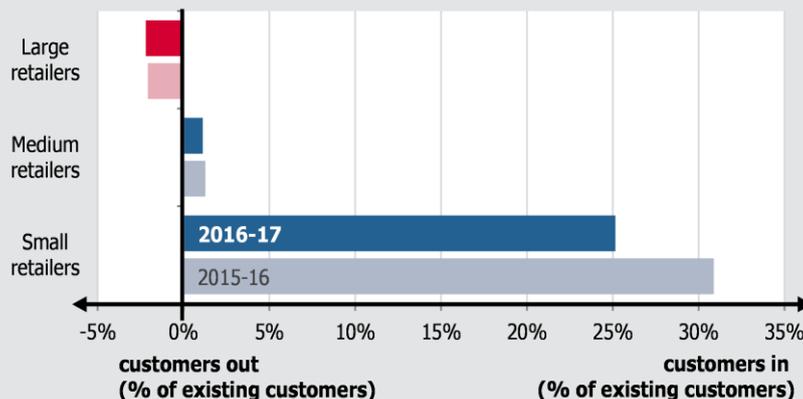
Figure 1.5 Yearly transfer rates of residential and small business customers



Based on AEMO monthly retail transfer statistics for electricity and gas.

We estimate that only 12 per cent of Victorian customers made an ‘active’ choice to change electricity retailer throughout 2016-17. The remaining transfers represent customers who opened a new account (e.g. because they moved into a new premises). As shown below, out of the ‘active’ transfers in 2016-17, there was a net change of around 36,000 electricity customers from large retailers to small and medium retailers. This was a small percentage reduction for large retailers, but it led to sizeable percentage increase in customer numbers for small retailers.

Figure 1.6 Net ‘active’ customer transfers, by percentage of existing residential and small business customers of retailers



How do I choose an energy retailer?

If you have not changed your energy retailer in the past

You are likely to have what is called a **standard contract**.

We determine the terms and conditions of standard contracts, which are set out in the energy retail code. We do not set the price.

If you have a **standard contract**:

- it will be ongoing
- it will not include discounts for paying on time or setting up automatic payments
- you can receive quarterly paper bills
- you will have a choice of payment method.

The energy price of standard contracts can only change twice during the year (June and December). It is up to your retailer whether they choose to change the prices of their standard contracts at that time.

If you have changed retailer before

You will have what is called a **market contract** with your retailer.

Although we determine some minimum standards for market contracts, most of their terms and conditions are set by the retailer.

Your retailer can change the price of a market contract at any time.

If you are on a market contract, you will typically pay less for your energy use than if you are on a standard contract – provided you meet the terms and conditions of the contract.

There is a wide range of market 'offers' available. The following sections describe the type of offers available in the market on 30 June 2017, as well as their estimated costs for a typical residential customer.



What to expect when signing up to a new retailer

If you have been made an offer by a retailer and have been provided with all of the information about their product, the retailer can sign you up as a customer provided you give your 'Explicit Informed Consent' to the new contract.

You are entitled to expect that your retailer will bring all relevant information to your attention prior to entering a contract. If they fail to do so, you will not have legally given your 'Explicit Informed Consent' to the contract.

Retailers must ensure that their staff and agents are adequately trained to explain their products to you in plain language and provide you with accurate information about the terms and conditions of the contract.

You are also entitled to change your mind about entering into a contract. This is to enable you to fully consider the contract information that has been sent to you by the retailer. You have 10 days to change your mind.

General consumer laws also apply and prohibit retailers from misleading and deceptive conduct in marketing their products, or coercing you into entering a contract against your will.



Thinking of changing your energy contract?

What you can expect from your energy retailer



Retailers should present any information to you in plain English and without any jargon.



Retailers should provide up-to-date information on energy prices and terms and conditions.



Retailers must respect your decision if you say no to an offer, which you are under no pressure to accept.



Retailers need to be aware of a person's ability to understand an offer, including their age and language abilities. That person must also be the primary account holder.



Energy retail products and prices

There are many different energy retail products in the market. This chapter explains the choices you have and summarises the products and prices that were available in 2016–17.





Which products can I choose from?

In 2016-17, most retailers offer only gas or electricity to customers, but 12 retailers offered both. The range of available products – known as offers – can vary significantly.

Large retailers tended to each offer a typical Victorian customer on average around 15 different types of residential electricity and gas market offers. Small and medium retailers offered on average less than five.

Most products are ongoing contracts

The length of an energy contract can vary. It can be an on-going contract or for a fixed term (usually one to three years). In 2016-17, three quarters of electricity offers were ongoing. If you were with a larger retailer, it is likely you had an on-going contract.

Some retailers offer contracts with a fixed period where benefits, like discounts apply, known as a ‘benefit period’. Very few contracts had fixed energy prices for a set period.

You will continue to have supply of energy even when a fixed term contract expires – you will automatically have a new contract with your existing retailer (unless you change retailers or renegotiate your contract).

Most energy offers have discounts

80 per cent of energy offers had discounts. Most discounted offers require certain conditions to be met, such as:

- receiving on-line bills rather than paper bills
- needing to pay your energy bills on-time or
- having both your electricity and gas accounts with the same retailer.

Very few have no conditions for you to meet before receiving a discount. It is important to know what your undiscounted energy price is, in case you do not meet the conditions of your discount.

Figure 2.1 Average number of retailer market offers per customer, by contract length

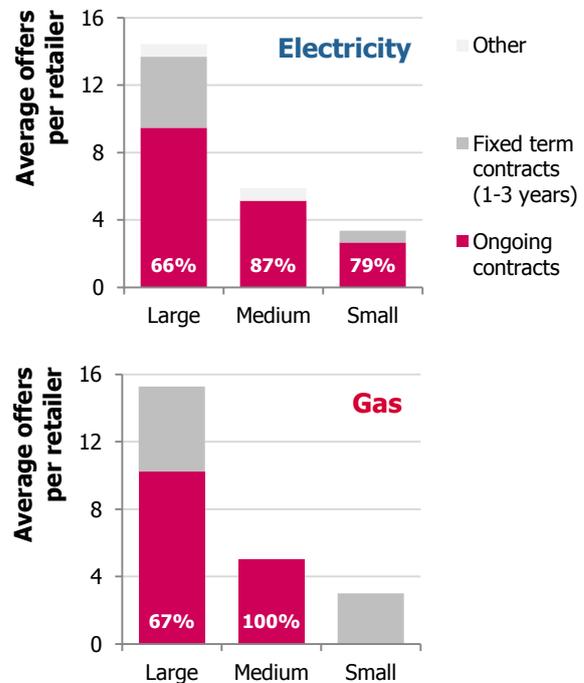
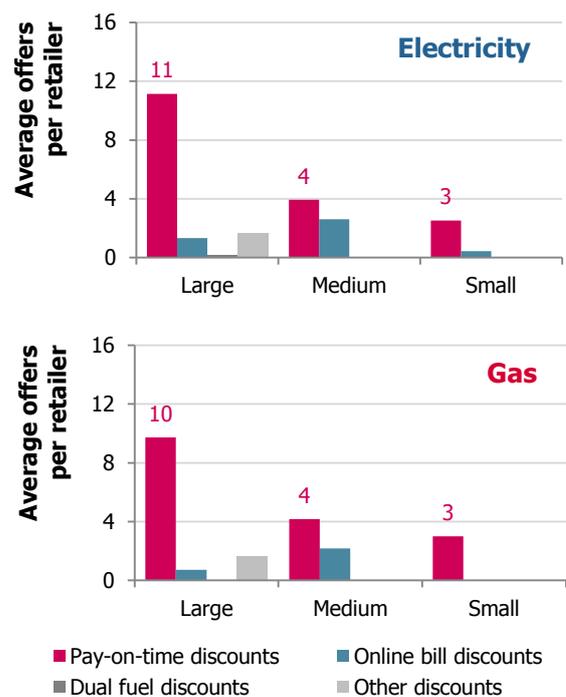


Figure 2.2 Average number of retailer market offers per customer, by discount type



Energy offers have different pricing structures

Most energy offers have fixed and variable rates that make up your energy bill. Fixed rates or the 'daily supply charge' are often charged as an amount per day. These rates do not depend on how much energy you use.

Variable rates are the amount you are charged for each unit of electricity or gas you use. Variable rates are often referred to by retailers as a 'usage charge'. These are usually presented on your bill as a 'cents per kWh' for electricity and '\$ per GJ' for gas. Variable rates are usually structured in three different ways, as follows:

- **Flat tariffs**, which is a single rate that applies to your energy usage regardless of when you use it. This can apply to gas and electricity offers. Although 22 per cent of generally available electricity market offers, most residential customers are on flat tariffs. 76 per cent of gas market offers were flat tariffs.
- **Block tariffs**, which has different rates based on how much energy you use, which differ as you consume more energy.

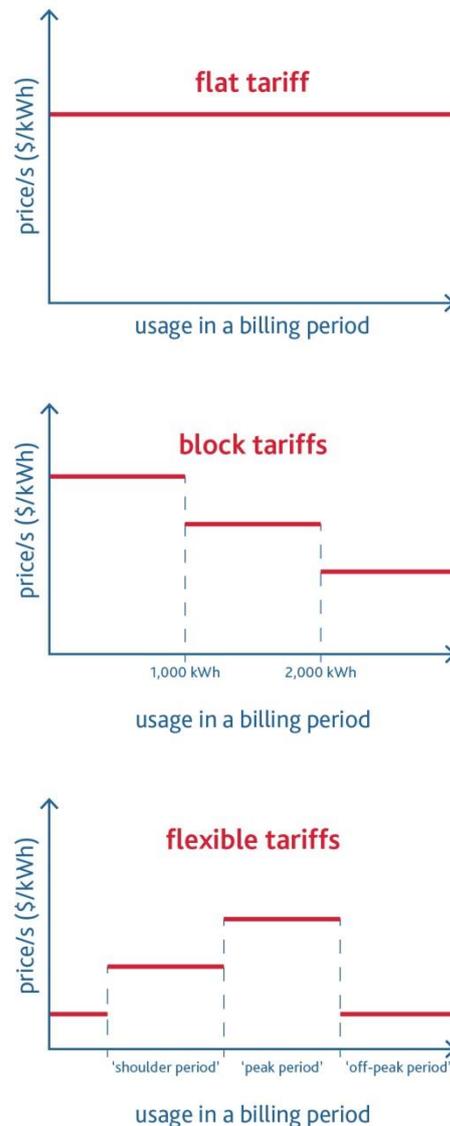
For example, for the first 1,000 units of electricity you use (the first 'block') you will be charged at a certain rate, but once you use more than this you will be charged a different rate. The rate for each block often is cheaper the more energy you use.

For gas offers, block tariffs can be seasonal, meaning you can have different block tariffs depending on the season. The tariffs during winter are usually higher than in summer. On average, 24 per cent of gas market offers for residential customers were block tariffs.

- **Flexible tariffs**, which have different rates based on the time of the day you use

electricity. These apply only to electricity offers. Flexible tariffs have peak, off-peak and shoulder time periods where different rates are set. Some flexible tariffs can also have more time periods with corresponding rates.

Figure 2.3 Structures for energy offers





The number of gas offers available from retailers

There were fewer gas offers generally available to Victorian customers compared to electricity however gas offers can vary considerably depending on where you live. This is because gas distribution areas contain multiple zones and most retailers have different gas offers for each of these zones within a single distribution area.

There were an average of 34 gas market offers generally available in each gas distribution area. Generally available gas market offers were either flat or block tariffs, with three quarters being flat tariffs.

Table 2.2 Number of gas offers generally available on 30 June 2017 (average across distribution areas zones), by retailer and pricing structure

Retailer	No. of market offers	Flat	Block
Origin Energy	8	●●●●●●●●	●●
Lumo Energy	6	●●●●●●	●●
Energy Australia	5	●●●●●	●
AGL	4	●●●●	●
Simply Energy	3	●●●	●
Click Energy	3	●●●	●
Red Energy	1	●	●
Ainta Energy	1	●	●
Momentum	1	●	●
Dodo	1	●	●
CovaU	1	●	●
TOTAL	34	26	8

● market contract offers
● standard contract offers

Energy offers could also have fees attached such as when paying through credit cards, where cheques are dishonoured, or for issuing paper bills.

Offers can also have incentives such as once-off signing-up credits, or free movie tickets.

Some offers also have uncommon structures like 'all you can eat' plans, which mean you pay a set price for energy a month (or quarter) regardless of how much energy you use. Other energy products may require you to pay for energy in advance.



How can I compare products?

We compared all the offers published by retailers on the government comparator website, Victorian Energy Compare. We don't collect data on offers that are not generally available; for example, when retailers make you a personalised offer over the phone or through other marketing channels.

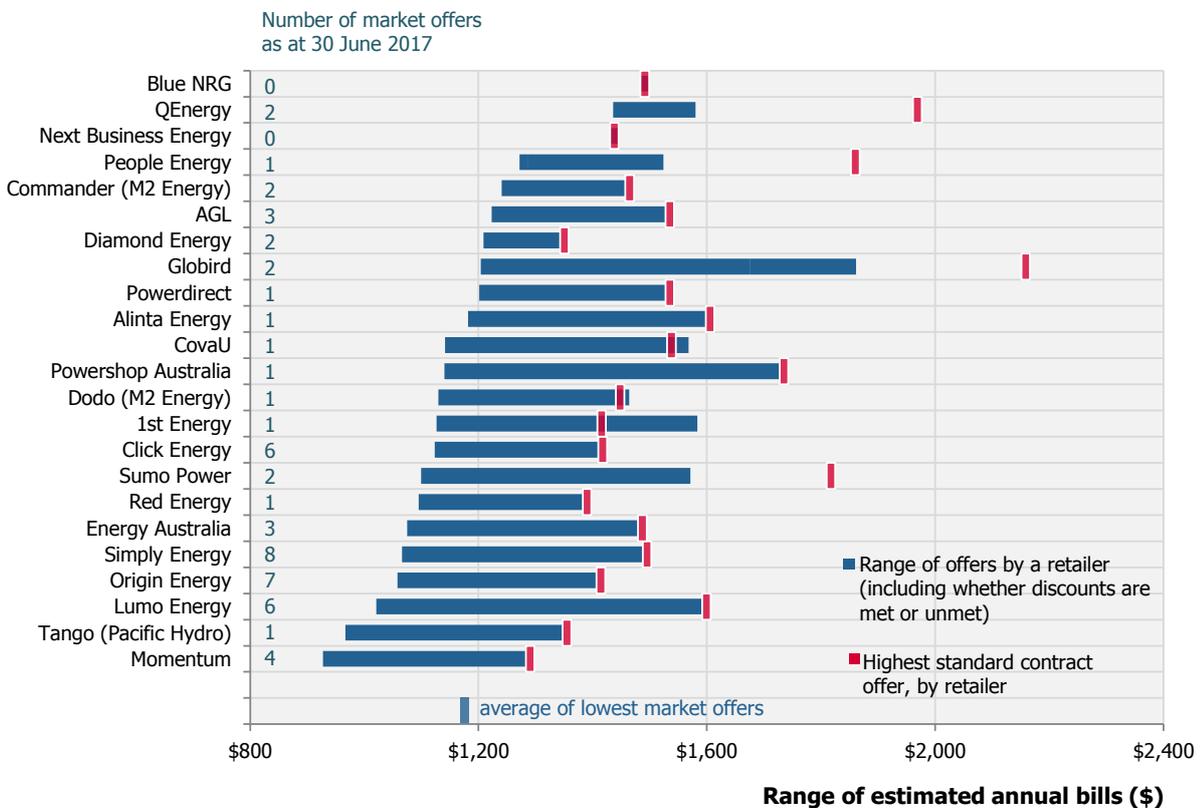
You can lower your energy bill by changing from a standard contract

Retail energy prices vary between retailers, but the price can also vary depending on the type of product. We found that if you are still on a standard contract, moving to a market contract would likely lower your energy bill. How much lower will depend on the market offer you accept.

In the example below, the range of electricity offers varies greatly by retailer, between \$927 and \$1,862 for a typical residential annual bill.

The cheapest generally available market offers were from Momentum and Pacific Hydro.

Figure 2.4 Range of residential electricity market offers (flat and multi-flat tariffs) in Jemena area



Analysis is of offers generally available on 30 June 2017 for a typical residential customer using 4,000 kWh per year. Offer range charts for all distribution areas and different customer types can be found at <http://www.esc.vic.gov.au/>.

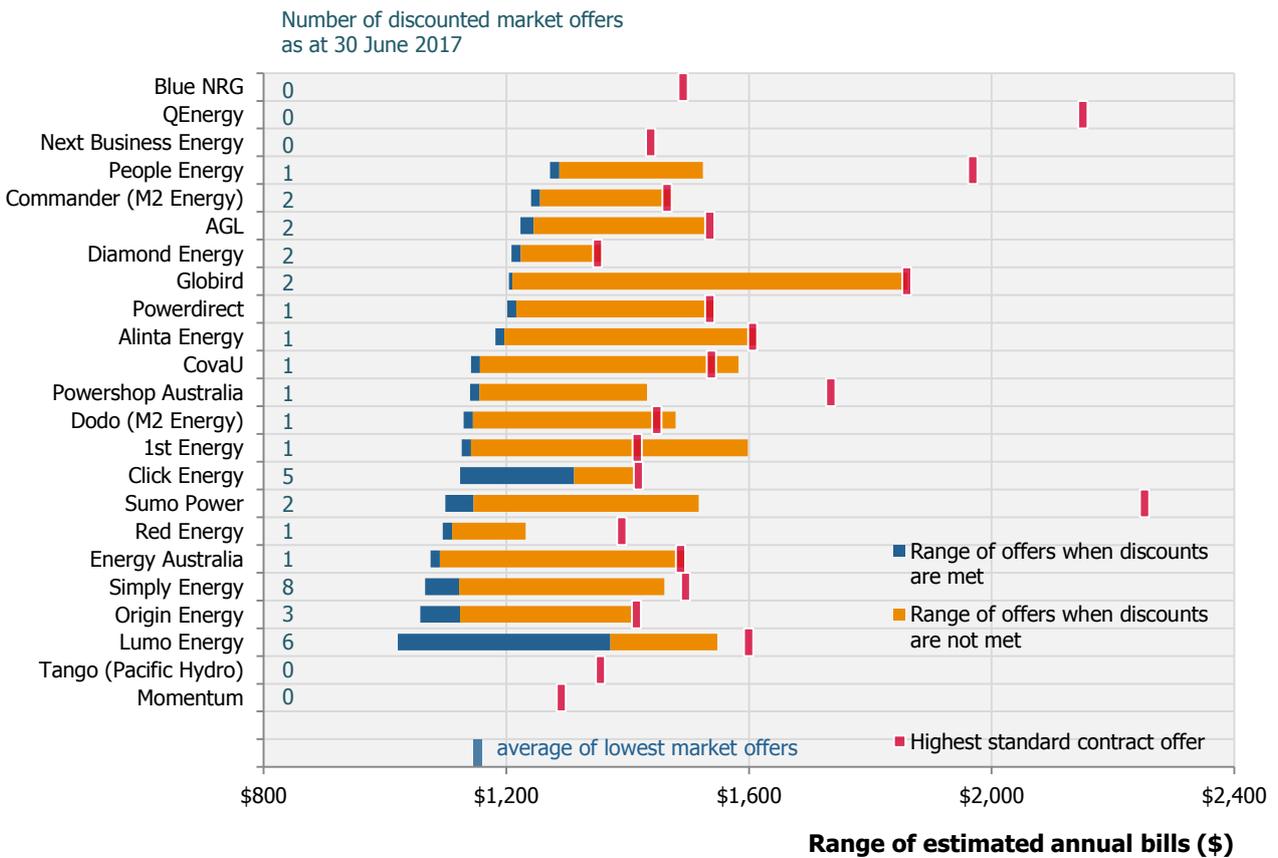
Note: Blue NRG and Next Business Energy only had standard contract offers for residential customers at the time.

Most retailers' cheapest electricity market offers usually involved conditional discounts, such as paying on time in order to receive a discount off an energy bill (as shown by the blue bars of figure 2.5).

But if you do not meet the conditions of those discounted market offers, you could end up paying hundreds of dollars more (as shown in the orange bars of figure 2.5).

In the example below, the cost of not meeting all the conditions of your discount throughout the year could be between \$99 and \$652 per year, depending on your retailer.

Figure 2.5 Range of residential electricity market conditional discounted offers (flat and multi-flat tariffs) in the Jemena area



Analysis is of offers generally available on 30 June 2017 for a typical residential customer using 4,000 kWh per year. Offer range charts for all distribution areas and different customer types can be found at <http://www.esc.vic.gov.au/>.

Note: All of the offers from QEnergy, Tango (Pacific Hydro), Momentum were unconditional. Blue NRG and Next Business Energy only had standard contract offers for residential customers at the time.

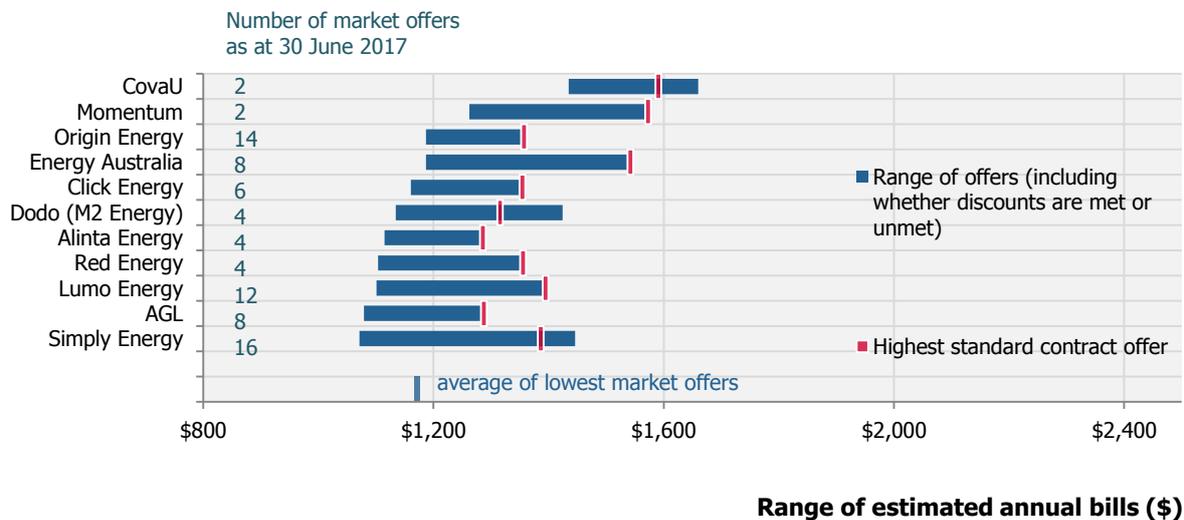


The range of residential gas offers also varied significantly, though not as much as electricity offers.

In the example below, the annual bill from gas offers could vary between \$1,071 and \$1,660 for a typical residential customer.

For gas, the cheapest offers were from AGL and Lumo Energy.

Figure 2.6 Range of residential gas offers (flat and multi-flat tariffs) in the Australian Gas Networks central supply zone

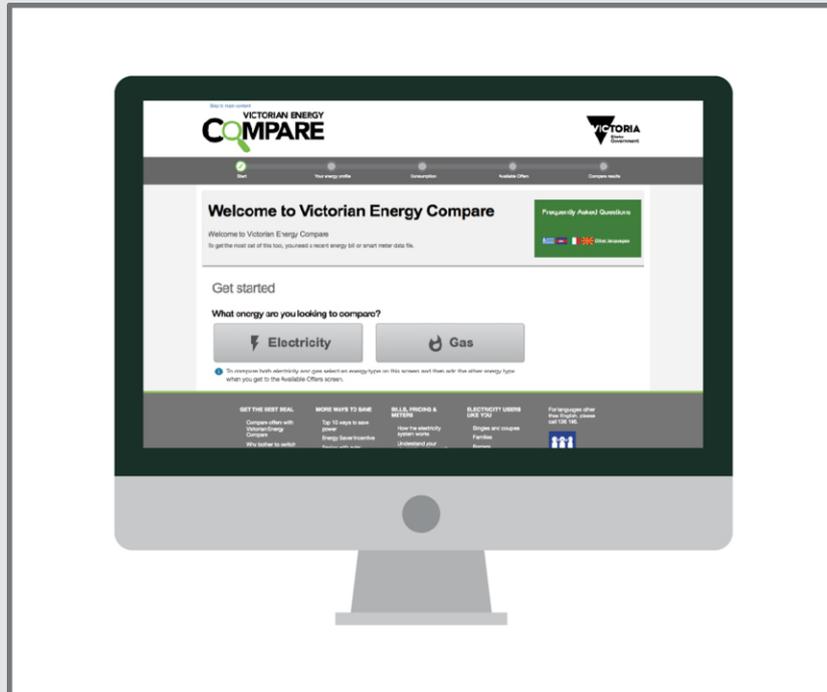


Analysis is of offers generally available on 30 June 2017 for a typical residential customer using 54.4GJ per year. Offer range charts for all distribution areas and different customer types can be found at <http://www.esc.vic.gov.au/>.



Comparing offers using the Victorian Energy Compare website

Comparing offers in the market can be difficult. There are tools that are available to help you compare these offers, such as the online comparison tool called Victorian Energy Compare.



Victorian Energy Compare is the only independent comparator of energy prices in Victoria. It covers all retailers and is funded by the government. Unlike the privately operated switching sites you may have seen advertised, the government site does not receive any commissions from retailers. Retailers are required to publish any market offer that is 'generally available' to any customer on this comparator website.

To compare offers, you will need to answer a short survey about your energy usage. For a more accurate comparison, request your historical energy usage data from your retailer, which you can upload to Victorian Energy Compare. Visit <https://compare.switchon.vic.gov.au/> to start comparing.



How have energy prices changed?

The average price for energy in Victoria rose this year

Standard contracts have increased by an average of 5 per cent for electricity and 16 per cent for gas residential customers.

Unconditional residential gas market offers increased by 19 per cent, but there was little change for unconditional electricity market offers.

The prices of discounted offers have also increased in 2016-17 by an average of 3 to 7 per cent for electricity and 14 to 15 per cent for gas, depending on whether you have met the conditions of your discount.

Table 2.3 Average estimated annual residential energy bills since 2014-15

	Electricity (typical residential customer using 4,000 kWh per year)			Gas (typical residential customer using 54.4 MJ per year)		
	2014-15	2015-16	2016-17	2014-15	2015-16	2016-17
Undiscounted offers						
Standard contracts	\$1,384	\$1,376	\$1,438	\$1,196	\$1,258	\$1,455
(% change from previous)		↓ 1%	↑ 5%		↑ 5%	↑ 16%
Unconditional market contracts	\$1,223	\$1,306	\$1,294	\$1,097	\$1,196	\$1,427
(% change from previous)		↑ 7%	↓ 1%		↑ 9%	↑ 19%
Discounted offers						
Conditional market contracts (discounts applied)	\$1,139	\$1,137	\$1,172	\$1,072	\$1,110	\$1,263
(% change from previous)		0%	↑ 3%		↑ 3%	↑ 15%
Conditional market contracts (discounts not applied)	\$1,332	\$1,383	\$1,486	\$1,208	\$1,274	\$1,453
(% change from previous)		↑ 4%	↑ 7%		↑ 5%	↑ 14%

Excludes standard contracts applying to fewer than 200 customers

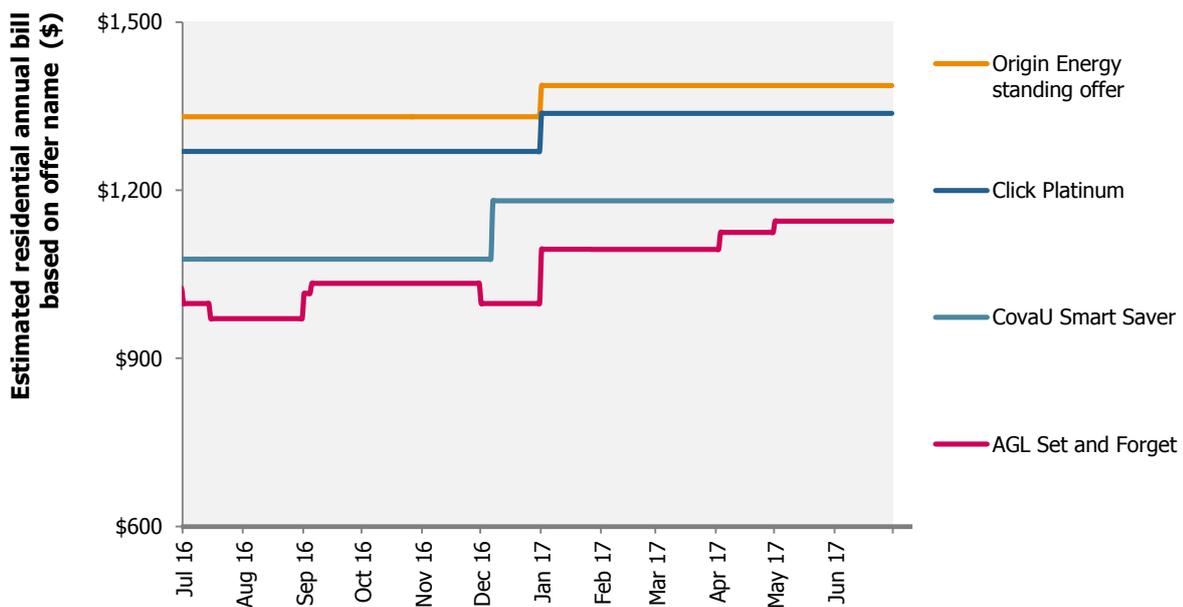
The price of offers can change within a year

Some retailers change their prices several times during the year. This means if you kept checking the price of an offer, you might find the price of that offer was different a few months later.

Whether the prices you pay on your own contract will change depends on your retailer. If your retailer puts up your prices you can always shop around for a lower offer from another retailer. You may need to pay an exit fee to your retailer depending on the terms of your current offer.

The figure below presents a sample of four different offers (identified by their name) and the annualised impact of changed electricity prices over time. In 2016-17, some offers had numerous different published prices in the space of six months. For example, AGL changed the listed price of its 'Set and Forget' offer eight times in twelve months. Others only vary in price once a year. Not all offers are like this. Some offers change only once or twice a year, such as standard contract offers.

Figure 2.7 Estimated annual residential electricity bills of four example offers over time



Estimated annualised values based on a typical residential customer usage of 4,000kWh per year, in the United Energy distribution area.



Do discounts reduce my bill?

Eighty per cent of energy market offers have discounts. The headline discount offered by a retailer will often not be the best indicator of the amount you will eventually end up paying.

Given discounted market offers are the dominant energy product, we analysed the discounted offers generally available in the Victorian market on 30 June 2017. We do not currently have any data on how many customers are on these discounted contracts.

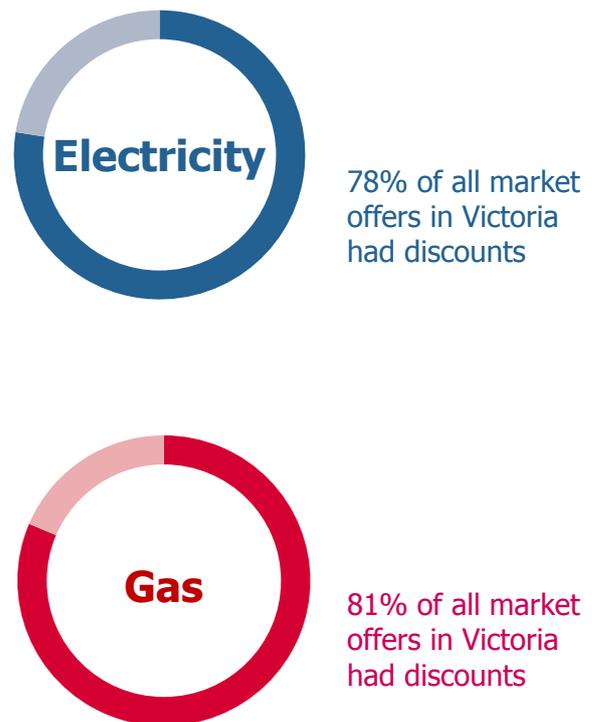
We found that:

- not meeting the conditions of your discount can lead to very high bills – even higher than the highest standard contract offer in the market
- although discounts can deliver savings to you, a high headline discount does not mean it is the best offer for you (whether it be for electricity or gas), and
- the cost of not meeting your discounts is increasing each year, making it more important for you to meet the conditions attached to your discount

Not meeting your discount can be costly

If you are on a discounted offer, you are likely to only receive a discount if you meet certain conditions set by your retailer, like paying your bill on-time or using electronic billing. Not meeting these conditions can result in a significantly higher energy bill than anticipated. In some cases, your annual bill may end up being higher than the highest standard contract offer in the market.

Figure 2.8 Proportion of energy offers with discounts



Not meeting the conditions of your discounted energy contract?

If you think you might not be able to meet all your retailer's conditions for a discount, you might be better shopping around for an offer where the discount is unconditional.

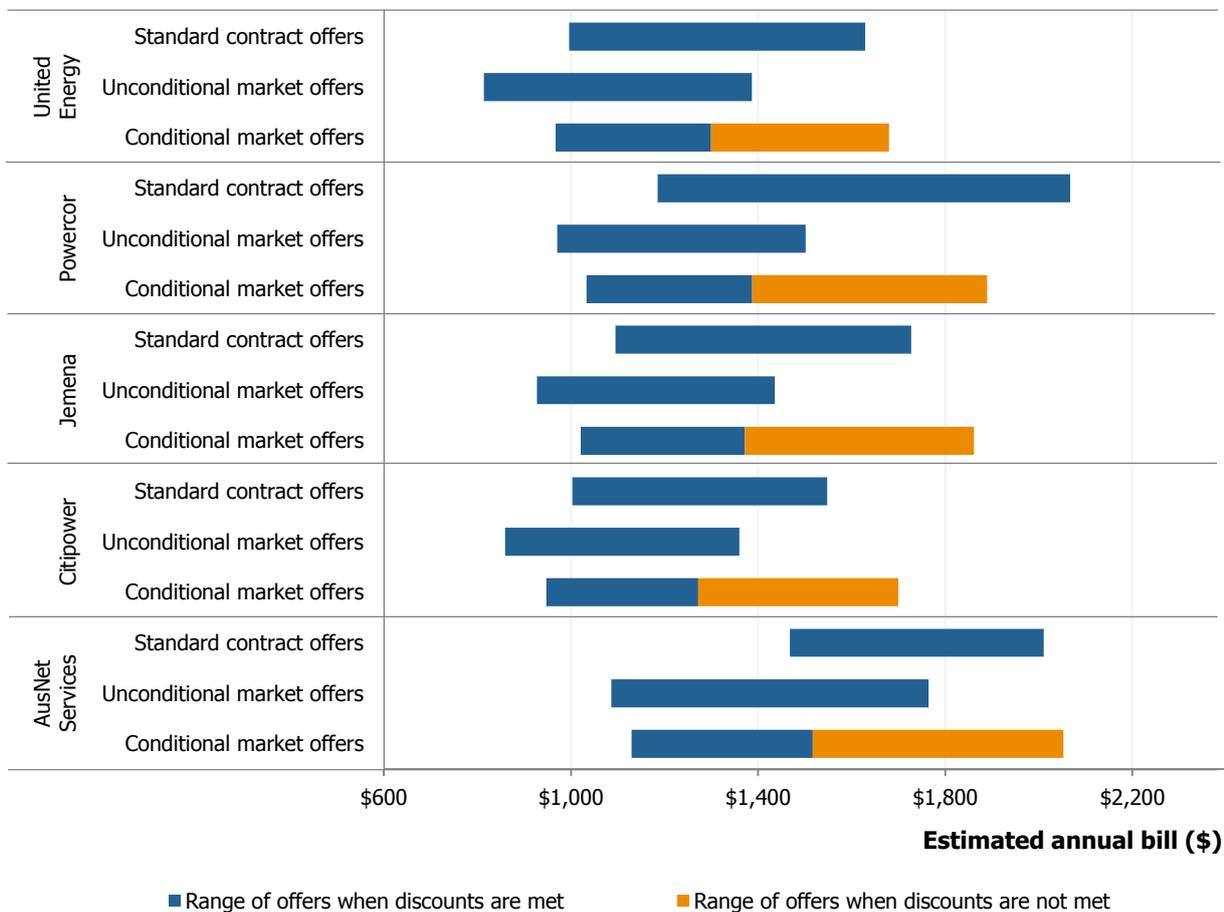
The following figures group the range of estimated bills into three categories of offers:

- standard contract offers
- unconditional market offers and
- conditional market offers with discounts offered
 - we highlight what you might pay with, and without, the discount being applied.

The figure below shows that on 30 June 2017, there were unconditional offers that were \$43 to \$154 lower than the lowest conditionally discounted offer. Typical, these unconditional offers were only available for a limited time.

Our findings also show that some retailers' discounted market offers can be more expensive than other retailers' standard contract offers.

Figure 2.9 Range of electricity offers available (flat and multi-flat), for a residential customer, by distribution area



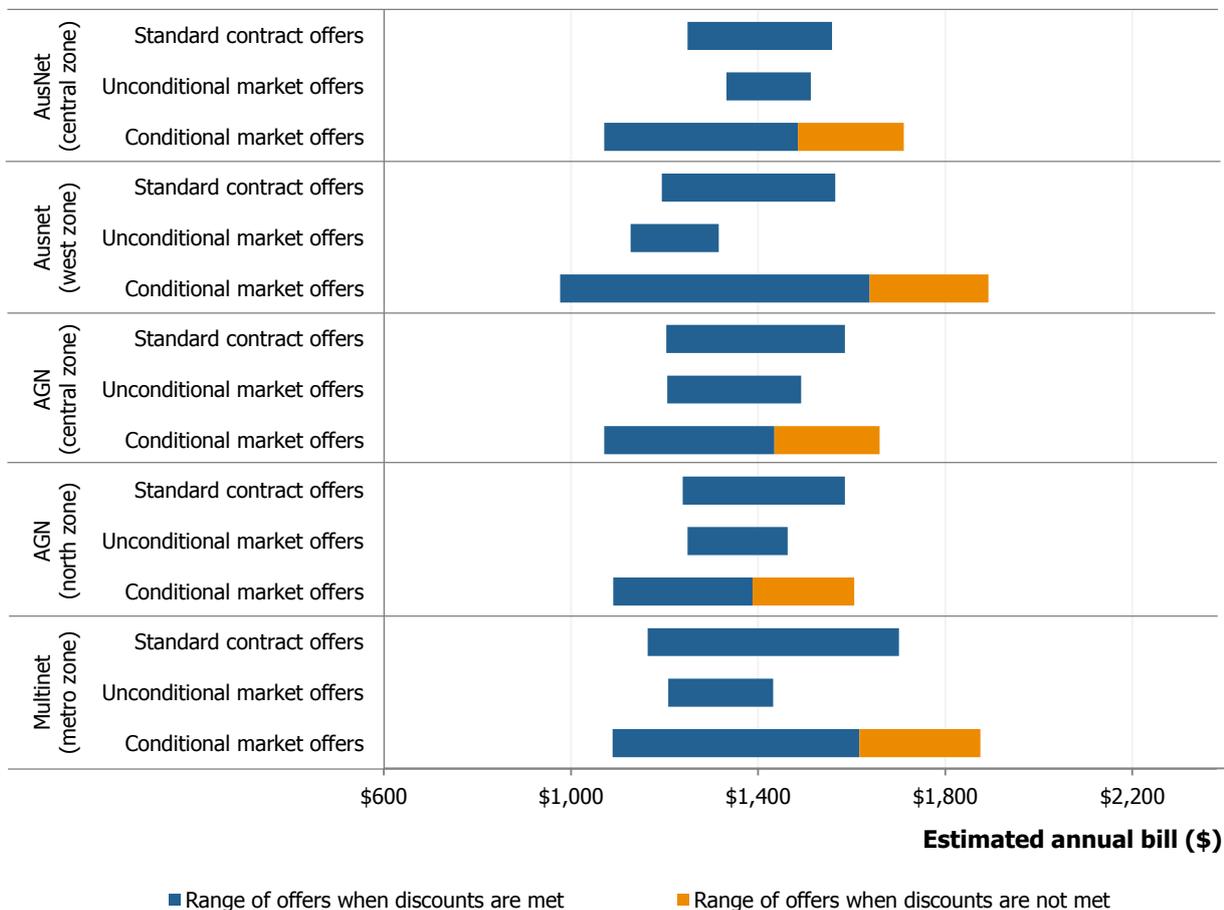
Annualised bill based on a typical residential customer usage of 4,000kWh per year.



Gas offers have wide ranges depending on discounts offered.

If you do not meet discount conditions of some market offers, you might even end up with a bill higher than the highest standard contract offer. If you have a discounted offer, you should regularly check that you can meet the conditions of that offer, or you may end up having a much higher bill than you expected.

Figure 2.10 Range of gas offers available (flat and multi-flat), for a residential customer, by distribution area



Annualised bill based on a typical residential customer usage of 54.4 GJ per year.

A high discount does not mean it is the best offer

We reviewed all offers generally available in the market on 30 June 2017 and found a high discount does not necessarily mean it will give you the lowest annual bill.

We ranked all generally available discounted energy offers from the lowest to highest advertised discount offered.

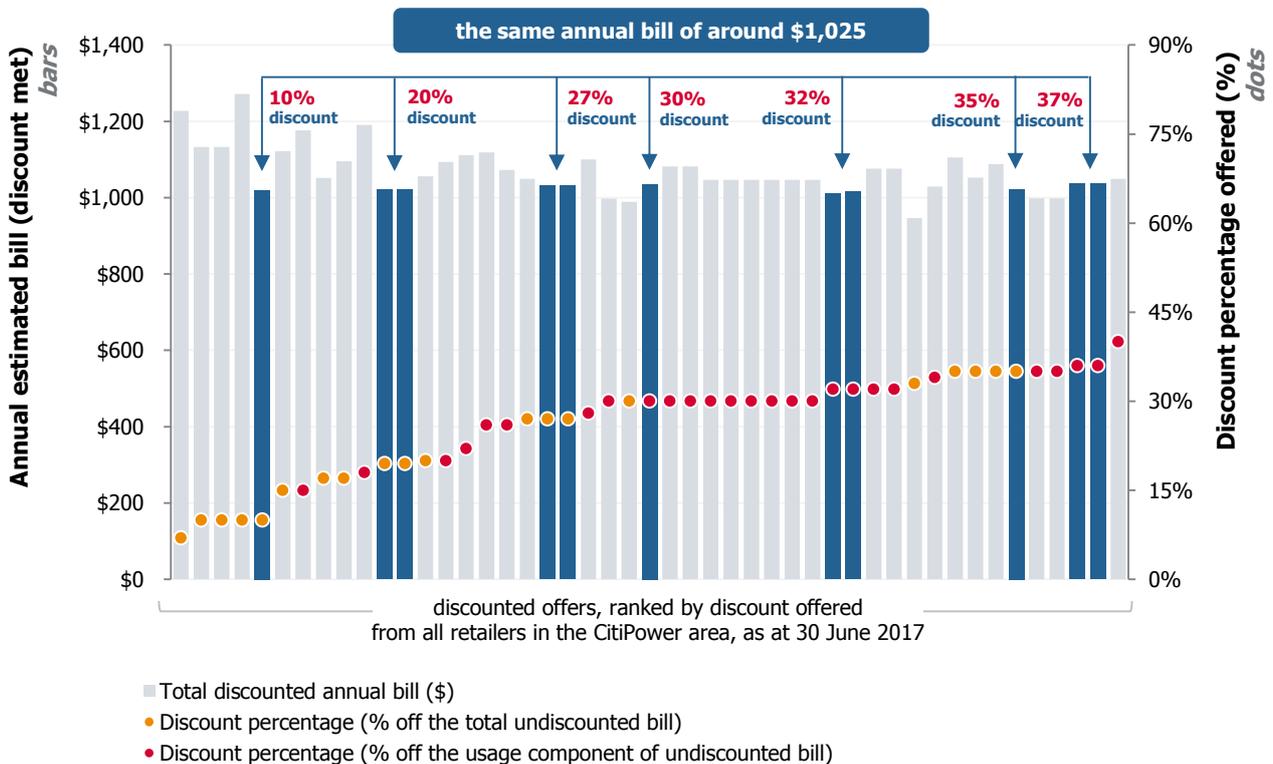
Our review of offers found a high discount will not necessarily give you the lowest annual bill.

We also found a number of individual electricity offers with different discounts that led to the same estimated annual bill. In the figure below, the darker bars identify 11 offers that end up with the customer paying around \$1,025 per year, even though these 11 offers have very different advertised discounts.

How to read the following charts

- The coloured bars show how much you would pay under each discounted energy offer available in the market (as long as you met all the conditions to receive those discounts).
- The dots show the advertised discount percentage offered by a retailer on each of these offers. The orange dots represent discounts off the total bill, while red dots show discounts off the usage part of the bill only.

Figure 2.11 Discounted electricity offers (flat and multi-flat tariffs) ranked by lowest to highest discount, for a residential customer (in the CitiPower area)



Annualised bill based on a typical residential customer usage of 4,000kWh per year, meeting all discount conditions.

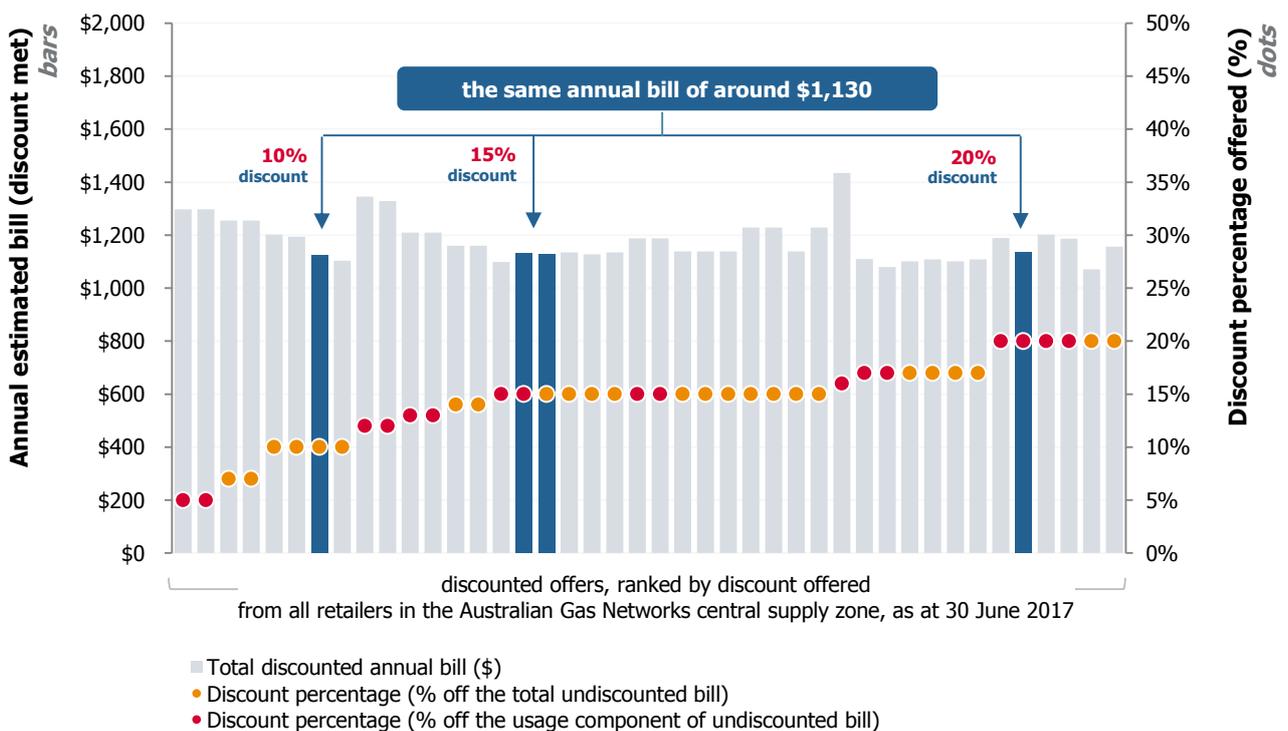


We also observed similar patterns between discounts and the estimated annual bill for gas offers on 30 June 2017. However, there was a smaller range of headline discounts on gas offers compared to electricity offers.

As shown below, we identified at least four gas offers with three different discount amounts that resulted in approximately the same estimated annual bill of \$1,130.

The relationship of discounts and estimated annual bills in all electricity and gas distribution areas in Victoria is available at our website at <http://www.esc.vic.gov.au/>.

Figure 2.12 Discounted gas offers (flat and multi-flat) ranked by lowest to highest discount, for a residential customer (in the Australian Gas Networks central supply zone)



Annualised bill based on a typical residential customer usage of 54.4 GJ per year, meeting all discount conditions.

The cost of not meeting your discount is increasing each year

It is becoming increasingly important for Victorian energy customers to meet their discount conditions.

If you did not meet any of the conditions for your discount for the entire year, in 2016-17 this would cost you \$314 on average for electricity and \$189 on average for gas.

The price of discounted electricity and gas offers increased in 2016-17. The cost for not meeting discount conditions is also increasing – by 27 per cent for electricity and by 16 per cent for gas compared to 2015-16.

Compared to 2014-15, the average cost of not meeting discount conditions for electricity has risen by 63 per cent.

These findings are only averages. We have identified some electricity offers where if a residential customer consistently failed to meet discount conditions, they would have paid an additional \$652 over the year.

Figure 2.13 Average annual cost of not meeting all the conditions of a discounted residential energy offer

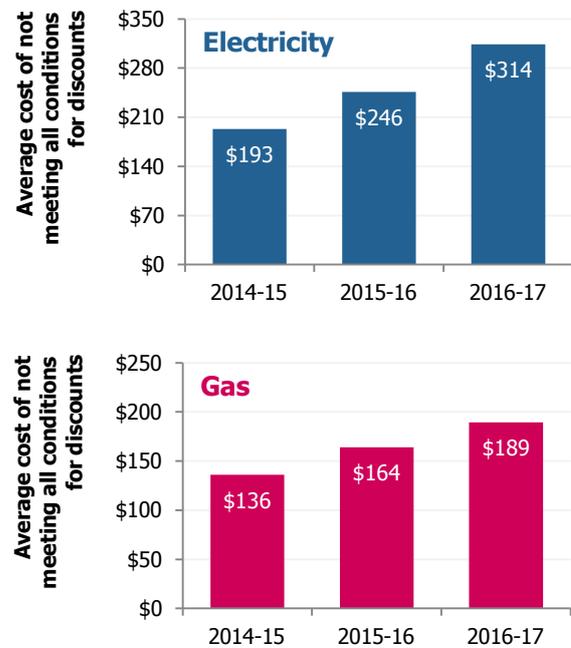
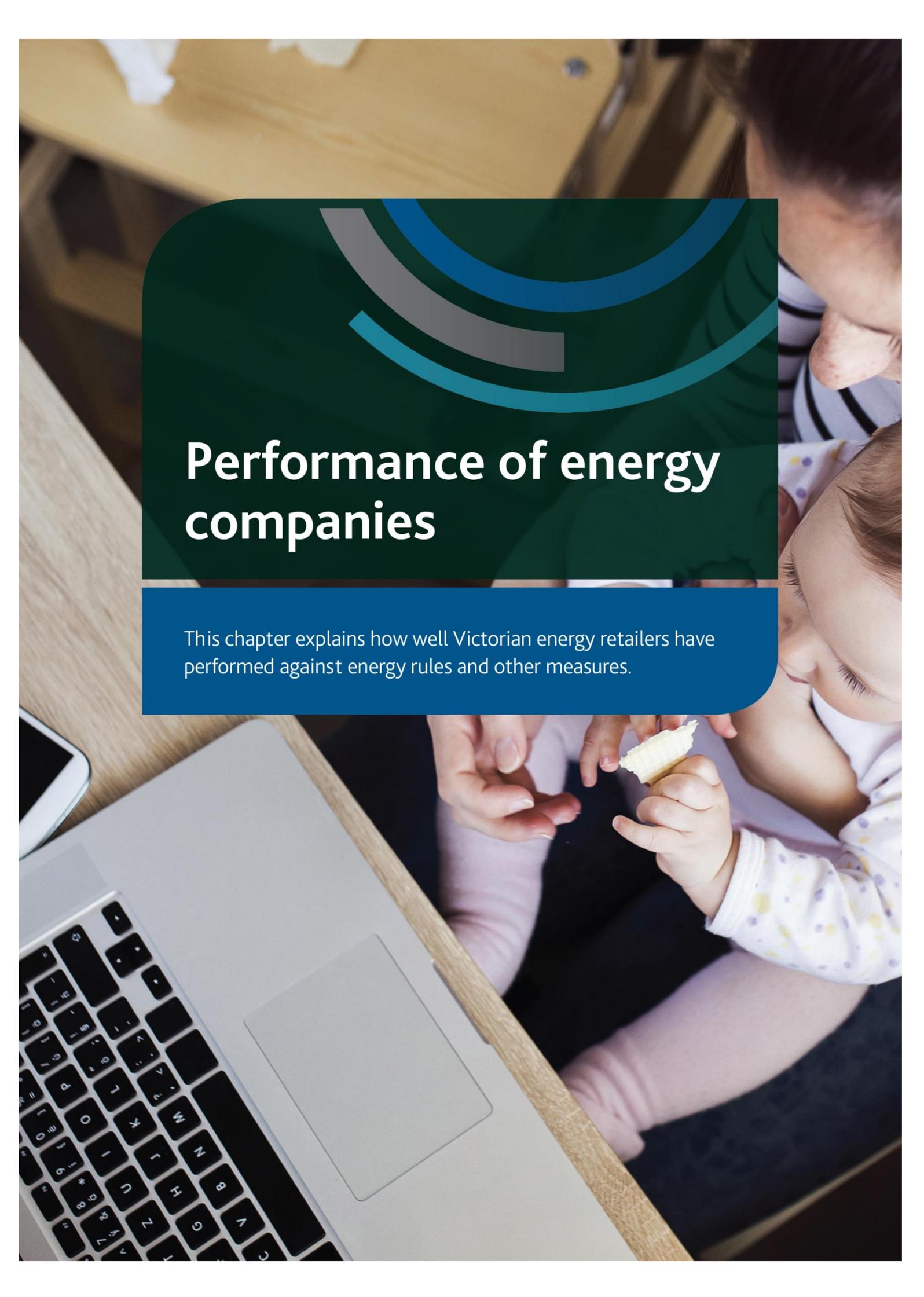


Table 2.4 Average cost of not meeting discounts for residential energy offers since 2014-15

Average of discounted offers	2014-15	2015-16	change from previous year	2016-17	change from previous year
Electricity offers					
Market contracts (when all discount conditions are <u>met</u> over the year)	\$1,139	\$1,137		\$1,172	
Market contracts (when all discount conditions are <u>not met</u> over the year)	\$1,332	\$1,383		\$1,486	
Average cost of not meeting all conditions for discounts	\$193	\$246	↑ 27%	\$314	↑ 27%
Gas offers					
Market contracts (when all discount conditions are <u>met</u> over the year)	\$1,072	\$1,110		\$1,263	
Market contracts (when all discount conditions are <u>not met</u> over the year)	\$1,208	\$1,274		\$1,453	
Average cost of not meeting all conditions for discounts	\$136	\$164	↑ 21%	\$189	↑ 16%

Based on a typical residential customer usage of 4,000kWh of electricity and 54.4 GJ of gas per year



Performance of energy companies

This chapter explains how well Victorian energy retailers have performed against energy rules and other measures.

Can you participate in the energy market with confidence?

If you vigilantly participate in the energy market, by selecting the energy products and retailer that best meets your needs, the market will work more effectively for you.

Energy retailers who wish to operate in Victoria must abide by the Victorian energy market rules. In addition to general consumer protection rules, energy companies in Victoria must comply with the conditions of their energy licence. These conditions include rules set out in industry codes and guidelines published by the commission, in accordance with laws made by the Parliament of Victoria.

We monitor energy companies on whether they are following the energy rules. We also report on how well retailers perform in customer service, and in supporting customers who experience difficulty in paying their bills

We have also published individual profiles of each energy retailer on our website, describing how well they performed in 2016-17.



Regulating energy – an increasingly essential service

Access to energy has long been regarded as essential for health and wellbeing. Heating, lighting, cooking, refrigeration and communication devices are widely regarded as basic necessities for modern life.

We regulate the retail energy market in Victoria primarily through promoting and enforcing compliance with the energy rules. When we identify poor performance or any breaking of the rules, we work collaboratively with energy companies to improve their performance. Where necessary, we will take stronger action. The main rules that currently apply to energy companies in Victoria are found in four documents:

- the energy retail code
- the marketing code of conduct
- the electricity distribution code
- the gas distribution system code.

Since 2016, we have had broader powers to enforce energy companies' compliance with the rules. Figure 3.1 summarises the regulatory powers we can use.



Figure 3.1 Our compliance and enforcement powers

Our compliance and enforcement powers



Enforcement

We can enforce an energy company's compliance with energy rules.

We can issue penalty notices including:

- a civil penalty notice of \$105,712
- an energy industry penalty notice of up to \$20,000 per breach
- a wrongful disconnection penalty notice of \$5,000 per breach.

We can issue final and provisional enforcement orders.

We can accept and apply enforceable undertakings.



Licensing

We grant licences to energy companies. They can't operate in the market without this licence.

We can vary a licence:

- as necessary
- upon request of the licensee
- based on a company's non-compliance with the rules.

We can also revoke a licence or appoint an administrator.



Compliance

We can take a range of actions to help ensure energy businesses comply with the energy rules.

We make determinations, enter into administrative undertakings, and communicate and consult on issues.

We also investigate and conduct regular audits.



What should your energy bill contain?

Your energy bill is an important and regular communication from your retailer. You need to be confident that your bill is accurate and tells you what you need to do to continue to meet the conditions of your contract, and remain connected to your energy supply.

We set minimum standards for your energy bills to help you manage your energy account.

The energy bill you receive from your retailer must:

- be issued either quarterly, monthly or at a frequency that you have agreed with your retailer
- give you a set amount of time to pay and clearly tell you the date that you need to pay by
- accurately calculate the amount you owe for the energy you have used, including correctly applying discounts, rebates and fees
- clearly include your account information, which includes your name, the account number and the address that the energy was supplied to
- clearly indicate whether the bill is based on an estimated read or an actual read
- include other information such as the contact details of your retailer, how much energy you have used during your billing period, the estimated greenhouse gas emissions of your energy use and the contact details for the Energy and Water Ombudsman Victoria.

Are energy companies following the rules?

Energy companies are required to report to us when they break the rules – we refer to these as ‘breaches’. In 2016-17, there was a 23 per cent increase in breaches reported by energy retailers, but fewer customers were affected compared to the previous year.

Energy distributors were also required to self-report any identified breaches to us this year. Distributors reported 438 breaches during 2016-17. A large proportion of these breaches were from distributors failing to notify customers of when an outage to their electricity supply was being planned. There were also six reported breaches that affected customers on life support systems connected to the electricity grid.

Table 3.1 Summary of breaches reported by energy retailers and distributors as at 30 June 2017

Breach type	Number of breaches reported		Customers affected	
	in 2015-16	in 2016-17	2015-16	2016-17
Retailers				
Information to consumers	49	42	114,842	6,324
Explicit informed consent	28	48	1,691	604
Marketing conduct	27	29	42	12
Overcharging	18	4	14,510	2,651
Payment difficulties	2	1	2	5
Wrongful disconnections	565	726	565	726
Other	3	0	0	0
Sub-total	692	850	131,652	10,322
Distributors				
Information to consumers	-	1	-	1
Service standards	-	3	-	42
Planned outage notification	-	428	-	1,342
Life support	-	6	-	6
Sub-total	-	438	-	1,391

In September 2016, AGL and Powerdirect reported a breach where they were unable to advise customers of a fee reduction on their next bill, which affected all their electricity and gas customers – this was excluded from table 3.1. We worked with AGL to ensure that timely and effective steps were taken to prevent this issue from occurring again.

2015-16 annual data has been updated with more recent information provided by retailers in 2016-2017.



Most breaches were of energy companies failing to provide the required information to customers

You should expect accurate and timely information about your energy supply. We found that most of the breaches reported by energy companies in 2016-17 were related to these companies not providing the required information to customers.

Around 6,000 customers were affected by their retailers not providing welcome packs, or receiving welcome packs with incorrect information. Welcome packs are important because they contain important information about your retailer, such as your entitlement to assistance if you are experiencing difficulty in paying your energy bill, or any fees and charges related to your energy contract.

Retailers also did not notify more than 2,600 customers that they had been over-charged.

Distributors are also required to notify you if you are expecting a planned outage. In 2016-17, 1,342 customers were given insufficient or no notice of a planned outage, which could have disrupted their business or activities.

Table 3.2 Breakdown of breaches relating to information provision, reported in 2016-17

Breach type	Breach by	Description	Customers affected
Information to consumers	Retailers	Customers not receiving their welcome packs	5,558
	Retailers	Customers receiving welcome packs with insufficient information	478
	Retailers	Customers not notified of an energy price change	201
	Retailers	Customers provided with incorrect energy prices	87
	Distributors	Customers not provided with detailed energy usage data from their distributor	1
Explicit informed consent	Retailers	Customers not provided with sufficient or accurate information before signing up	604
Planned outage notification	Distributors	Customers given insufficient or no notice of a planned outage	1,342
Life support	Distributors	Customers who relied on life support equipment given insufficient or no notice of a planned outage by their distributor	6

Other breaches related to explicit informed consent also included insufficient record keeping by the retailer when signing up a customer to an energy contract, and potential falsified sales practices.



Case-study – a retailer charging discounts incorrectly

In 2016, an energy retailer reported that they did not honour the guaranteed discounts to 2,647 customers (across two separate incidents), which cost customers a few hundred dollars on average. The retailer recognised the error in overcharging but failed to inform its customers within 10 business days of when their bill was due (which is required by the energy rules). The commission is considering this matter further and is working with the retailer to prevent this issue from reoccurring.



Case-study – electricity distributors giving insufficient or no notice of planned outages to their customers

All five electricity distributors reported that they had given insufficient or no notice of planned outages to 1,342 customers in 2016-17. Six life support customers were affected because of this issue. We are working with the distributors of five of these life support customers, to improve their processes and controls to prevent this breach from reoccurring. We are further investigating a specific breach affecting a life support customer.



Case-study – retailers failing to obtain explicit informed consent from customers before signing them up to an energy contract

A retailer must obtain a customer’s consent before signing that customer to an energy contract. That consent must be explicit and informed, which means that the retailer needs to inform the customer properly of their rights and obligations before signing, and the customer must agree verbally or in writing. The retailer should also have a record of this consent.

In 2016, a retailer failed to obtain explicit informed consent from three customers before agreeing to an energy contract. In these cases, the retailer’s third-party agent had rushed through their sales script, making it difficult for the customers to understand the questions they needed to answer. The retailer addressed the issue by transferring back the affected customers to their original retailer and not issuing an energy bill. The retailer also retrained all its sales agents, and the specific agents underwent special training.

Our audit program also identified similar concerns with four other energy retailers. We are considering these matters further and will work with energy companies to prevent these breaches from reoccurring. We will take stronger action if required.



Wrongfully disconnected customers have increased

Because energy is an essential service, rules about disconnection are particularly important. There are instances where retailers wrongfully disconnect customers. If a customer is disconnected in breach of the rules, they are entitled by law to a wrongful disconnection payment of \$500 per day of disconnection.

During 2016-17, retailers reported 726 wrongful disconnections – 28 per cent more than the previous year. The total amount paid by retailers to wrongfully disconnected customers was \$1,037,683.



Wrongful disconnections by electricity retailers

The number of wrongful disconnections varied between retailers. 82 per cent of wrongful disconnections were by the larger retailers. Some retailers had large increases in their wrongful disconnections. AGL had eight times more than last year. Other retailers saw large falls in wrongful disconnections, for example, Origin Energy saw a decline of 77 per cent.

Table 3.3 Summary of wrongful disconnections, by retailer

Retailer	Customers affected by wrongful disconnections				Total payments	Proportion of payments
	2013-14	2014-15	2015-16	2016-17	2016-17	2016-17
AGL	116	69	34	272	\$409,763	39%
EnergyAustralia	265	133	117	92	\$111,483	11%
Origin Energy	266	213	214	50	\$101,332	10%
Lumo Energy	33	390	63	79	\$155,654	15%
Red Energy	25	10	9	25	\$25,199	2%
Simply Energy	38	155	52	78	\$83,298	8%
Alinta Energy	53	23	30	36	\$95,520	9%
Click Energy	18	61	9	9	\$4,111	0%
Dodo	1	2	10	20	\$17,967	2%
Momentum	24	29	13	28	\$5,721	1%
Powerdirect	9	4	8	11	\$24,100	2%
Blue NRG	1			15	\$0	0%
ERM Business Energy				1	\$500	0%
Globird				3	\$861	0%
Online Power and Gas				4	\$0	0%
People Energy		2	2	1	\$979	0%
QEnergy	1	2	3	1	\$1,040	0%
Sumo Power				1	\$156	0%
Powershop			1	-	-	-
Neighbourhood Energy		4		-	-	-
Totals	850	1,097	565	726	\$1,037,683	100%

How well did my retailer provide customer service?

Some customers will take into account the quality of customer service provided by a retailer when thinking of signing up to a new energy contract.

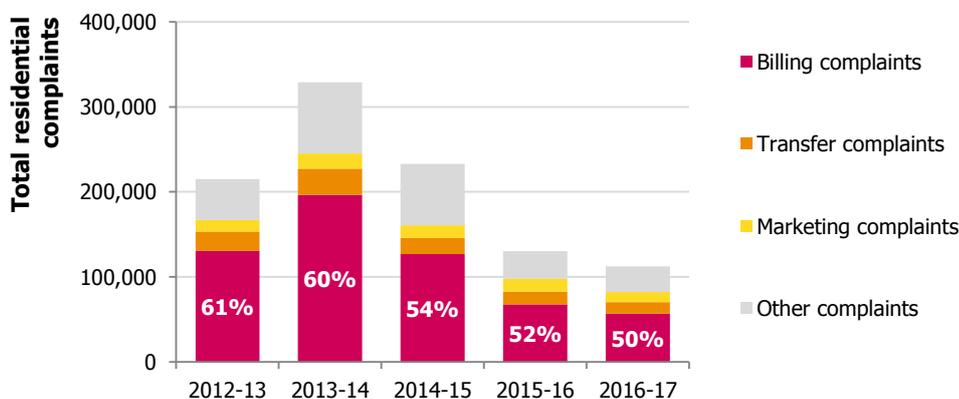
If you have a question about your energy bill or service, you might contact your energy retailer over the phone. How retailers respond is important.

Retailers are also required to keep records of customer complaints. Customers complain to energy retailers for various reasons, such as:

- billing complaints, which could be about overcharging or mistakes on bills
- marketing complaints, which could be about particular sales techniques by retailers
- customer transfer complaints, which could be related to failing to transfer a customer to another retailer within a certain time
- other complaints, which could be about poor customer service.

Victorian residential energy customers made 112,899 complaints to retailers in 2016-17. Half the electricity and gas complaints to retailers were about billing issues. Eleven per cent of complaints were related to marketing practices.

Figure 3.2 Residential complaints (electricity and gas) to retailers, by type



Total complaints in Victoria contains a normalised figure for Origin Energy, due to changes in its complaint recording processes in 2016-17.



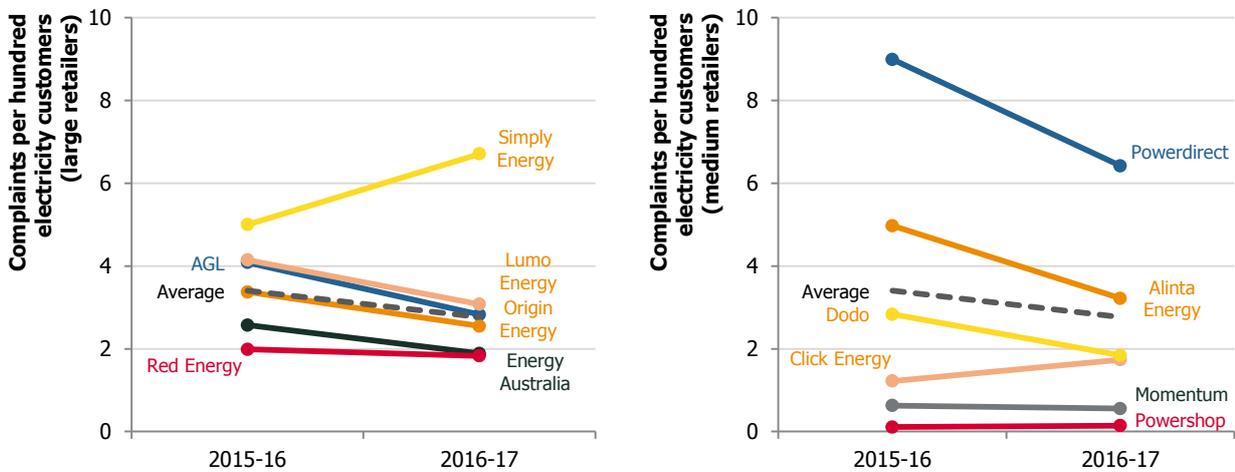
Complaint rates of retailers

In 2016-17, there were an average of 2.8 and 2.1 complaints per hundred residential electricity and gas customers, respectively.

The poorest performing retailer was Simply Energy with 6.7 complaints per hundred electricity customers, which is more than double the Victorian average.

Powerdirect also had a high complaint rate at 6.4 per 100 residential electricity customers, but this was a decrease of 29 per cent compared to the previous year.

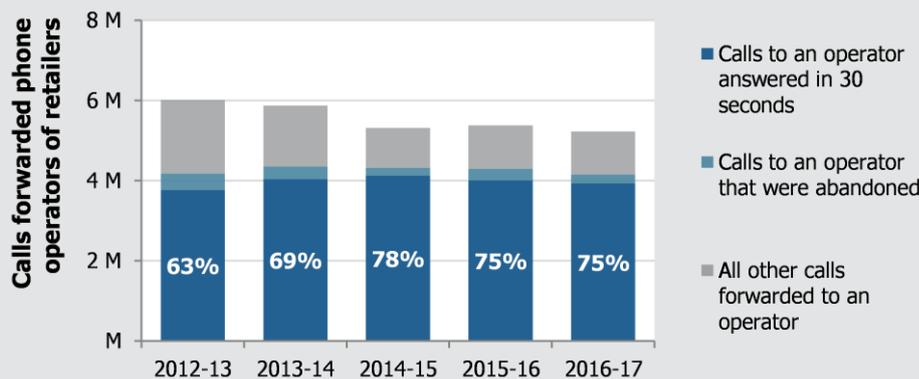
Figure 3.3 Complaints per 100 residential electricity customers, by retailer



Calls to retailers in 2016-17

In 2016-17, energy retailers received an average of 20 calls per hundred electricity customers each month (excluding sales enquiries). This was a 7 per cent decrease from the previous year. It is also important that retailers respond to your calls in a timely manner. Seventy-five per cent of calls forwarded to a phone operator of a retailer were answered in 30 seconds or less – an improvement from five years ago, when only 63 per cent of calls were answered in 30 seconds or less.

Figure 3.4 Percentage of forwarded calls answered in 30 seconds, by retailer





Where should I go if I have concerns or complaints with my energy company?

If you have a question about your service, for example, about an amount on your energy bill, first contact your retailer.

If you cannot resolve the issue with your retailer, you can contact the Energy and Water Ombudsman Victoria (EWOV) on 1800 500 509. EWOV is an independent and free dispute resolution service. It will only consider an investigation if you have already tried to resolve your complaint with your retailer.

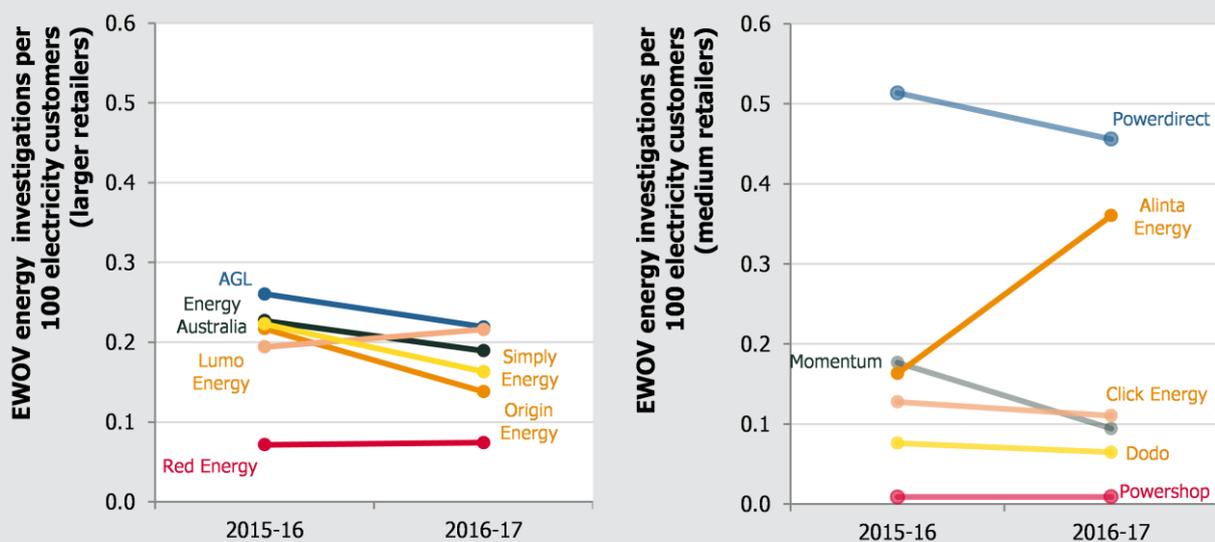


Cases and investigations carried out by the Energy and Water Ombudsman in 2016-17

In 2016-17, EWOV received 25,257 cases related to electricity and gas retailers. EWOV also carried out 4,273 investigations related to retail electricity and gas. The rate of investigations carried out by EWOV varied greatly by retailer, ranging between 0.01 to 0.46 investigations per 100 electricity customers for medium and large retailers.

Powerdirect and Alinta Energy had the highest rates of investigations for large and medium retailers, at 0.46 and 0.36 investigations per every 100 electricity customers respectively. The rate of investigations on Alinta Energy more than doubled in comparison to 2015-16.

Figure 3.5 Total EWOV energy investigations per 100 residential electricity customers, of large and medium retailers



Source: Energy and Water Ombudsman Victoria, 2016 EWOV Annual Report, 2016, pp. 44, 50, and Energy and Water Ombudsman Victoria, 2017 EWOV Annual Report, October 2017, pp. 44, 48.



What if I can't pay my energy bill?

If you are finding it difficult to pay your energy bill, you may be able to access different forms of assistance from your energy retailer.

If you don't work with your retailer to repay any unpaid amount, you could be at risk of disconnection. Retailers offer payment plans and run hardship programs that can assist you, so contact your retailer as soon as possible.

As the Victorian regulator for energy, we seek to promote better outcomes for customers experiencing payment difficulty. We recently reformed the way retailers will be required to assist customers experiencing payment difficulty.

From 1 January 2019, rather than just following prescribed rules, we will require energy retailers to judge how to deliver meaningful and timely assistance in light of a customer's circumstances. We will also hold retailers accountable for the way they exercise that judgement in supporting their customers. We made these changes so that retailers focus on customers and outcomes, not just processes. These changes will help customers better manage their debt and usage, and stay on supply.



Concessions and utility relief grants

Under the Victorian Government's Utility Relief Grant Scheme, customers with a health or concession card can receive up to \$500 to help pay for part of their electricity or gas bill. Customers who do not hold a health or concession card but are in a retailer's hardship program can also get access to these grants.

Total concession payments to energy consumers were \$204.5 million in 2016-17. In 2016-17, Utility Relief Grants totalled \$13.4 million, which is a five per cent increase on the previous year.

29,942 applications for Utility Relief Grants were approved in 2016-17, similar to the previous year.

The average grant per customer increased slightly in 2016-17, to \$456 for electricity customers and \$439 for gas customers.



What options do you have if you are experiencing payment difficulty?

Retailers are required to provide you with assistance if you are experiencing payment difficulty.

- First, if you tell your retailer you are having difficulty they must offer you a payment plan to help you to pay what you owe in a manageable way.
- Second, your retailer must tell you about their hardship policies and the assistance that may be available to you under the policy.

If you are provided access to your retailer's hardship program you cannot be disconnected while you are meeting the requirements of the program. Your retailer must also tell you about government funded energy rebates, concessions or relief schemes such as the Victorian Government's Utility Relief Grant Scheme. You need to be a health or concession card holder or be taking part in your retailer's hardship program to receive the grant. You may receive up to \$500 to help pay for electricity or gas, once every two years.

What is the experience of customers facing payment difficulty?

We monitor the hardship programs of retailers and the experience of customers in these programs.

In 2016-17, we found that:

- more customers are participating in hardship programs than ever before
- more customers are being excluded from or denied access into hardship programs
- customers in hardship programs continue to have high levels of debt.

We also found that an increasing number of customers previously in hardship programs are being disconnected – we discuss this in further detail in the next section.

Table 3.4 Summary of Victorian hardship program indicators

	2012-13	2013-14	2014-15	2015-16	2016-17	% change (2015-16 to 2016-17)
Participants in hardship programs throughout a year						
Average participants throughout year	12,075	20,195	28,549	33,689	37,935	+13%
Participants on 30 June	13,493	21,603	29,626	31,528	32,669	+4%
Total exits throughout the year	10,863	19,017	23,939	38,160	47,159	+24%
Total exits from hardship programs throughout a year						
Participants who exited by successfully completing a hardship program	-	4,754	6,315	13,043	12,059	-8%
Participants excluded from the program for not meeting the requirements of the program	-	9,182	11,819	17,971	26,323	+46%
Participants who transferred retailer, which means they exited their hardship program	-	5,081	5,805	7,146	8,777	+23%
Average debt levels per customer						
Average debt of participants across year	-	-	-	-	\$1,564	n/a
Average debt of new entrants across year	-	-	-	-	\$1,241	n/a
Disconnections and reconnections						
Disconnections of previous participants	1,814	1,941	2,912	3,350	6,432	+92%
Reconnections of previous participants	868	945	1,678	1,909	3,359	+76%
Other indicators						
Concession card holders	7,941	13,272	19,845	22,925	23,030	0%
Customers denied access into programs	1,628	1,723	506	511	2,119	+315%

From 1 July 2016, debt was defined as customer debt outstanding for any time past the due date of an energy bill. Prior to 1 July 2016 arrears was defined as the amount of customer debt outstanding over 90 days.



More customers are participating in hardship programs

We estimate that around 80,000 customers participated in hardship programs at some time during the year – the most participants in hardship programs since we started collecting data.

We also estimate that around 45,000 new customers entered hardship programs in 2016-17 – a 14 per cent increase compared to the previous year and a 63 per cent increase compared to 2013-14.

Each month, some Victorians will also exit hardship programs. We include these customers along with those still participating in hardship programs as at 30 June to capture all customers who were in these programs at some point during the year.

Figure 3.6 Customers participating in hardship programs during the year

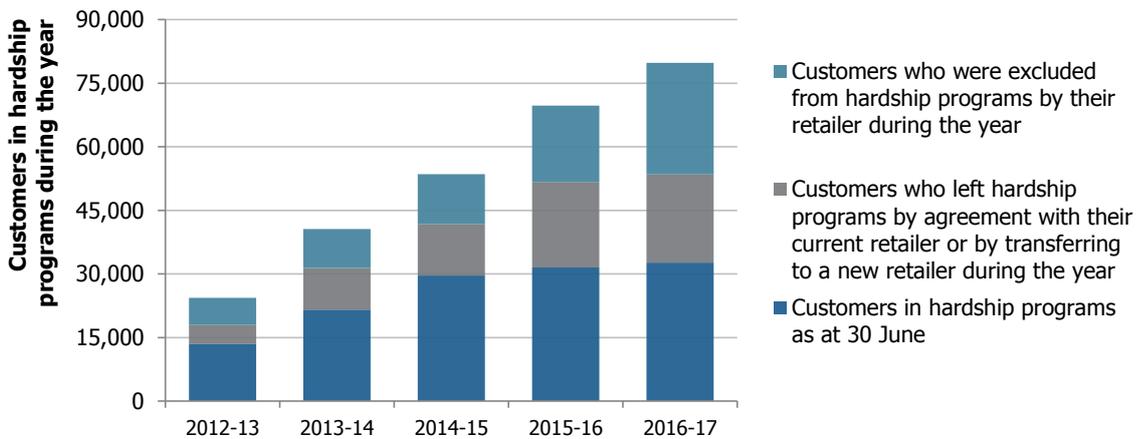
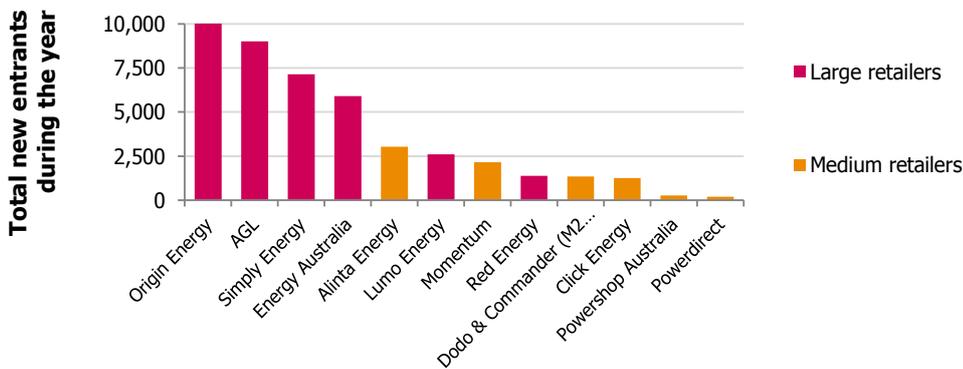


Figure 3.7 Customers entering hardship programs of large and medium retailers





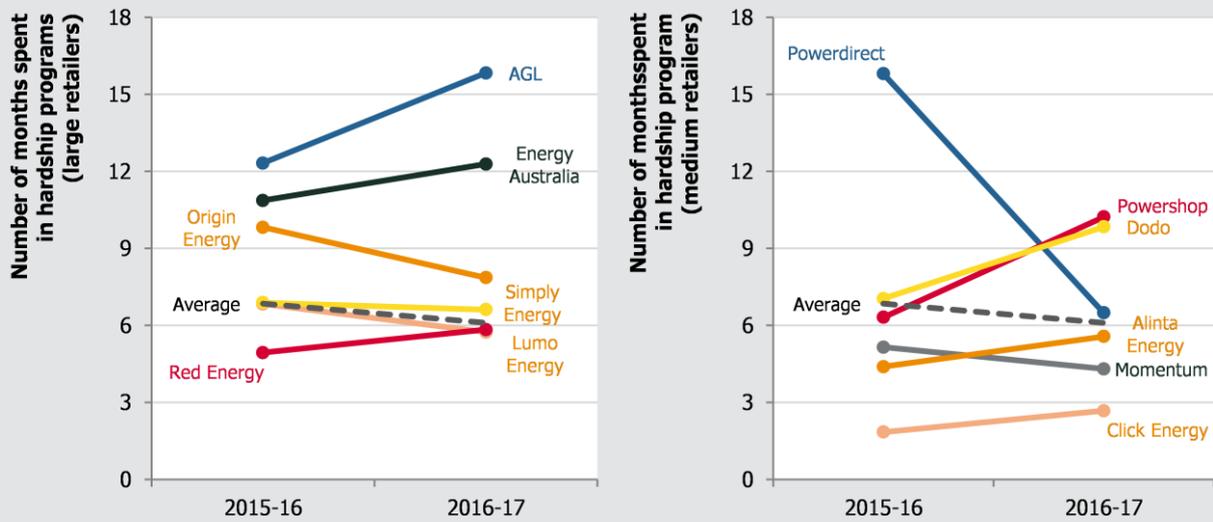
The time spent by customers in a retailer's hardship program

In 2016-17, customers spent around six months in hardship programs on average in Victoria, slightly less than in the previous year.

Customers with large retailers tend to spend longer in hardship programs compared to medium-sized retailers, with customers spending an average of nine months in their hardship programs. Customers in hardship programs with AGL and EnergyAustralia spent more than a year in their hardship programs.

The biggest change in time spent in a retailer's hardship program was with Powerdirect, decreasing from 15.8 months to 6.5 months.

Figure 3.8 Months spent by customers in hardship programs on average, by retailer





More customers are being excluded from or denied access to hardship programs

Customers must meet certain requirements to be accepted into a retailer's hardship program.

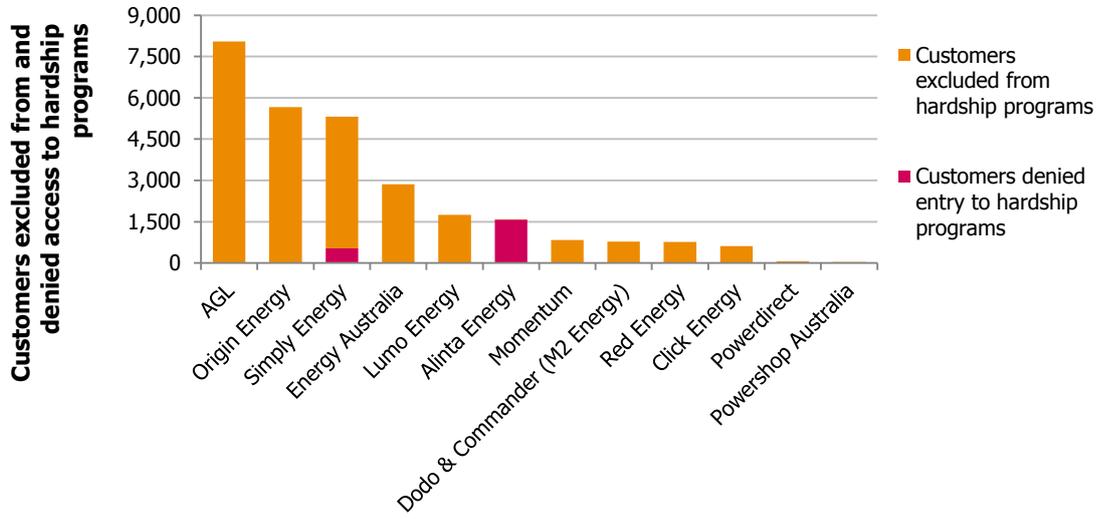
Some hardship participants can be excluded from the program if they do not comply with the program's requirements (for example, they did not make the required payments or fail to maintain contact with their retailer).

In 2016-17, 26,323 customers were excluded from hardship programs and 2,119 were denied access to enter these programs by their retailer. Customers excluded grew by 46 percent compared to the previous year. AGL excluded the most, with 8,045 customers removed from their program.

If customers do not meet the requirements of a hardship program, they can be denied access to these programs. In 2016-17, 2,119 customers were denied access to hardship programs in Victoria – four times more than the previous year.

Simply Energy and Alinta Energy were responsible for almost all denials, with Simply Energy denying access to 534 of their customers and Alinta Energy denying 1,579. Red Energy reported the remaining six customers denied access during the year.

Figure 3.9 Total customers excluded from and denied access to their retailer’s hardship program in 2016-17 (large and medium retailers)





Customers in hardship programs continue to have high levels of debt

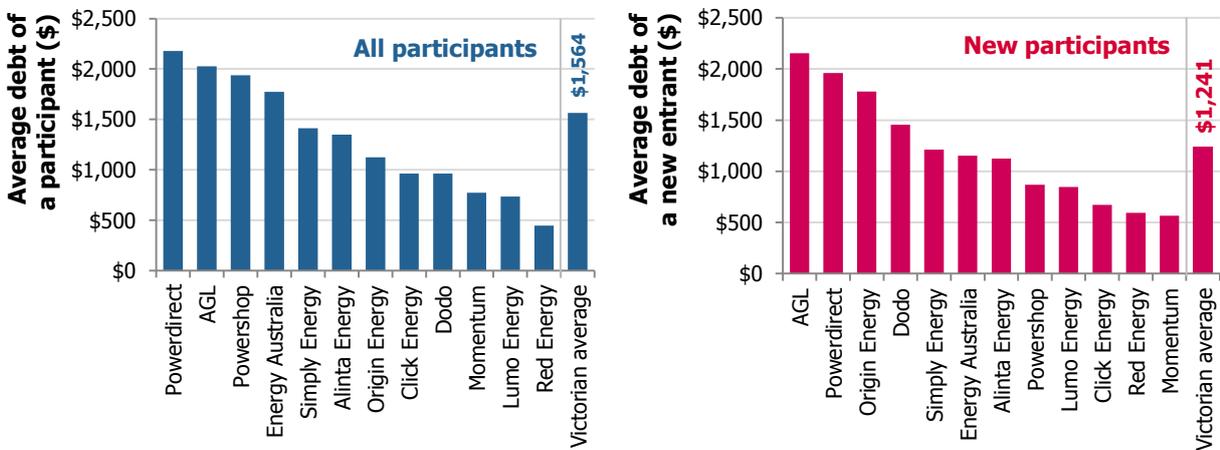
Customers in hardship programs have debts with their retailers due to unpaid energy bills.

The total debt of customers in 2016-17 was \$55.4 million.

The average debt of customers already in a hardship program in Victoria across 2016-17 was \$1,564. Customers in Powerdirect’s hardship programs had the highest average debt levels in Victoria, at \$2,178 – 39 per cent higher than average. Red Energy had the lowest average debt levels at \$446 per customer.

Customers *entering* hardship programs across 2016-17 had an average debt of approximately \$1,241. For new entrants into hardship programs, AGL and Powerdirect had the highest levels.

Figure 3.10 Average debt of participants and new entrants into hardship programs, by retailer



Many non-hardship customers pay back their energy bills in instalments or through payment plans

Retailers can offer customers an option to pay back their energy debts through payment plans. This includes paying their energy bills by instalments or through their bills being smoothed out over time.

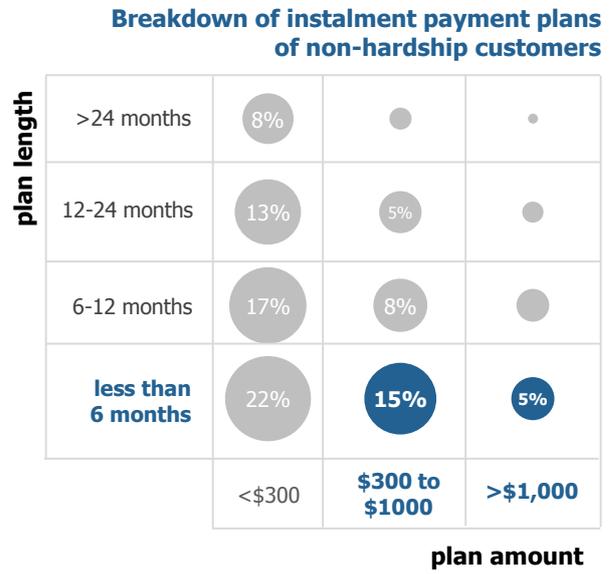
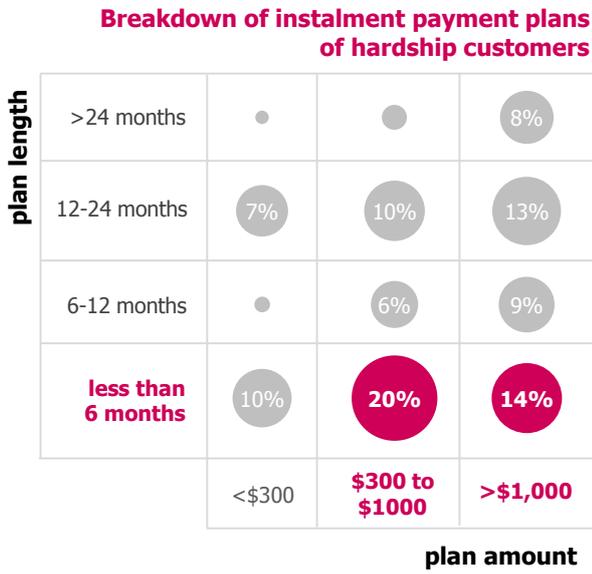
These options are available to customers who are in hardship programs and those who are not, depending on the conditions set by a retailer.

Around 162,000 Victorian customers were paying their electricity and gas bills in instalments. 75 per cent of these customers are not involved in hardship programs. This suggests that customers experiencing difficulty paying their energy bills extends beyond those classified by retailers as being “in hardship”.

Customers on hardship programs typically have higher debts than other customers on payment plans. For example, 44 per cent of hardship customers have debts exceeding \$1000 compared to only 10 per cent of other customers on payment plans. However, retailers are expecting hardship customers on payment plans to repay higher levels of debt than other customers on payment plans of similar lengths. For example, 77 per cent of hardship customers on payment plans of less than 6 months had debts exceeding \$300 compared to only 48 per cent of other customers.



Figure 3.11 Breakdown of customers with instalment plans, by plan length and amount



How many customers were disconnected?

You can be disconnected from your energy supply for a number of reasons – the main reason is for not paying your energy bill.

Customers can also request their energy supply to be temporarily or permanently disconnected. For example, you may need to disconnect your power supply for safety reasons when carrying out major home renovations.

Disconnections of energy customers were lower compared to last year

In 2016-17, there were a total of 50,035 disconnections of electricity and gas customers for not paying their bill. This is a reduction of 19 per cent compared to last year. However, we did observe an increase in the number of disconnections each quarter throughout 2016-17.

Figure 3.12 Quarterly disconnections since 2012-13

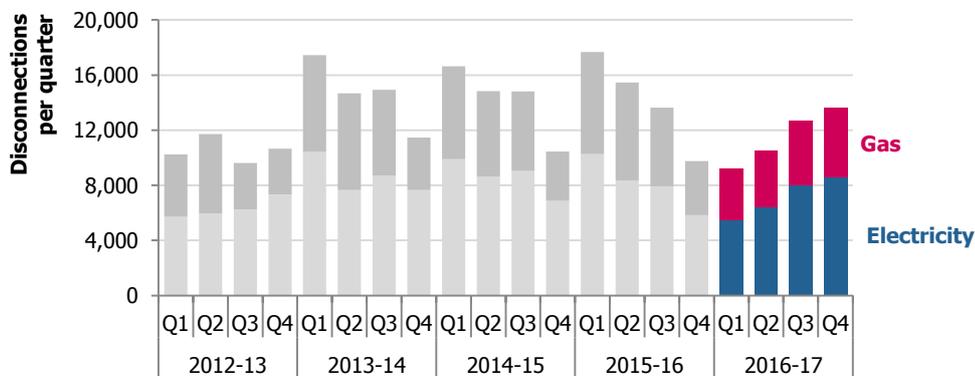


Table 3.5 Summary of disconnections for non-payment in Victoria

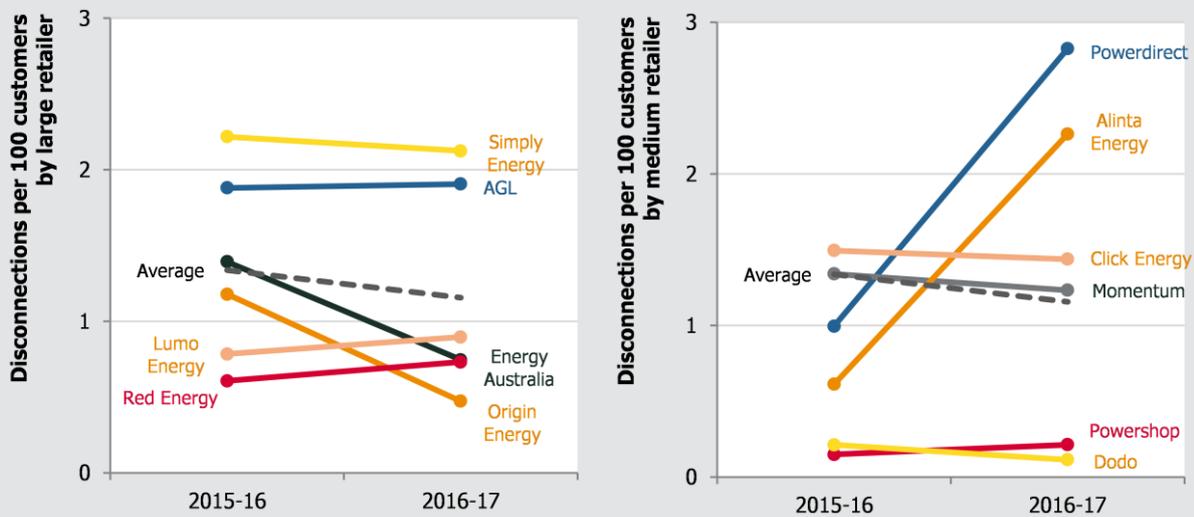
	Total disconnections for non-payment				Disconnections per 100 customers			
	2013-14	2014-15	2015-16	2016-17	2013-14	2014-15	2015-16	2016-17
Electricity								
Residential	34,496	34,418	32,360	28,589	1.47	1.45	1.34	1.16
Small business	5,297	4,906	4,319	3,434	2.19	1.91	1.58	1.23
Gas								
Residential	24,007	22,322	24,150	17,494	1.31	1.20	1.28	0.91
Small business	651	647	700	518	1.25	1.14	1.14	0.79



Disconnection rates by individual retailers

The average Victorian electricity disconnection rate was 1.16 per every 100 residential customers, but disconnection rates can vary significantly between retailers. In 2016-17, four retailers had much higher disconnection rates than the Victorian average – Powerdirect, Alinta Energy, Simply Energy, and AGL. Powerdirect had the highest disconnection rate at 2.8 per hundred customers, which was a significant increase from the previous year. Alinta also had a large increase in disconnection rates.

Figure 3.13 Electricity disconnections per 100 residential customers



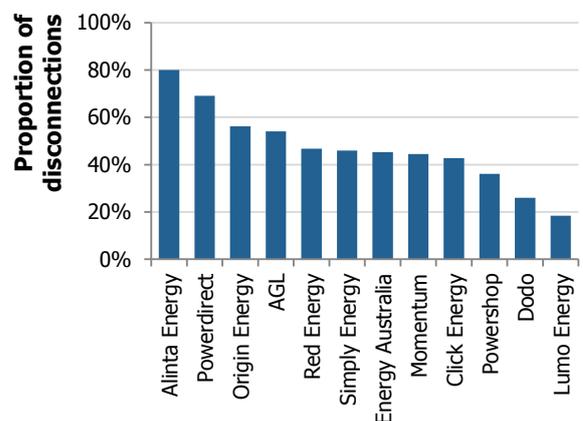
Around half of the customers disconnected are reconnected by their retailer in seven days

Around half the customers disconnected in 2016–17 were eventually reconnected by their retailer – similar to previous years.

The remaining disconnected customers may have switched to another retailer. In other cases, another household member may have entered into a new contract. Most customers who were reconnected were reconnected within seven days.

Lumo Energy had the lowest proportion of their disconnected customers eventually being reconnected, at 20 per cent. Alinta Energy had the highest proportion, reconnecting 80 per cent of their disconnected customers within seven days.

Figure 3.14 Proportion of disconnected customers reconnected in 7 days, by retailer



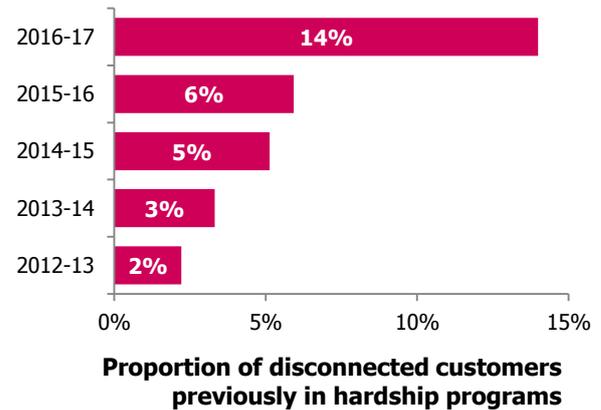
An increasing number of customers previously in hardship programs are being disconnected

You cannot be disconnected if you are in a hardship program. But you can be disconnected once you exit a retailer’s hardship program.

In 2016-17, 6,432 customers who were previously in a hardship program were disconnected – almost double the previous year.

As described earlier, we also observed an increase in the number of customers being denied access to hardship programs, and an increase in customers being excluded from hardship programs. Together, these findings may suggest that retailer hardship programs are becoming less effective at preventing customers from being disconnected.

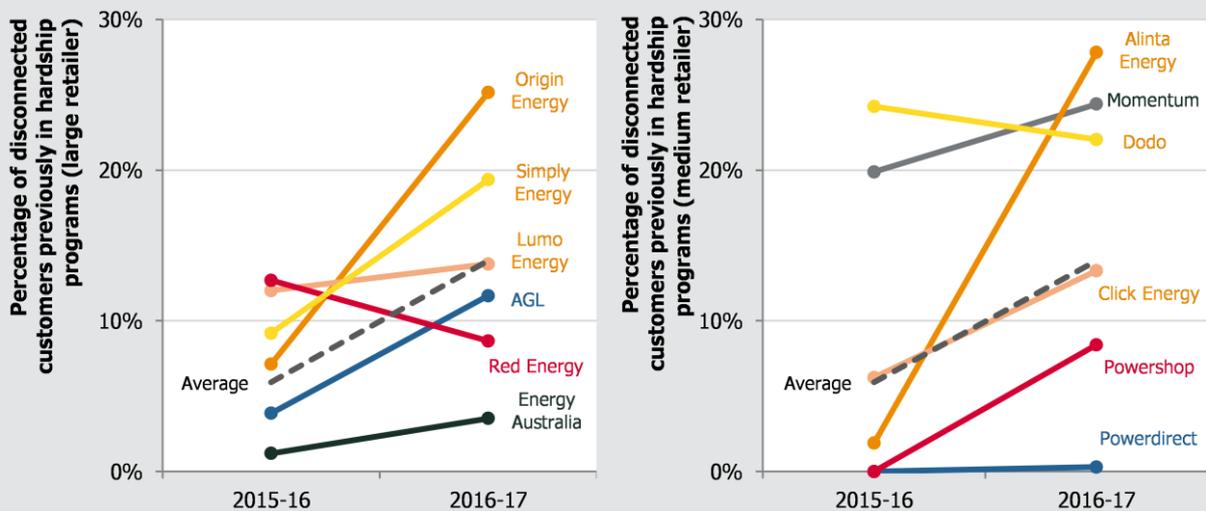
Figure 3.15 Disconnections of customers previously in hardship programs



Disconnections of customers previously in hardship programs by individual retailers

Five retailers disconnected a higher proportion of customers previously in hardship programs than the Victorian average – they were Alinta, Origin Energy, Momentum, Dodo, and Simply Energy. 28 per cent of Alinta Energy’s disconnections were customers previously in their hardship programs.

Figure 3.16 Proportion of disconnections that were of customers previously in a hardship program (in the last 12 months), large and medium retailers





Disconnection should be a measure of last resort

Disconnecting a customer's energy supply should only be a retailer's measure of last resort. Therefore, retailers must strictly follow the rules for disconnection.

The Energy Retail Code prohibits a retailer disconnecting a customer:

- for a debt under \$120 (from 1 July 2018, the rules will prohibit disconnections for debt under \$300)
- who is participating in the retailer's hardship program
- has an open complaint with their retailer or the Energy and Water Ombudsman Victoria
- on weekends, Fridays, the day before a public holiday or anytime between 20 December and 31 December
- before 8am or after 2pm on any day.

Before being disconnected, a customer should receive a disconnection warning notice inviting them to contact the retailer to explore opportunities to remain connected.

If a retailer disconnects a customer without following these or any other rules, they must compensate them with a payment equivalent to \$500 for every day they went without energy. We may also issue the retailer with a Wrongful Disconnection Penalty Notice of \$5,000.

Can I rely on my energy supply?

Distributors are responsible for the reliability of your energy supply – they make sure that your energy supply is there when you need it. They also ensure that the amount of energy you need is delivered, and that it meets the required quality standards. For example, electricity is delivered without large variations in voltage that could damage electrical equipment.

Your distributor maintains the electricity poles and wires and gas pipelines, and is required to notify you in advance if they plan to shut off your supply. Unplanned outages are inevitable, but your distributor has reliability targets for the length of time that supply is unavailable. They aim to meet or exceed those targets each year.

Most unexpected interruptions are caused by equipment failure. Other causes are mistakes by the distributor’s staff or contractors, damage arising from severe weather conditions, vehicle accidents and animal interference with power lines.

Distributors submit audited reports on reliability. As shown in the figures to the right for electricity distributors, reliability is generally measured by:

- counting the number of ‘unplanned interruptions’, which is equal to the number of times your supply was interrupted without warning for more than a minute, and
- calculating how long the unplanned interruptions lasted.

The gas distribution network is more reliable than the electricity system, mainly because the pipelines are underground and therefore protected from the weather and other interference.

Figure 3.17 Average number of unplanned electricity interruptions per customer

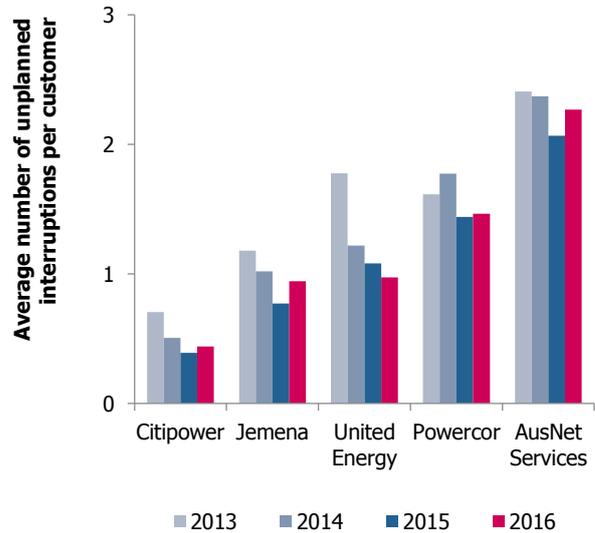
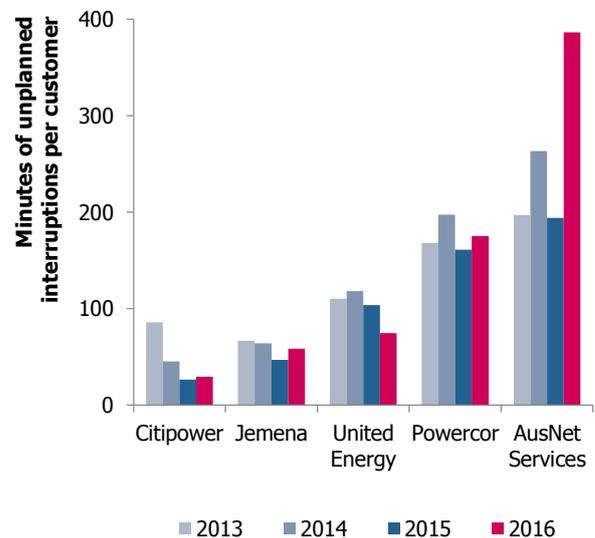


Figure 3.18 Average length of unplanned electricity interruptions per customer



Distributors’ results are reported on a calendar year with 2016 data being the most recent data available.



Do I receive a payment if my energy supply is disrupted?

If your electricity or gas supply is disrupted many times or for a long period of time, you may be eligible for a payment.

We oversee a Guaranteed Service Level (GSL) scheme that requires distributors to make payments of up to \$300 to individual customers when certain service levels are not met.

You may be entitled to a GSL payment if:

- you experienced lengthy or repeated gas supply interruptions or repeated electricity outages
- your distributor made an appointment with you and is late or does not show up, or
- your distributor fails to supply energy to you on an agreed day (for example, you move to a new property and your distributor does not supply energy to your address on the agreed day).



Guaranteed Service Level payments to customers in 2016-17

GSL payments by distributors to electricity customers totalled \$22.3 million in 2016. The significant increase in GSL payments was largely due to disrupted electricity supply of customers as a result of heavy storms across Victoria in October 2016.

The following table outlines the number and type of GSL payments distributors have made to customers since 2013.

Table 3.6 Electricity GSL payments, by type

Reason for payment	2013	2014	2015	2016
Late appointments with customers	1,207	1,138	49	101
Delay in connecting supply	590	407	317	1,479
Repeated or lengthy power outages (low reliability of supply)	67,149	92,052	79,991	135,412
Faulty streetlights not repaired in time	118	302	211	644
Total payments made	70,225	94,704	82,163	139,163
Total payments (\$)	\$6,193,930	\$9,272,677	\$8,192,650	\$22,306,040

Distribution results are reported on a calendar year with 2016 data being the most recent audited data available.

Energy of the future

The way that you are supplied with energy is changing. New technologies and business models are emerging, creating new opportunities for you to participate in the energy market.

For example, the increasing installation of solar panels and batteries is changing the way electricity is produced in Victoria. The way energy is delivered is changing too. Distributors are working with local communities to test different ways that electricity can be distributed locally.

Navigating the energy market of the future could look very different compared to your current experience. You could be offered different energy technologies with your energy contract, such as solar panels, smart devices or energy efficient products.

You may also be offered energy contracts that require you to be more actively engaged in the market by, for example, buying power in advance.

Because the energy rules in Victoria are based on how energy has been supplied over the last few decades, we have a program to modernise these rules. Our new rules will allow energy suppliers to continue to evolve and innovate, while ensuring customers can continue to participate confidently in the market.

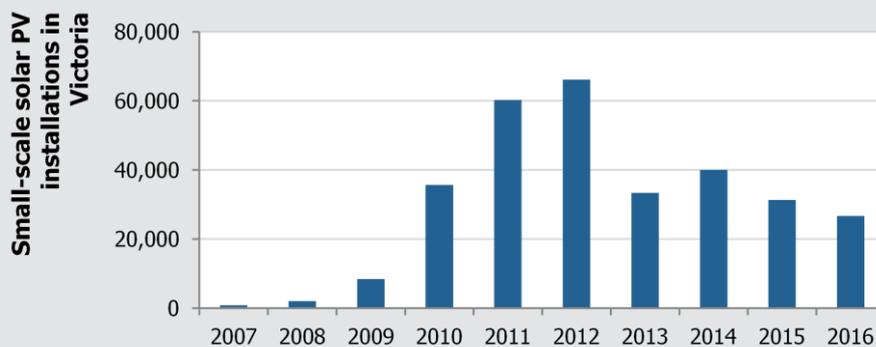


Solar PV system installations in Victoria

Many Victorian customers choose to install solar photovoltaic systems in order to generate electricity. In 2016, 26,657 new installations were recorded. Since 2001, more than 320,000 solar photovoltaic systems have been installed in Victoria.

We currently set the minimum rate (the feed-in tariff) that retailers must pay customers for the electricity they export to the grid, from small-scale generators such as solar photovoltaic systems. In 2016-17, the minimum feed-in tariff was 5.0c per kWh. The minimum feed-in tariff from 1 July 2017 is 11.3c per kWh.

Figure 3.19 Yearly installations of solar photovoltaic systems in Victoria since 2007



Source: Clean Energy Regulator, *Postcode data for small-scale installations*, 20 September 2017



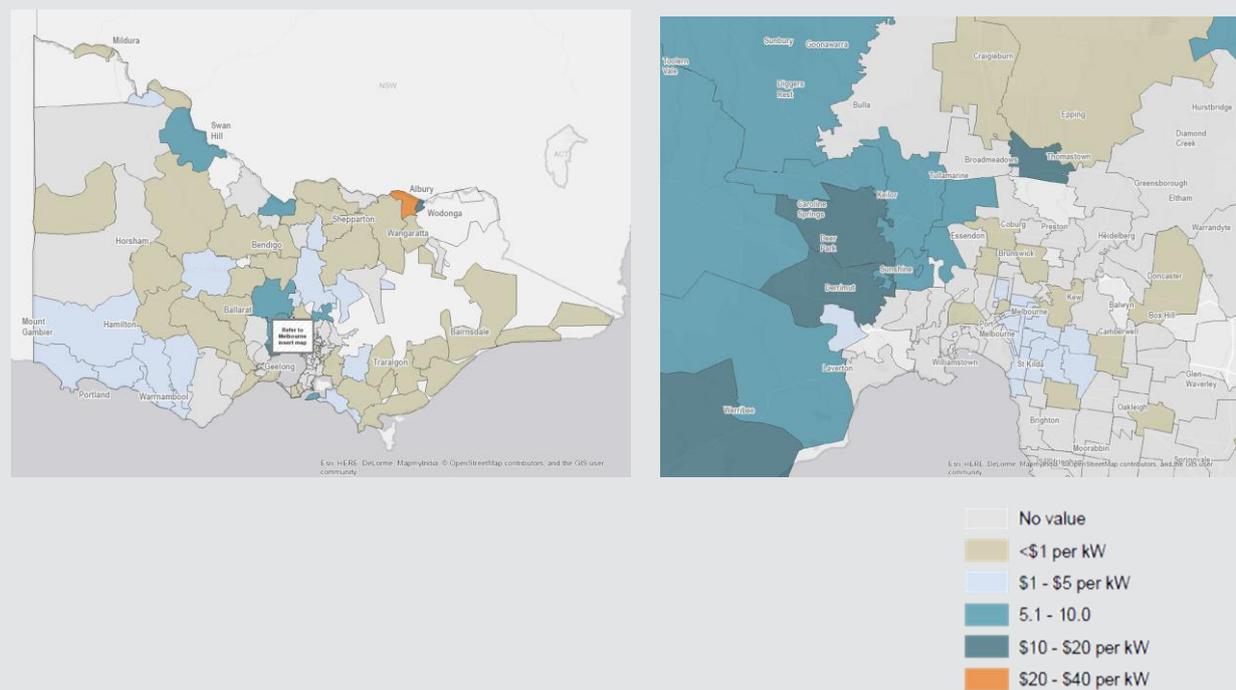
The energy and network value of distributed generation

In February 2017, we completed an inquiry that looked into whether the electricity generated by distributed generation, such as solar panels, provide energy value or value to the grid.

The first phase of the inquiry led to a change in legislation that enabled the setting of time-varying feed-in tariffs, and allowed for social and environmental factors to be considered.

The second phase assessed what the costs to the network would be if the existing fleet of distributed generation was 'removed' from the grid. We confirmed that distributed generation does provide value, but it is highly dependent on where it is located and when it generates electricity, as shown in the figures below. We also found that controlled 'firm' generation (such as a solar PV with a battery system) can be orders of magnitude greater in value than 'passive' generation (such as a solar PV system on its own).

Figure 3.20 Network value of solar PV systems, by zone substation area in Victoria



On the basis of these findings, we suggested that the government explore the development of a market-based solution – a 'grid services market' that small providers could participate in – that could effectively remunerate distributed generation owners for the network benefit they provide.

More information about this project can be found at www.esc.vic.gov.au/project/energy/22790-inquiry-into-the-true-value-of-distributed-generation-to-victorian-customers/.



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