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Introduction

This is our third update on the Victorian energy market in 2017-18. It provides important information about the market for April to June 2018.

This update provides a summary on:

- our enforcement action against energy companies who have not complied with the rules
- the latest audit results on the estimated billing practices of energy companies, and audits of newly licensed retailers
- the latest information on customer disconnections
- an update on the latest feed-in tariff rates offered by retailers for exported electricity
- new licences issued to energy businesses
- our actions to improve outcomes for Victorian energy consumers
- reports and decisions we have released in and since the June quarter.

Unfortunately, some of the data reported in this update, such as the number of customer disconnections, is incomplete due to the failure of AGL to provide data to the commission in time. We have highlighted the sections that exclude AGL data.

This update meets our reporting obligations under Sections 54V and 54W of the *Essential Services Commission Act 2001*, Section 39A of the *Electricity Industry Act 2000* and Section 47 of the *Gas Industry Act 2001*.

Our annual report on the Victorian energy market will be published later this year.

1. Enforcing compliance by energy businesses

We regulate the retail energy market in Victoria primarily through promoting energy business compliance with the energy rules. When we identify a potential breach of the rules, we work with energy businesses to improve their performance. Where necessary, we take stronger action.

Alinta Energy pays \$300,000 in penalties for signing-up customers without consent

Alinta Energy has paid penalties totalling \$300,000 after 15 customers were allegedly transferred to the business without their consent or knowledge.

Following an investigation into the matter, we found that between September and October 2016, sales agents working for Alinta Energy arranged customer transfers to the energy company without consent or knowledge of the transfer. The affected customers were from locations across Victoria, including St Kilda, Morwell, Croydon and Warrnambool.

We became aware of the alleged breaches of the energy rules when Alinta Energy reported the matter to us after receiving complaints from some of the affected customers.

Customers have the right to choose their energy company and must give their consent to any changes made to their energy contract.

Customers must be given all relevant information and understand it before they are asked to consent to a new contract or before they transfer to another energy retailer. Under the energy rules, energy companies must ensure that customers receive their contract information in plain language. Consent to any transaction must also be given in writing or verbally by a capable

person. Alinta Energy has advised that the affected customers have been transferred back to their original retailer.

The commission cautions energy businesses that they are responsible for the actions of third parties who interact with customers on their behalf.

AGL warned after failing to provide data to the commission

Retailers are required to provide us with data on a range of metrics including customer numbers, disconnections, complaint levels and support for customers facing payment difficulties. This data is critical for the commission to publicly report on the Victorian energy market each year.

On 22 August 2018, AGL informed us that it could not provide its full set of performance data to us by the due date of 31 August 2018. This missing data has directly affected our reporting of customer disconnections in this update.

AGL stated that it could not provide the requested data due to deficiencies in its systems, which requires a 'full rebuild' of its performance reporting capabilities. We are very concerned about AGL's current reporting issues and capabilities, and have required AGL to:

- present a project plan for rebuilding its systems, with independent assurances
- provide formal reports on its systems rebuild
- provide a full set of 2017-18 data by 31 October 2018, with independent assurances
- provide assurances of the reliability of data given to us prior to 2017-18.

We advised AGL that failure to meet these requirements by 31 October 2018 will see us initiating a review of its licence to assess its technical capacity to operate as a licensee in Victoria. Until the issue is resolved, we will publish all correspondence between us and AGL on our website.

Resolving wrongful disconnection disputes

Retailers can disconnect customers for not paying their energy bill only after following strict rules that we set for the industry, as well as their contract with their customers.

If a retailer disconnects a customer in breach of their contract with that customer, the retailer must pay \$500 per day in compensation to the customer for every day the customer was off supply.

Retailers have reported to us that they wrongfully disconnected 149 customers and paid a total of \$163,255 in compensation to the affected customers between April and June 2018.¹ This is a similar amount of wrongful disconnection payments compared to previous quarters during the year (refer to table 1.1).

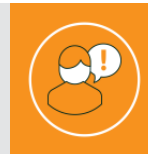
Customers might complain to their retailer about being wrongfully disconnected. In some cases, disputes can be referred to the Energy and Water Ombudsman of Victoria. If the ombudsman is unable to resolve the matter, it is then referred to us.

The commission resolved thirteen wrongful disconnection cases between June and September:

- AGL was required to make total payments of \$67,058 to five customers. Of these payments, one customer received \$56,612 for being off their gas supply for 113 days.
- Red Energy was required to make total payments of \$8,296 to two customers, with one customer receiving \$7624.
- EnergyAustralia was required to pay a customer \$625, and Lumo Energy to pay a customer \$307 for wrongful disconnection.

- Four disconnection cases referred to us were also deemed not to be wrongful. These included three cases from Lumo Energy and one case from Origin Energy.

Our decisions on wrongful disconnection cases can be found at www.esc.vic.gov.au/wrongful-disconnection-payments.



Case-study – a wrongful disconnection of customer experiencing payment difficulties

We recently resolved a dispute with Red Energy referred to us by the Energy and Water Ombudsman of Victoria.

We found that Red Energy was in breach of its contract with the customer as it did not offer a customer who was experiencing payment difficulties two payment plans prior to disconnecting her gas, in a manner that was compliant with the energy rules.

The customer went without energy supply for over 1 day. Red Energy is required to pay the customer \$672 in compensation.

¹ This excludes the wrongful disconnections that have been resolved by the commission.

Table 1.1 **Reported wrongful disconnection payments between July 2017 and June 2018**

Retailer	Total amount paid during the quarter				Total customers affected			
	Jul – Sep 2017	Oct – Dec 2017	Jan – Mar 2018	Apr – Jun 2018	Jul – Sep 2017	Oct – Dec 2017	Jan – Mar 2018	Apr – Jun 2018
AGL	\$99,723	\$79,822	\$20,132	\$39,556	39	33	16	30
Energy Australia	\$13,223	\$38,830	\$26,108	\$12,853	15	23	22	16
Origin Energy	\$7,258	\$4,937	\$14,792	\$21,820	10	7	18	12
Lumo Energy	\$14,982	\$8,054	\$9,792	\$18,091	10	4	10	19
Red Energy	\$5,087	\$75	\$6,082	\$10,713	7	1	9	18
Simply Energy	\$8,133	\$14,375	\$6,192	\$25,895	5	14	5	14
Alinta Energy	\$3,254	\$4,922	\$2,076	\$17,020	5	5	2	7
Click Energy (amaysim)	\$2,467	\$6,009	\$2,543	\$4,600	4	5	3	7
Dodo & Commander (M2 Energy)	-	\$1,704	-	-	-	2	-	-
Momentum	\$5,121	\$210	\$28,099	\$6,676	9	1	11	14
Powerdirect	-	\$3,500	\$1,075	-	-	1	2	-
Powershop Australia	-	-	\$3,073	\$5,990	-	-	1	11
1st Energy	-	-	\$3,884	-	-	-	4	-
CovaU	\$523	\$2,596	\$24,000	-	1	2	38	-
Tango Energy	\$264	\$1,165	\$1,062	\$40	2	3	4	1
TOTAL	\$160,035	\$166,199	\$148,909	\$163,225	107	101	145	149

Figures may not add up precisely due to rounding. Note that this table has been updated since our previous report, as some retailers have recently reported payments that may have occurred earlier in the year. This excludes the wrongful disconnections that have been resolved by the commission.

Note that while AGL could not provide data on total disconnections to us in time, it could provide the total wrongful disconnection payments made out to customers in the 2017-18 reporting period.

2. Latest audit results of energy companies

Electricity and gas meters are used to measure how much energy your household or business uses.

Electricity meters are usually ‘smart meters’ which can be read remotely. This means that your energy use is calculated automatically for your electricity bill. Some households and businesses might still have an older style meter, and your distributor will send someone to physically read your meter.

If you use gas, your gas usage can only be measured by someone physically attending the premises or by using estimated data.

Audit results from complaints related to estimated energy bills

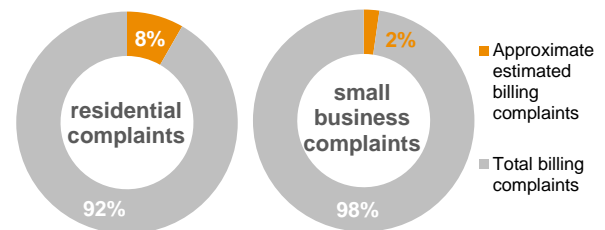
Following reports of customers receiving high estimated bills, we recently conducted an industry-wide check to understand the billing estimation practices of energy businesses.

We received responses from 25 retailers and six gas and electricity distributors. Retailers reported to us that 170,000 electricity customers and 441,000 gas customers received at least one estimated bill during 2017. We found that in estimating bills for customers, retailers generally rely on metering data provided by distributors rather than any other method of estimation.

Distributors are independently audited by AEMO for the metering data they provide to retailers. Distributors also undertake internal audits to provide themselves with a level of quality assurance for their metering data.

Retailers reported they received 5,010 residential and 573 small business complaints generally relating to estimated billing – this is less than 10 per cent of all the billing complaints received in 2017.

Figure 2.1 Approximate percentages of retailer complaints related to estimated bills in 2017



The reported complaints were related to:

- estimated bills not being in line with customers’ actual usage, or high ‘catch up’ bills once estimates are reconciled to actual usage
- retailers’ inability to identify the appliances or usage patterns associated with high bills
- unplanned estimations due to meter faults
- restricted access to premises or meters
- retailer staff unable to explain why customer has received estimated bill
- estimated bills provided despite the customer having a smart meter.²

Our response

Our audit of estimated billing practices has identified a number of issues requiring further inquiry. This includes reviewing why a large number of electricity customers received an estimated bill in 2017, despite having a smart meter. We will report on our findings in our Victorian energy market update.

We are also considering how we can further empower customers to ensure they have accurate meter reads. This includes changing the energy rules to allow customers to provide their own meter reads. We will be consulting with the industry and consumers before making a decision.

² Retailers noted that customers could receive an estimated bill due to minor technical issues with their meter, for example, if it stopped working for even one half hour during a billing period.



How do I know if my energy bill has been estimated?

If your bill is based on an estimated read, retailers must clearly state this on your energy bill.

This might look like:

- a statement on the front of your bill with a statement such as “your account is based on an estimated meter read”
- the word “Estimate” or an “E” alongside your energy usage information on the back of your bill.

Retailers will also tell you if your bill is based on an actual read of your meter.



What if I have received an estimated bill?

If you receive an estimated bill, it's important to talk to your retailer about it.

Finding out why you received an estimated bill can help ensure your next bill is based on an actual reading of your meter. Your retailer will be able to tell you if an estimated read has been used and the reason why.

Some of the reasons why a bill may be based on an estimate include:

- a locked gate or fence blocking access to a meter
- dogs in the yard
- difficulty accessing a meter in apartment buildings or garages
- consumption, billing or usage data not being provided to your retailer.

Remember, you also have a responsibility to give safe and easy access to your meter so that it can be easily read.



What happens next?

When your retailer receives an actual read, they will review your previous bill and make any necessary adjustments to your next bill to 'square up' your account.

You can also request that an actual read is taken of your meter ahead of the next scheduled read. You may be charged for this.

The rules on estimating energy bills

Your retailer and distributor can estimate your energy use for billing, instead of measuring the actual usage from your meter.

Energy companies can only estimate energy use for special reasons, for example, when they cannot physically access the meter, or they are not able to receive reliable data from the meter. If this is the case, your retailer will provide you with bills based on an estimate which may rely on historical meter data or the average use of energy by a similar customer.

Audit results of newly licensed energy companies

Audits help us to see whether retailers are complying with the energy rules. These rules exist to protect customers, so it is important that we regularly check on energy companies, and report our findings to the community.

We recently audited six newly licensed energy retailers for the first time:

- 1st Energy
- CovaU
- Diamond Energy
- Next Business Energy
- Sumo Power
- Tango Energy

Each was audited against certain energy rules, such as rules regarding:

- assistance for customers in payment difficulty and for those requiring life support
- billing and disconnection practices
- managing customer complaints
- how customers are signed up to energy plans.

While they performed reasonably well, our audits identified several areas requiring improvement.

When a problem is found in an audit, the energy company has an opportunity to fix it. We will check in with each company to ensure they are working to correct any of their identified problems.

Where we identified potential breaches of the energy rules, we work with retailers to promote compliance and we will take enforcement action where necessary.

This section summarises our key audit findings from the following three areas:

- reporting on performance
- signing up customers to an energy contract
- training provided to staff.

Retailers' reporting needs improving

Retailers are required to provide us with data and information on how they performed against the energy rules. The audits found certain problems with how this information is provided to us.

Some of the audited retailers did not retain the performance data they previously submitted to us, for the purposes of record keeping or for data checks. Performance data include metrics related to the number of customers in hardship programs, or the number of customers being disconnected by a retailer. Other retailers' reports were unreliable because it appeared that staff lacked reliable instructions for finding and reporting the right data to us, or the reports were not checked before being submitted to us for the first time.

Potential compliance breaches – such as failing to include all the information required on a bill – were sometimes reported wrongly or only after an extended delay.

Our response

Reliable reports of operational performance and compliance breaches are vital to our regulatory role. They help us respond quickly to developing problems, and help us assess a retailer's ability to serve its customers. Therefore, it is important that all energy companies provide us with reliable data and information.

Retailers who were identified with reporting problems in this audit have been given a deadline of the end of December 2018 to resolve these problems.

We may also conduct a specific audit on all Victorian retailers on their compliance and performance reporting obligations in 2019.

We will also take appropriate action where necessary, such as when system-wide issues arise, like the reporting issues recently raised by AGL.

Signing up customers' to an energy contract

Retailers are required to provide certain information to customers when they are selling an energy product.

Our audit found that CovaU and Diamond Energy were not providing information in a timely manner to their new customers.

We also found that some sales agents working for CovaU, Next Business Energy and Tango Energy did not always follow the retailer's script when talking with a customer. These scripts are intended to give a customer all the required information so that they can make an informed choice before signing up to an offer.

Our response

Retailers who were identified with potential breaches relating to providing information to customers have set out plans describing how these will be resolved.

We will be following up these potential breaches with each of the retailers. Retailers have been given a deadline of the end of 2018 to resolve these problems.

Staff training

It is important that sales staff are trained to provide customers with all the required information before they accept an offer.

Otherwise, customers may be led into contracts that are not in their best interests.

Most of the audited retailers did not keep records that showed how staff were trained for their role, particularly with regards to marketing practices and customer interactions.

Our response

Retailers who were identified with potential breaches related to staff training have set out plans describing how these will be resolved.

We will be following up these potential breaches with each of the retailers. Retailers have been given a deadline of the end of 2018 to resolve these problems.

Audit fact sheets for each retailer can be found on our website at www.esc.vic.gov.au/electricity-and-gas/electricity-and-gas-market-performance-and-reporting.

These fact sheets outline what each audit found, what the energy company will do to fix any problems identified and how we are working with them to make sure they treat customers in accordance with the rules.

We will report on the progress of these audits in future Victorian Energy Market Report updates.

3. Customers facing payment difficulty

Some customers find it difficult to pay for their energy bills, which could result in them building up debt with their retailer. There are also cases where customers could be disconnected for not paying their bill. However, customers can be disconnected only after their retailer follows strict procedures set out in the energy rules.

In September 2018 AGL advised us of potential significant issues with the performance data they submitted to us. AGL was unable to submit data to us in time for this update.

The disconnection figures in this update exclude data from AGL and Powerdirect (which are owned by AGL).

We are now examining the implications of AGL’s failure to provide timely and accurate data, including how it may have affected data provided in previous reporting periods.

Excluding disconnections from AGL and Powerdirect, we have observed disconnection levels remaining the same as the previous quarter for all other retailers.

Overall in 2017-18, excluding disconnections from AGL and Powerdirect, Victorian retailers disconnected 23,406 electricity residential customers and 17,400 gas residential customers.

In 2016-17, Victorian retailers (excluding AGL and Powerdirect) disconnected 17,304 electricity residential customers and 12,591 gas residential customers.

From 1 January 2019, there will be a new consumer protection framework for customers facing payment difficulty. Its objective is to ensure disconnection of a customer’s energy supply only ever occurs as a measure of last resort. This framework is also designed to ensure customers facing payment difficulty receive meaningful and timely assistance from their energy retailer.

Figure 3.1 Residential disconnections for non-payment, per quarter, for all Victorian retailers excluding AGL and Powerdirect

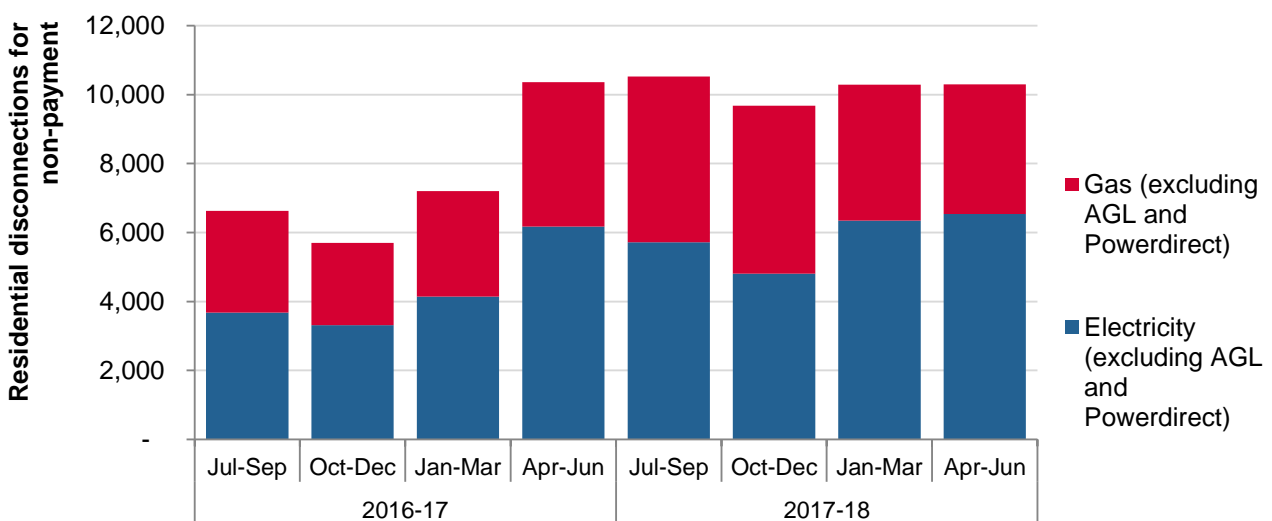


Chart represents the total disconnections for non-payment from all retailers in Victoria, excluding those from AGL and Powerdirect due to data and reporting issues.

Monitoring the industry’s progress in implementing our new payment difficulty framework

We are introducing new rules to help residential customers with payment difficulties. The rules have been designed to ensure customers get equitable and timely assistance from their retailers to help manage their bills and debt.

Retailers are getting ready to offer their customers new payment difficulty assistance from 1 January 2019.

Retailers are required to provide us quarterly reports on how they are updating their business in areas of governance, people and processes, systems and collateral, and measures to help transition existing customers facing payment difficulty into the new framework.

How are retailers tracking?

All retailers reported that they will be ready to implement the new framework on 1 January 2019. Eight indicated that they will be ready to implement the new framework earlier than required (by November 2018 by the earliest).

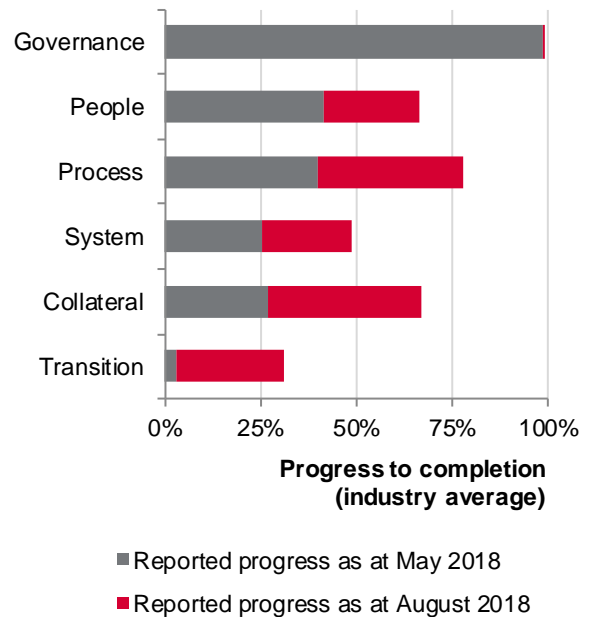
Some retailers have reported delays in upgrading their IT systems. We will monitor retailers’ progress, particularly regarding system upgrades.

Figure 3.2 shows the average progress of the industry in implementing the new framework.

Updating financial hardship policies

As part of their preparations, retailers have reviewed their financial hardship policies to align with the new payment difficulty framework. We are currently reviewing these policies to ensure they meet our minimum approval requirements.

Figure 3.2 Industry progress in implementing the new payment difficulty framework



Estimated progress is based on the weighted average progress of the retailers, weighted by their customer numbers

New information to be reported on customer protections

We have also reviewed and updated the data and information that retailers need to report to us about their performance and how they comply with the new energy rules, particularly with the introduction of the new payment difficulty framework.

The updated obligations will shine a light on whether retailers are complying with the energy rules and if the new framework is helping customers.

Retailers will need to begin providing this new information to us from 1 January 2019.

This information will help inform the way we promote compliance of the energy rules for the industry, and to carry out enforcement action where necessary. This new data will also be reported in our Victorian Energy Market Report and updates from 2019 onwards.

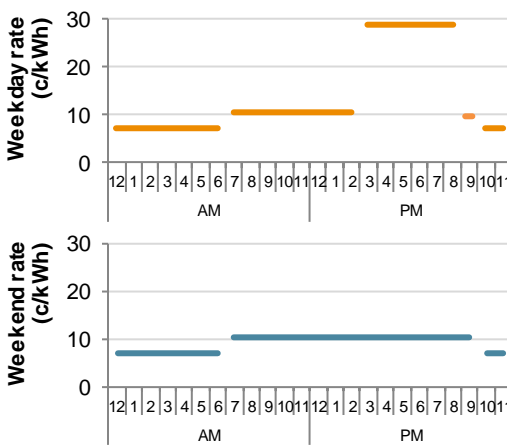
4. New feed-in tariff rates offered by retailers

We set the annual minimum feed-in tariffs that energy companies can credit customers for the electricity that customers export to the grid from sources such as solar panel systems.

This year the minimum single rate feed-in tariff is 9.9 cents per kilowatt hour.

For the first time, we also set a time-varying feed-in tariff which varies between 7.1 cents and 29 cents per kilowatt hour depending on when the power is exported to the grid, as per figure 4.1.

Figure 4.1 Time-varying tariff minimum rates



What feed-in tariff rates are energy retailers offering?

In September 2018, we found a range of feed-in tariff rates offered by Victorian retailers, above the 9.9 cent minimum. Many retailers have continued to offer the same feed-in tariff rate as in 2016-17, at 11.3 cents per kilowatt hour.

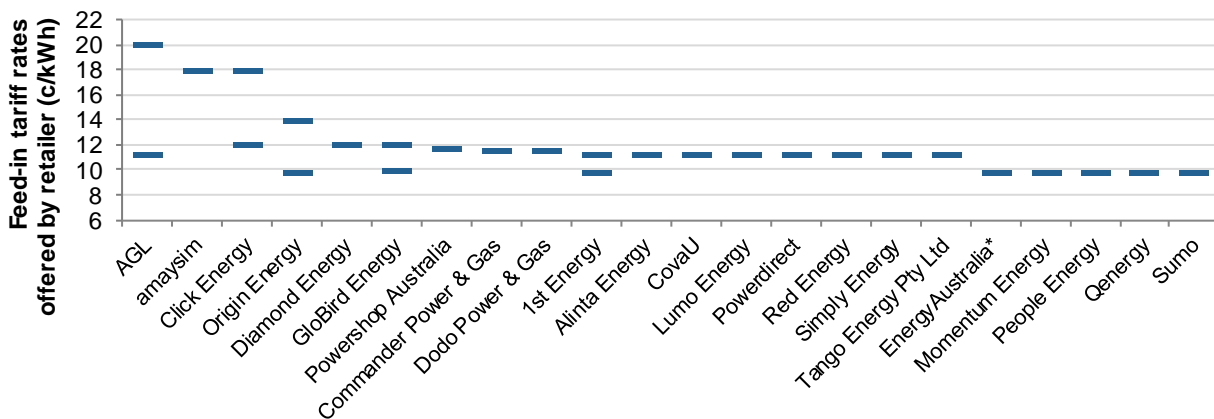
AGL, Click Energy and amaysim offered the highest rates, at 20 and 18 cents per kilowatt hour respectively, for some of their energy plans.

One retailer, EnergyAustralia, has also offered the time-varying feed-in tariff as an option for some of its energy plans.

When choosing an energy plan it's important not to focus on the feed in tariffs only. You should think about your *total* energy bill which includes what you'll pay for the electricity you use as well as what you'll get paid for the electricity you export.

If you are not satisfied with the tariffs offered by a retailer, you can use the government's Victorian Energy Compare website to find a better offer.

Figure 4.2 Feed-in tariff rates offered by Victorian retailers



Feed-in tariffs are those shown in the pricing and product information statements or relevant feed-in tariff information published by retailers as at 18 September 2018. Some retailers may offer different feed-in tariff rates for different energy plans. Rates are excluding GST, as it is credited against your bill prior to GST being added.

* EnergyAustralia also offers the time-varying feed-in tariff for some energy plans.



How do we calculate the rate for the minimum feed-in tariff?

In late 2016, our inquiry into the value of distributed generation recommended that solar systems owners be paid a price that better reflects the wholesale cost of electricity at the time it is sold into the grid. This year, energy companies can offer solar system either a single-rate or time-varying feed-in tariff rate.

Energy companies are also able to offer a higher and more competitive rate than the minimum that is set by the commission.

Calculating the minimum feed-in tariff rate

The minimum feed-in tariff is calculated by forecasting the wholesale price of electricity for the coming year. We also account for the avoided costs of transporting energy long distances, market fees that retailers pay, and the social cost of carbon due to the generation of electricity from solar rather than from the grid.

The wholesale price varies across different times of day due to changes in supply and demand. As owners of solar panels generally export power during the day, we weight the average forecasted wholesale price of electricity against the hours that solar panels are generally exporting electricity to the grid.

We also consider the costs that are avoided when solar power is used as opposed to the electricity from the grid. This includes the avoided cost of power that is lost when electricity from large generators travels long distances through the network, as well as the avoided cost of fees and charges paid to the Australian Energy Market Operator when wholesale energy is purchased.

The calculation of the minimum feed-in tariff also includes a price that is paid for the avoided social cost of carbon, which is currently set at 2.5 cents per kilowatt hour.

Why is the minimum feed-in tariff single rate lower this year?

Although the average wholesale prices were generally forecast to be higher this year, the price of electricity during the day (when solar PV systems export their electricity) was forecast to be lower. This is due to the higher penetration of household solar PV and an increase in large scale solar generators in Victoria applying downward pressure on electricity prices during the day.

We will begin the consultation on what feed-in tariffs will be available in 2019-20 later this year.

5. New licences issued

Electricity generators need to apply to us for a licence to operate in Victoria. We have been reviewing and issuing licences to electricity generators since 1999.

Between April and June 2018, we granted two new licences for businesses to generate electricity at a large-scale.

We granted a licence to Mt Gellibrand Wind Farm, located approximately 20 kilometres north-east of Colac (south-west Victoria). The site is expected to comprise of 44 wind turbines with a total generation capacity of 132 MW.

We also granted a licence to Foresight Solar Australia to generate electricity at the Bannerton Solar Farm, located in Victoria's north-west, with a generation capacity of 100 MW.

We also granted an electricity wholesale licence to Alinta Energy Retail Sales to act as an intermediary for the sale of electricity by generators into the wholesale market.

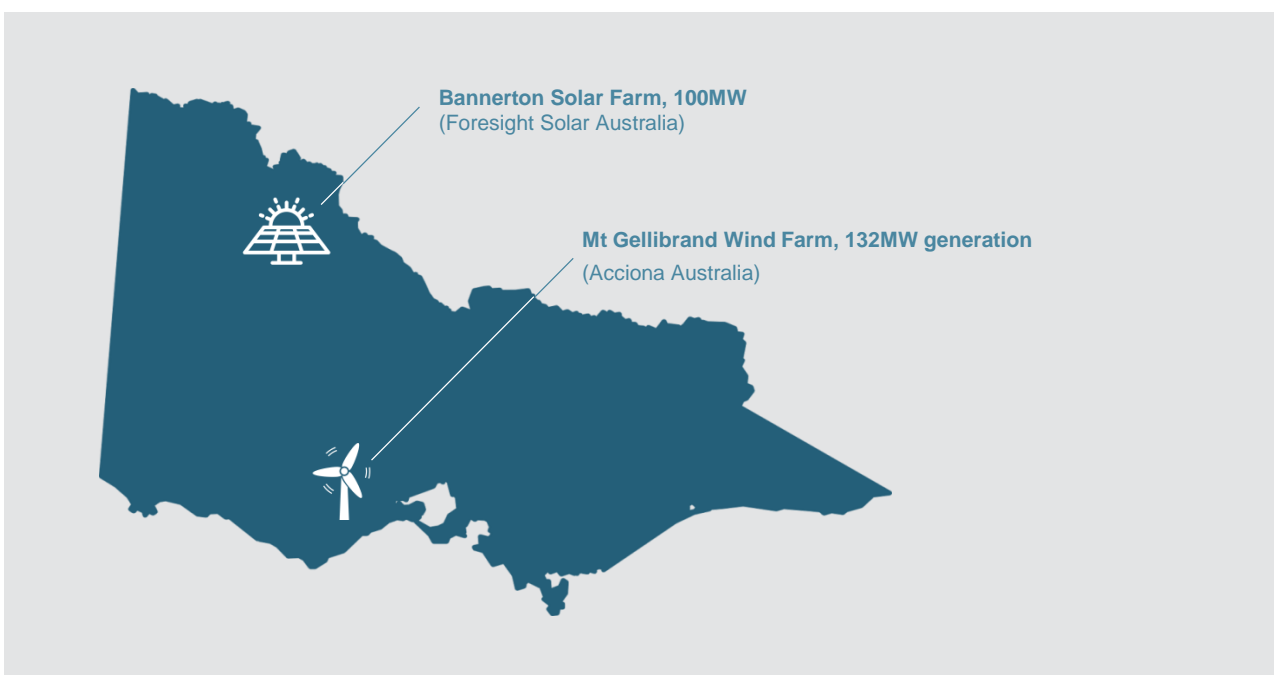
All electricity generators, electricity and gas distributors and retailers operating in Victoria need to be licensed by the Essential Services Commission or exempt from the requirement to be licensed.

We are currently processing a number of new licence applications, including a retail electricity licence, a wholesale electricity licence, an electricity generation licence and an electricity transmission licence.

Licence applications can be found at www.esc.vic.gov.au/current-licences.

We also registered 1,277 businesses who are exempt from holding a license. These include apartments, caravan parks and retirement villages – as well as small businesses operating in shopping centres. Our public register of exempt persons can be found at www.esc.vic.gov.au/energy-licence-exemptions.

Figure 5.1 Location of newly licensed electricity generation sites in Victoria



6. Our work in reforming the energy rules

Our overarching objective is to promote the long term interests of Victorian consumers. This objective informs the work we have been progressing in 2017-18.

Beginning our work on family violence resources for the energy sector

We are building on our work in customer protections by developing family violence resources for energy retailers. These resources will assist energy retailers to better support customers who may be struggling to manage their personal and financial security due to family violence.

We are working with energy retailers, the community sector, family violence specialists and other service sectors throughout 2018-19 to develop these resources. To launch our review, we held a forum on 30 August followed by an event on 18 September. Our focus is assisting organisations to understand what policies and practices will better support customers experiencing family violence.

This work responds to the recommendation of the Victorian Royal Commission into Family Violence, as supported by the Victorian Government in 2016.

New voltage limits for distributors to operate bushfire mitigation equipment

Stemming from recommendations of the Bushfires Royal Commission, the Victorian Government amended regulations to require bushfire mitigation equipment to be installed on sections of the electricity grid.

In August 2018, we made changes to the voltage standards applying to the electricity network, to permit the operation of this new equipment. The changes also allow for types of bushfire mitigation equipment, also referred to as Rapid Earth Fault Current Limiters, to be installed on the high

voltage network for safety and other purposes approved by Energy Safe Victoria.

Reviewing electricity connections processes

We have provided advice to the Victorian Government on achieving more timely electricity connections for new housing developments. Our advice is based on extensive consultation with electricity distributors and property developers across the state. We also reviewed and analysed existing information on connection processes, and considered approaches in other jurisdictions related to connections of new developments.

Implementing changes to the retail energy market

We are continuing to implement specific recommendations arising from an independent review of the energy market in Victoria. We have recently released a draft decision that sets out new standards for retailers on the bills and marketing materials sent to customers. The draft decision is open for consultation.

We are also developing a framework for assessing the competitiveness and efficiency of the retail energy market.

New energy obligations for exempt persons

In September 2017, the Victorian Government sought to provide people living in apartments, caravan parks and retirement villages, as well as small businesses operating in shopping centres, with new protections taking effect from 1 January 2019.

In consultation with stakeholders, we undertook a review of the energy rules that apply to suppliers of electricity in embedded networks. The changes ensure customers in embedded networks receive similar protections to other Victorians.