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South Australian Energy Prices July 2015

An Update Report on the SA Tariff-Tracking Project

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South Australian Energy Prices July 2015
An Update report on the South Australian Tariff-Tracking Project

May Mauseth Johnston, August 2015

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Disclaimer

The energy offers, tariffs and bill calculations presented in this report and associated workbooks should be used as a general guide only and should not be relied upon. The workbooks are not an appropriate substitute for obtaining an offer from an energy retailer. The information presented in this report and the workbooks is not provided as financial advice. While we have taken great care to ensure accuracy of the information provided in this report and the workbooks, they are suitable for use only as a research and advocacy tool. We do not accept any legal responsibility for errors or inaccuracies. The St Vincent de Paul Society and Alviss Consulting Pty Ltd do not accept liability for any action taken based on the information provided in this report or the associated workbooks or for any loss, economic or otherwise, suffered as a result of reliance on the information presented. If you would like to obtain information about energy offers available to you as a customer, go to Australian Energy Regulator's "Energy Made Easy" website or contact the energy retailers directly.

Acknowledgements
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The views expressed in this document do not necessarily reflect the views of Energy Consumers Australia.

We also wish to thank and acknowledge the efforts of the various retailers that review and provide feedback on these reports. While any errors that may occur are our own, we appreciate their views, suggestions and cooperation.

Note regarding the Repeal of the carbon tax bill

On 23 June 2014 the Government reintroduced the Clean Energy Legislation (Carbon Tax Repeal) Bill 2013 [No. 2] in the House of Representatives. The bill repealed the six Acts that established the carbon pricing mechanism. The Senate passed the bill on 17 July 2014 and retailers were required to publish new, carbon exclusive, prices and backdate these to 1 July.

As the methodology of the Vinnies' Tariff-Tracking project is based on providing annual price updates as of July every year, the July 2014 tariffs collected were carbon inclusive. As such, the main analysis presented in this report is based on July 2014 prices (carbon inclusive) and July 2015 prices (carbon exclusive). However, we have assessed the impact of the repeal of the carbon tax, compared to other factors, by using separate sources to estimate bills prior to the repeal, after the repeal and as of July 2015.[1]

[1] Alviss Consulting collected and analysed carbon exclusive prices as of October 2014 for two separate projects: *Tax on, Tax off: Electricity prices before and after the repeal of the carbon tax*, November 2014 (electricity prices only) and *Residential electricity and gas prices from January 2012 to January 2015*, A report to the ACCC, March 2015.

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The SA Tariff-Tracking Project: Purpose and outputs

This project has tracked electricity and gas tariffs in South Australia from July 2009 to July 2015, and developed a spreadsheet-based tool that allows consumer advocates to build on the initial analysis and continue to track changes as they occur. The first report for the SA Tariff-Tracking project was published in August 2012 and this update report focuses on price changes that have occurred over the last year.

We have developed four workbooks that allow the user to enter consumption levels and analyse household bills for regulated/standard gas and electricity offers from July 2009 to July 2015, as well as current published electricity and gas market offers post the price resets in July 2012, 2013, 2014 and 2015.[2]

Workbook 1: Electricity standing offers July 2009-July 2015
Workbook 2: Gas standing offers July 2009-July 2015
Workbook 3: Electricity market offers post July 2012-July 2015.[3]
Workbook 4: Gas market offers post July 2012-July 2015.

The four workbooks and the reports can be accessed at the St Vincent de Paul Society's website:
www.vinnies.org.au/energy

[2] All market offers are published offers and do not include special offers that retailers market through door-knocking campaigns or brokers. We use the retailers own websites to collect market offer for the Tariff-Tracking tool. The Tariff-Tracking tool does not include any additional discounts or bonuses but key market offer features are listed in the spreadsheets. This report contains analysis of some of those features.

[3] This workbook also contains electricity market offers that took effect upon the deregulation of the retail market in February 2013.

Key findings

In terms of general trends, the tariff analysis found that:[4]

- South Australian electricity retail prices taking effect in July 2015 produce annual bills that are typically $330 - $360, or 13%, less (depending on meter type) than they were last year (July 2014). See chart 1 in section 1 below.

- Standard contract customers with a typical consumption level (6,000kWh/annum, single rate) will have an annual electricity bill of approximately $2,160. See chart 1 in section 1 below.

- Customers that were on AGL's electricity standard contract offer prior to 31 January 2013, and thus on the transitional rate until February 2015, have experienced a lower price decrease compared to that outlined above. See chart 2 in section 1 below.

- The main reasons for these price decreases are lower regulated network charges and the repeal of the carbon tax. However, it is important to note that the repeal of the carbon tax on 17 July 2014 (resulting in new prices being backdated to 1 July 2014) is not the main contributor to electricity price decreases. The greatest reduction in electricity costs occurred in July 2015 due to a reduction in network charges. See chart 4 in section 1.

- For gas, standard contract prices have only reduced by 1% compared to July 2014 (prior to the repeal of the carbon tax). See chart 3 in section 1.

- Standard contract customers with a typical consumption level (21,000Mj/annum) will have an annual gas bill of approximately $1,150. See chart 3.

- While the typical gas bill reduced by $30 (or 2.5%) after the repeal of the carbon tax it increased by 2% in July 2015. The cost of gas is therefore now similar to what it was prior to the repeal. See chart 5 in section 1.

- The difference between the best and the worst electricity market offer is $460 per annum.[5] See chart 8 in section 2.1.

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[4] These calculations are based on increases in the standing offer for single rate electricity customers using 6,000kWh per annum, increases in the standing offer for controlled load electricity customers (typically all-electric households) using 7,500kWh per annum (thereof 20% off-peak) and the increase in the standing offer for gas customers using 21,000Mj per annum.

[5] Households using 6,000kWh per annum (single rate) and all market offer bills include additional discounts and/or pay on time discounts.

- For average consumption households (6,000kWh/annum), the worst electricity standing offer is almost $760 per annum more than the best published market offer.[6] See chart 9 in section 2.1.

- Households currently on AGL's standard contract can save $340 if switching to the best market offer. See chart 9.

- In regards to households with controlled off-peak load, typical consumption households (7,500kWh per annum) currently on AGL's standard contract can save $370 per annum if switching to the best market offer.[7] The difference between the best and the worst market offer is $490 per annum for this meter type. See chart 10 in section 2.1.

- In regards to gas, typical consumption households (21,000Mj) can save $160 per annum if switching from Origin's standard contract to the best market offer.[8] See chart 12 in section 2.2.

- The difference between the best and the worst gas market offer is approximately $90 per annum. See chart 11 in section 2.2.

- As retailers' discounts are becoming larger, the difference between standing offer bills and market offer bills (including discounts and pay on time discounts) is increasing. As of July 2015, the difference between AGL's electricity standing offer and the market offer is 12%, or $270 per annum (based on households consuming 6,000 kWh/annum). For gas, the difference between the annual bill for customers on Origin's standing offer and Origin's market offer (including discounts and pay on time discounts) is 9%. See charts 13 and 14 in section 3.1.

- In addition to discounts becoming larger, they are also becoming more conditional. All retailers currently offering discounts make these conditional upon bills being paid on time. QEnergy, Momentum and Pacific Hydro are the only retailers that do not offer discounts (including pay on time discounts).

- Larger and conditional discounts mean that the difference between paying bills on time and paying bills late is on the increase too. In July 2012, annual market offer bills were on average 5% (or $110) more for late paying customers compared to customers that paid on time. As of July 2015, the difference is 13% (or $270).[9] See chart 15 in section 3.2.

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[6] Based on market offer bills that include discounts and pay on time discounts.

[7] Based on AGL's standard contract offer and the best of the published market offers (including pay on time discounts).

[8] Based on Origin's standard contract offer and the best of the published market offers (including pay on time discounts).

[9] Based on households consuming 6,000 kWh per annum (single rate). Late paying bills do not include pay on time discounts (as per retail offer) and include four late fees (if applied by the retailers).

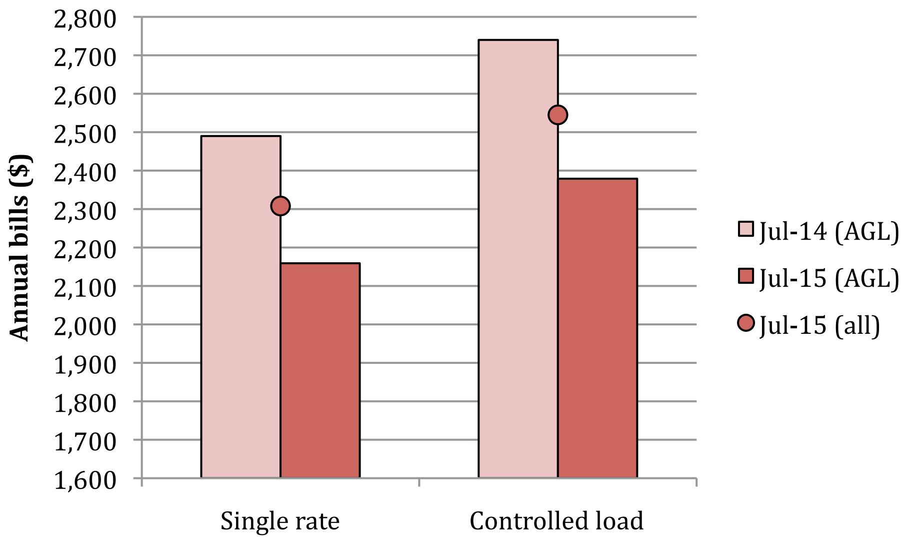
- The daily electricity and gas supply charges vary significantly between retailers as well as retail offers. The lowest market offer supply charge (including pay on time discounts) is $80 per annum less than the highest supply charge for both electricity and gas. See charts 16 and 17 in section 4.

- The Network Use of System (NUOS) charges reduced significantly in July 2015 and now account for approximately 41% of the electricity bill for average consumption households. See chart 18 in section 5.

1. Energy price changes from July 2014 to July 2015

AGL's current standing offer rates are approximately 13% lower than they were in July 2014 (prior to the repeal of the carbon tax). In July 2014 AGL's standing offer rates produced annual bills of between $2,500 and $2,750 (depending on meter type) for average consumption households. AGL's current standing offer rates will produce annual bills of between $2,160 and $2,380, that is an annual reduction of $330 for single rate customers and $360 for customers with controlled load. Chart 1 below shows annual bills for average consumption households on AGL's standing offer as of July 2014 and July 2015, as well as the average standing offer (across all retailers) in July 2015. AGL's standing offer is approximately $150 less than the average retail standing offer.[10]

Chart 1 Differences to the annual cost of standing/standard contract electricity offers from 2014 (carbon inclusive) to 2015 (carbon exclusive). Based on annual consumption level of 6,000kWh for single rate and 7,500kWh per annum (thereof 20% controlled load), GST inclusive

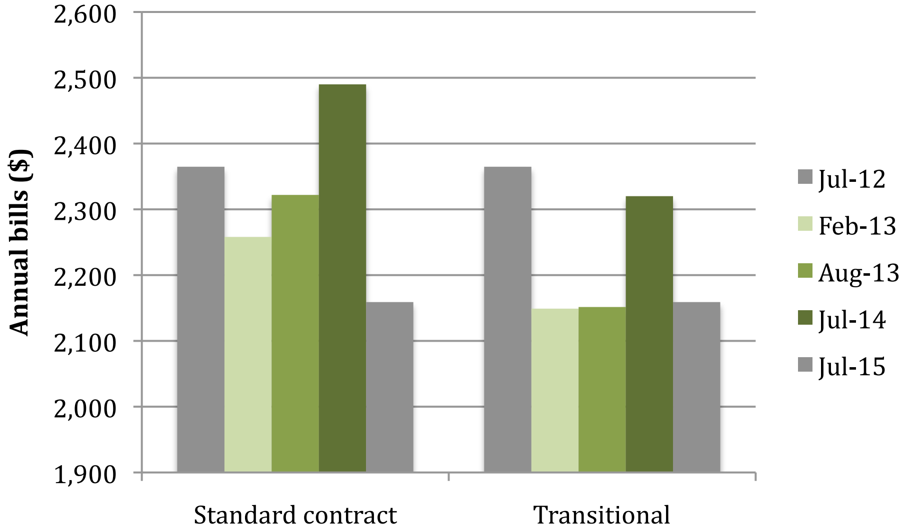


Furthermore, as the South Australian Government negotiated a two year 'price freeze' of the retail component of AGL's standard contract offer, customers that were on AGL's electricity standard contract offer prior to 31 January 2013 and thus on the transitional rate until February 2015, have experienced a lower price decrease compared to that outlined above. Chart 2 shows the price trend for customers on AGL's regulated standing offer prior to deregulation (July 2012), the price decrease this customer group received post deregulation (February 2013) and continued to benefit from compared to other customers (August 2013). It also shows that while bills increased for both groups in July 2014 (carbon inclusive) the impact

[10] As South Australia deregulated the retail market in February 2013 and AGL was required to offer a transitional standing offer for two years post deregulation, the majority of South Australian households currently on an electricity standing offer are AGL customers.

was lower for those still on the transitional offer. As the transitional offer expired in February 2015, however, the overall price decrease, due to the repeal of the carbon tax and network prices, has been less for customers previously on the transitional offer and now on AGL's standing offer (July 2015).

Chart 2 Differences to the annual cost of the standing/standard contract and the transitional electricity offer from July 2012 to July 2015. Based on annual consumption level of 6,000kWh, single rate, GST inclusive[11]



In terms of gas, the Government did not negotiate an ongoing 'price freeze' with Origin Energy and prices increased significantly in July 2014 (after an initial price drop of 1% in February 2013).[12] Furthermore, Origin's standing offer gas bills as of July 2015, are only 1% lower than they were in July last year. Chart 3 below shows Origin Energy's annual bills for average consumption households on the gas standing offer as of July 2014 and July 2015, as well as the average standing offer (across all retailers) in July 2015.

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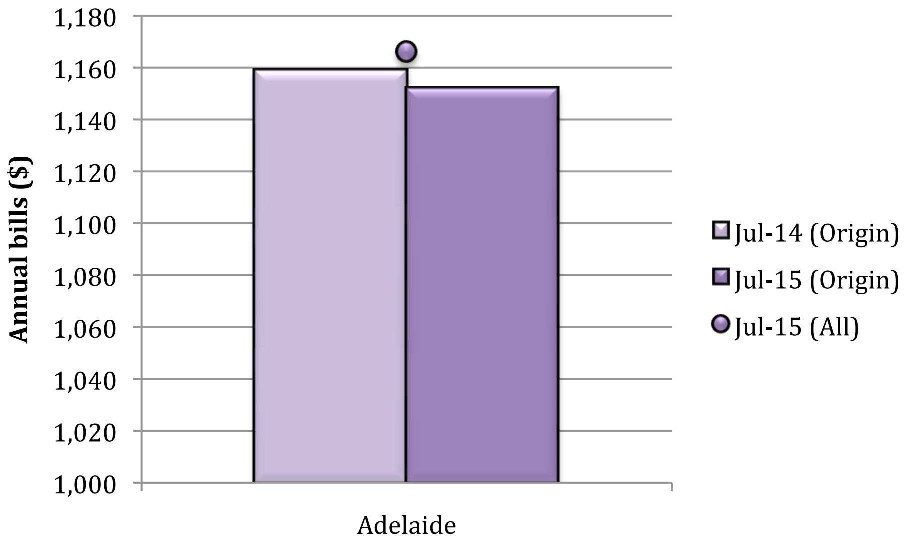
[11] July 2012 shows AGL's regulated rates (applied to both 'groups'). February 2013, August 2013 and July 2014 show AGL's standing offers and transitional offers. July 2015 shows AGL's standing offer for both 'groups'.

[12] See Origin Energy, Media Release, 18 December 2012 at http://www.originenergy.com.au/news/article/asxmedia-releases/1452

Chart 3 Differences to the annual cost of gas Standing offers/Standard contracts from July 2014 (carbon inclusive) to July 2015 (carbon exclusive), 21,000Mj per annum, GST inclusive



While electricity standing offer prices in South Australia have fallen by 13% since July 2014, it is important to note that the repeal of the carbon tax on 17 July 2014 (resulting in new prices being backdated to 1 July 2014) is not the main contributor to these price decreases. Charts 4 and 5 below show annual electricity and gas bills as of July 2014 (carbon inclusive), October 2014 (carbon exclusive) and July 2015. For electricity (chart 4), it shows that a typical annual bill reduced by approximately $110 (or 4%) after the repeal and has since then reduced by a further $220 (or 9%). For gas, a typical bill reduced by $30 (or 2.5%) after the repeal, however after increasing by 2% in July 2015 the cost of gas is now similar to what it was prior to the repeal (see chart 5).

Chart 4 Estimated annual bills for AGL's electricity standing offers, July 2014 and July 2015 (6,000 kWh per annum, single rate, inc GST)

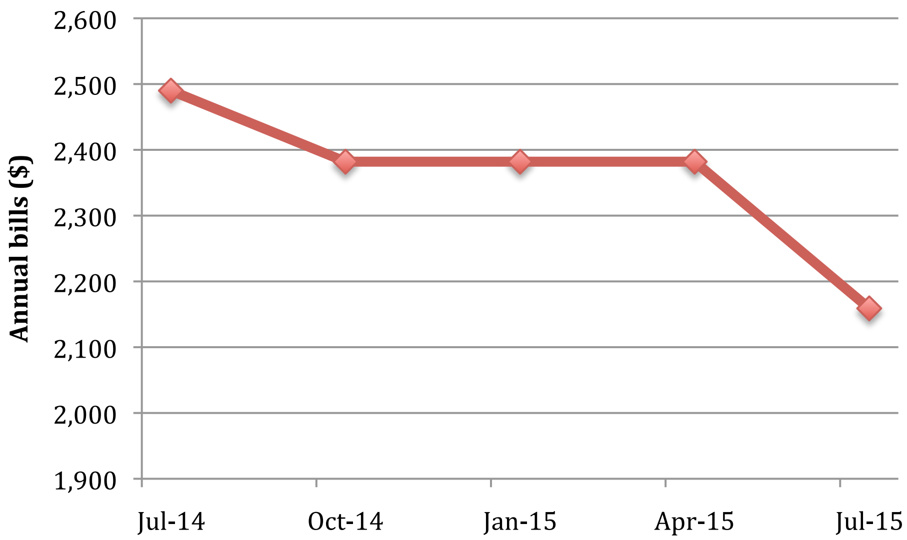


Chart 5 Estimated annual bills for Origin's gas standing offers, July 2014 and July 2015 (21,000 Mj per annum, inc GST)

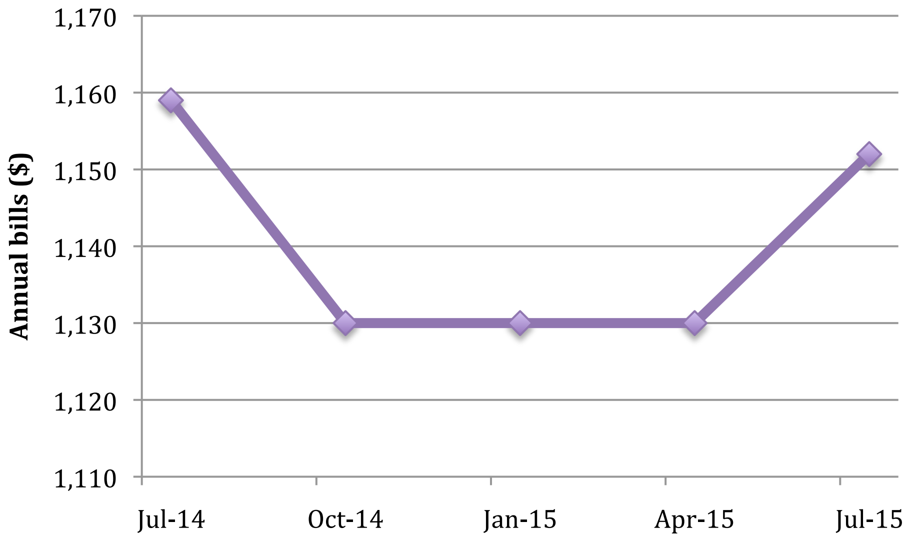


Table 1 Difference to annual bills for electricity (standard contract) by tariff type July 2014 – July 2015[13]

	Single rate (6,000kWh)	Two rate (7,500kWh, 20% controlled load)
$ Difference	-$330	-$360
% Difference	-13%	-13%

Table 2 Difference to annual bills for gas (standard contract) by area July 2014 – July 2015[14]

	Adelaide	Port Pirie	Whyalla	Mt Gambier	Riverland
$ Difference	-$7	-$7	-$7	-$7	-$7
% Difference	-0.6%	-0.6%	-0.6%	-0.6%	-0.6%

[13] Single rate calculations are based on household consumption of 6,000kWh per annum at the rate of AGL's standing offers. The two-rate calculations are based on household consumption of 7,500kWh per annum (thereof 20% controlled off-peak load) at the rate of AGL's standing offers.

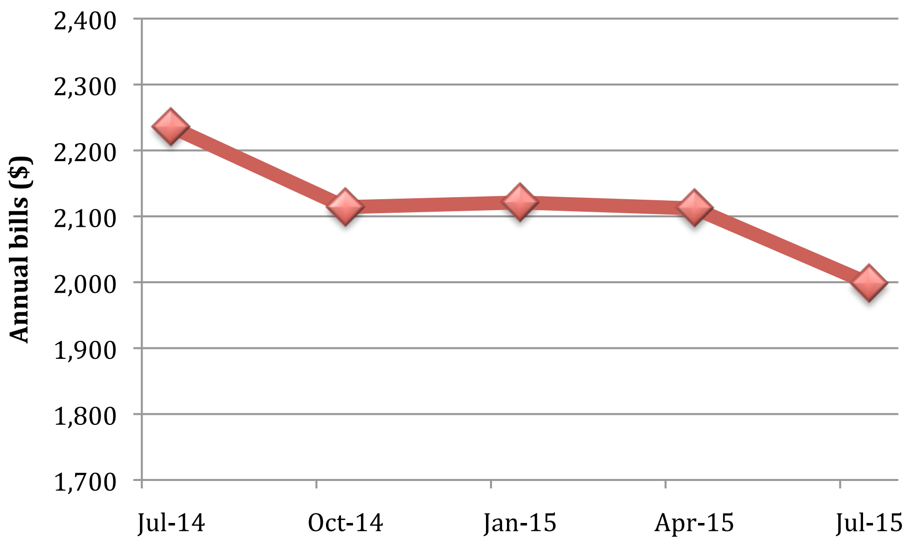
[14] Based on Origin's standing offer gas rates for customers using 21,000Mj per annum.

2. Market offers post July 2015

Section 1 above shows that AGL's standard contract electricity offers decreased by 4% post the repeal of the carbon tax and by another 9% in July 2015 due to lower network prices. Average market offers also decreased post the repeal but the average market offer decreases in July 2015 were lower than AGL's price decrease for standard contract customers. On average, market offers, including pay on time discounts, decreased by 5% after the repeal and by a further 5% in July 2015.

It should also be noted that retail market offers typically feature high pay on time discounts that are applied to the usage component of bills only. However, as these usage charges are now lower consumers may easily overestimate the benefits of a slightly higher discount. Consumers looking to switch retailers should therefore not just look for the highest discount. For example, a 10% pay on time discount off usage charges will produce a $10 saving if the usage charges are $100. A 12% pay on time discount will produce an $8.40 saving if the usage charges are $70. It is therefore important that consumers understand what the discount applies to and how much it translates to in actual dollar terms.

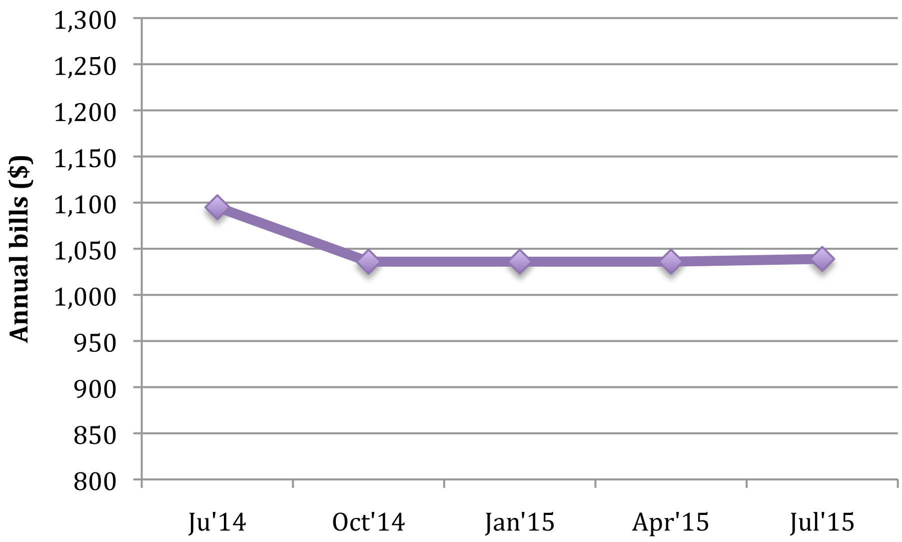
Chart 6 Average electricity market offers from July 2014 to July 2015. Bill calculations include discounts, pay on time discounts and GST - Households consuming 6,000kWh per annum (single rate)[15]



[15] Sources: July 2014 and 2015 prices from St Vincent de Paul Society's SA Tariff-Tracker; October 2014 prices from Alviss Consulting, *Tax on, Tax off: Electricity prices before and after the repeal of the carbon tax*, November 2014; January 2015 prices from Alviss Consulting, *Residential electricity and gas prices from January 2012 to January 2015*, A report to the ACCC, March 2015; April 2015 prices from Alviss Consulting's data collection service.

In relation to gas, section 1 shows that Origin's standard contract prices decreased by 2.5% after the repeal of the carbon tax but subsequently increased by 2% in July 2015. The average gas market offer, however, decreased by 5.5% after the repeal of the carbon tax and has remained almost unchanged since then (see chart 7). The overall price reduction (including pay on time discounts) has thus been higher for market offer customers than standing offer customers.

Chart 7 Average gas market offer (single fuel offers only) offers from July 2014 to July 2015. Bill calculations include discounts, pay on time discounts and GST - Households consuming 21,000Mj per annum[16]



[16] Ibid

2.1 Electricity market offers post July 2015[17]

- The difference between the worst standing offer and the best market offer is $760 per annum (households using 6,000kWh).[18]

- Customers on AGL's standard electricity contract can save $340 if switching to the best market offer.[19]

- The difference between the best and the worst market offer is $460 per annum.[20] The difference, or the price-spread, is thus slightly lower compared to last year when the range was $490. Chart 8 below shows the retail market offer price-spread for electricity retail offers.

Chart 8 Price-spread for fourteen electricity market offers post July 2015 (incl GST), including discounts and pay on time discounts - Households consuming 6,000kWh per annum (single rate)

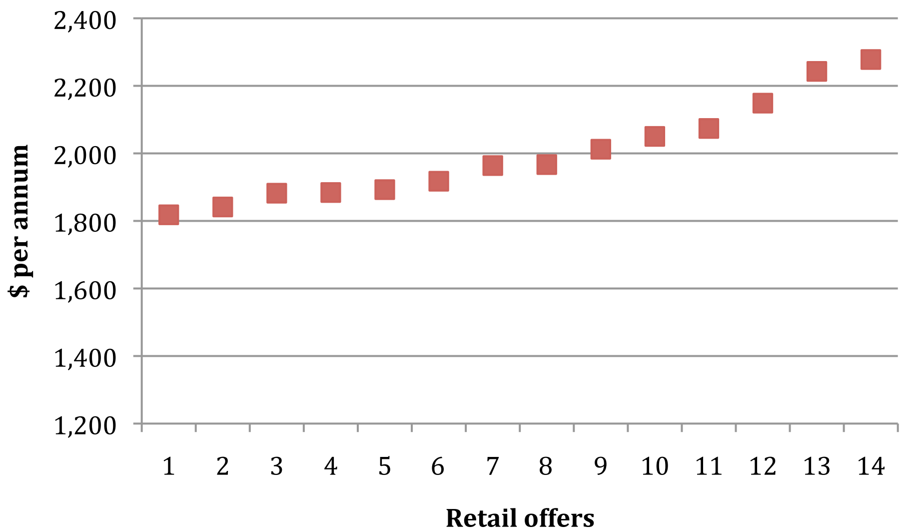


Table 3 below shows additional discounts applicable to the electricity retailers' published market offer rates. Table 3 also shows other contract terms and features, such as early termination fees, associated with these market offers. Some of the retailers have multiple market offers and may offer higher (or lower) discounts than

[17] These market offers were collected from the retailers' websites between the 1st and the 4th of August 2015 and it should be noted that retailers may change their rates at any time.
[18] Based on the worst standing offer (single rate) and the best of the published market offers (*including* additional discounts and/or pay on time discounts).
[19] Based on AGL's standing offer (single rate) and the best of the published market offers (*including* additional discounts and/or pay on time discounts).
[20] Households using 6,000kWh per annum (single rate) and all market offer bills include additional discounts and/or pay on time discounts.

those listed here. However, if the discounts are higher they are tied to other conditions such as payment by direct debit.[21]

Table 3 Published electricity market offers taking effect after July 2015: Key additional features and contract conditions

	Discounts	**Contract term/ benefit period**	**Early Termination Fee**	**Late Payment Fee**	**Pay on time discounts**	**Other**
AGL	No	2 years	No	$12.75	14% off usage	Yes
Origin	No	1 year	No	$12	16% off usage	No
Energy Australia	No	1 year	No	No	21% off usage	No
Simply	No	2 years	Up to $104.50	No	20% off usage	No
Alinta	No	No	No	No	20% off usage	No
QEnergy	No	No	$83	14.85	No	No
Lumo	No	2 years	$75	No*	12% off bill	No
Powerdirect	No	2 years	No	$12.75	14% off usage	Yes
Red Energy	No	2 years	Up to $95	No*	10% off bill	No
Dodo	No	No	No	No	20% off usage	No
Momentum	No	1 year	$75	No*	No	No
Pacific Hydro	No	1 year	No	No	No	No
Commander	No	No	No	No	20% off usage	No
Diamond	No	2 years	$22	$15	3% off bill	No

*The Price and Product Information Statements do not stipulate whether late payment fees apply.

Note: Examples of other features include loyalty bonuses, credits to the account upon commencing a contract and shop vouchers.

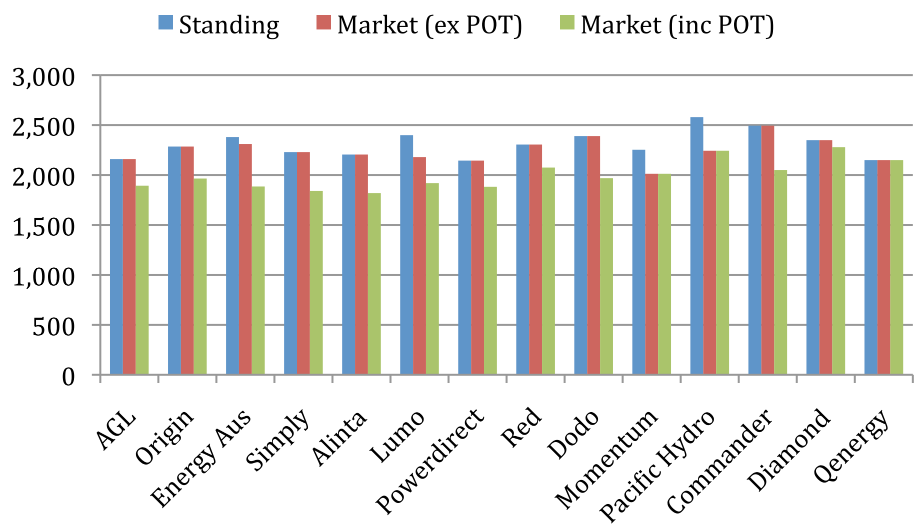
[21] Momentum, for example, has introduced a direct debit discount where customers receive a 2% discount off the market offer electricity rates (their Smile Power product). This discount is not included in the bill calculations presented in this report.

2.1.1 Potential savings - Differences between electricity offers

Households currently on AGL's standing offer can save $340 if switching to the best market offer. [22] Importantly, it is the difference between individual retailers' offers that can produce significant savings if switching from a standing offer to a market offer. Customers who choose to stay with the same retailer, but change to a market offer, are unlikely to experience annual savings as large as these. Furthermore, we stress that the majority of these discounts are conditional on bills being paid on time and households with cash-flow issues thus may find themselves unable to achieve the annual bills estimated for some of the best offers included in the charts below.

Chart 9 below shows annual retail bills for typical consumption households. The blue columns to the left represent the standing offer bill, the red columns are the market offers including guaranteed discounts (but not pay on time discounts) while the green columns are market offer bills including pay on time discounts.[23]

Chart 9 Estimated annual bills (incl GST) for standing and market offers post July 2015, including discounts and pay on time discounts - Households consuming 6,000kWh per annum (single rate)



The difference between the best and the worst market offer is also significant. Alinta's offer is approximately $460 less than Diamond's market offer post discounts (and pay on time discounts) for households with this consumption level. Figure 1 below shows estimated annual bills for market offers post discounts.

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[22] Based on market offer bills that include discounts and pay on time discounts.

[23] These market offers were collected between the 1st and the 4th of August 2015 and it should be noted that retailers may change their rates at any time. Discounts (excluding GST) have been applied to consumption and/or total bill as per offers listed in table 3.

Figure 1 Lowest to highest annual bills (incl GST) for market offers post July 2014, including discounts and pay on time discounts - Households consuming 6,000kWh per annum (single rate) [24]

1. Alinta	$1,818
2. Simply Energy	$1,841
3. Powerdirect	$1,882
4. Energy Australia	$1,884
5. AGL	$1,893
6. Lumo Energy	$1,918
7. Origin Energy	$1,964
8. Dodo	$1,967
9. Momentum	$2,012
10. Commander	$2,050
11. Red Energy	$2,074
12. QEnergy	$2,149
13. Pacific Hydro	$2,243
14. Diamond	$2,278

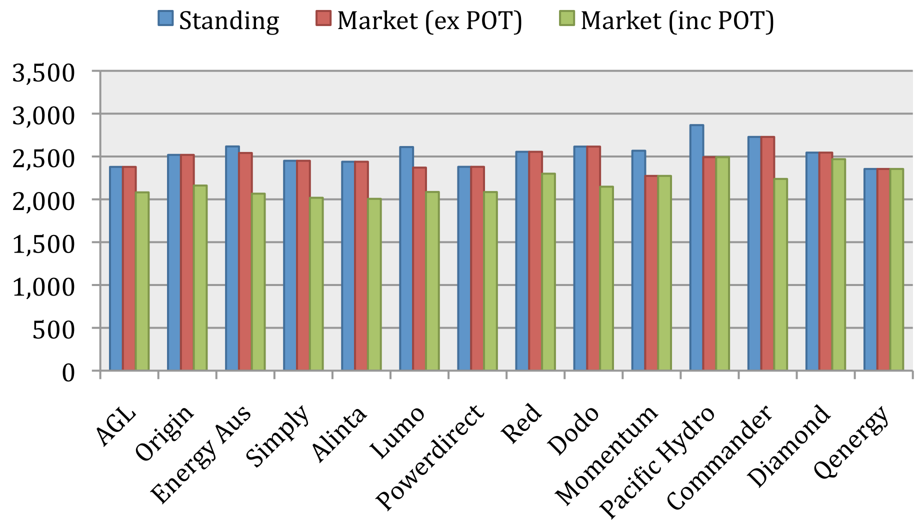
Chart 10 below shows a similar trend for households with controlled load (using 7,500kWh per annum and thereof 20% controlled load).

The difference between the worst standing offer and the best market offer is $860 per annum (for households with controlled off-peak load using 7,500kWh per annum).[25] Households currently on AGL's standing offer can save $380 if switching to the best market offer. The difference between the best and the worst market offer is $490 and again Alinta's offer produces the lowest bill while Pacific Hydro's rates produces the highest bill for households with controlled off-peak load.

[24] These market offers were collected between the 1st and the 4th of August 2015 and it should be noted that retailers may change their rates at any time. Additional discounts for customers choosing to pay by direct debit are not included in these bill calculations.
[25] Based on market offer bills that include discounts and pay on time discounts.

The blue columns to the left represent the standing offer bill, the red columns are the market offers including guaranteed discounts (but not pay on time discounts) while the green columns are market offer bills including pay on time discounts.[26]

Chart 10 Estimated annual bills (incl GST) for standing and market offers post July 2015, including discounts and pay on time discounts - Households consuming 7,500kWh per annum (20% controlled off peak)



[26] These market offers were collected between the 1st and the 4th of August 2015 and it should be noted that retailers may change their rates at any time. Discounts (excluding GST) have been applied to consumption and/or total bill as per offers listed in table 3.

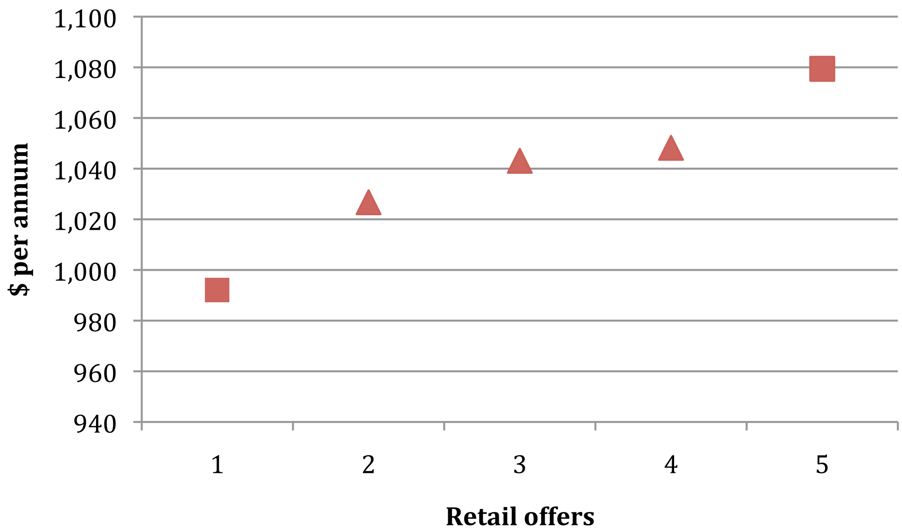
2.2 Gas market offers post July 2015[27]

There are very few gas market offers in South Australia and the only area where there is more than one market offer is greater Adelaide (households in the other areas only have access to Origin's market offer). As such, the below analysis only comprises standard contracts vs. market offers in the greater Adelaide area.

- The difference between the best and the worst gas market offer is approximately $90 per annum. The difference between *stand-alone* gas market offers, however, is minimal. See chart 11 below.

- Typical consumption households (21,000 Mj) can save $160 per annum if switching from Origin's standing offer to the best market offer.[28] See chart 12 below.

Chart 11 Price-spread for five gas market offers post July 2015 (incl GST), including discounts and pay on time discounts - Households consuming 21,000Mj per annum. The triangular markers are stand-alone gas offers and the squares are dual fuel offers.



The discounts (including pay on time discounts) used to estimate the annual bills are shown in table 4 below. Table 4 also shows other contract terms and features, such as early termination fees, associated with these market offers.

[27] These market offers were collected on the 5th of August 2015 and it should be noted that retailers may change their rates at any time.
[28] Based on the regulated offer and the best of the published market offers (*including* pay on time discounts).

Table 4 Published gas market offers in the Adelaide gas zone post July 2015: Key additional features and contract conditions

	Discount	Contract term/ benefit period	Early Termination Fee	Late Payment Fee	Pay on time discounts	Other
Origin	No	1 year	No	$12	12% off usage	No
AGL	No	1 year	No	$13	10% off usage	Yes
Energy Australia	No	1 year	No	$12	21% off usage	No
Simply*	No	2 years	Up to $95	No	10% off usage	Yes
Alinta*	No	No	No	No	10% off usage	No

* Gas offers only available in conjunction with electricity (dual fuel offers).

Note: Examples of other features include loyalty bonuses, credits to the account upon commencing a contract and shop vouchers.

2.2.1 Potential savings - Differences between gas offers

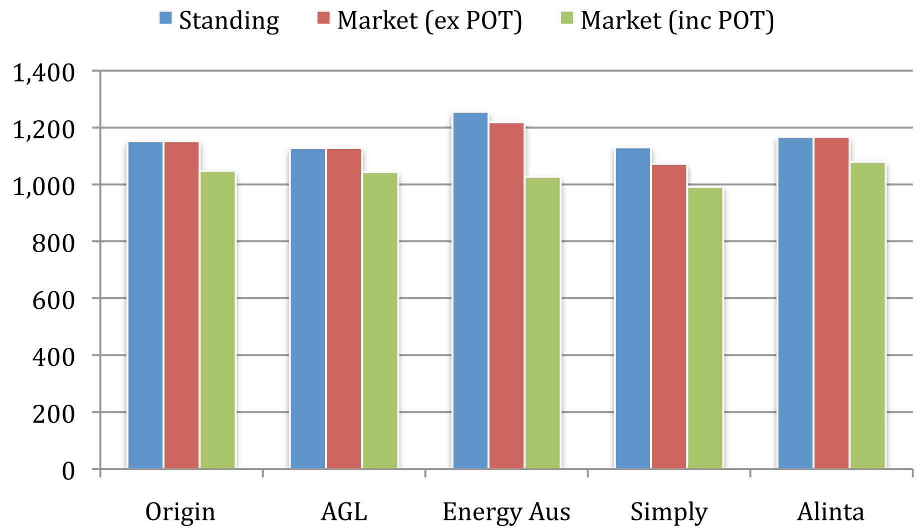
Chart 12 below shows annual retail bills for typical consumption (21,000Mj per annum). The blue columns to the left represent the standing offer bill, the red columns are the market offers including guaranteed discounts (but not pay on time discounts) while the green columns are market offer bills including pay on time discounts.[29]

It shows that typical consumption households (21,000Mj per annum) on the worst standing offer can save $260 per annum if switching to the best published market offer.[30] Households currently on Origin's standing offer can save $160 if switching to the best market offer. The best market offer (Simply's) is, however, a dual fuel gas offer and as such only available in conjunction with an electricity contract. AGL, Origin and Energy Australia are the retailers that offer gas as a stand-alone product, and the maximum saving that can be achieved for average consumption households switching from Origin's standing offer to a stand-alone gas market offer is $125.

[29] These market offers were collected on the 5th of August 2015 and it should be noted that retailers may change their rates at any time. Discounts (excluding GST) have been applied to consumption and/or total bill as per offers listed in table 4.

[30] Based on market offer bills that include discounts and pay on time discounts.

Chart 12 Estimated annual bills (incl GST) for standing and market offers post July 2015, including discounts and pay on time discounts - Households consuming 21,000 Mj per annum (single rate)



The difference between the best and the worst stand-alone gas market offers is lower. Energy Australia's offer is approximately $20 less than Origin's market offer post discounts (and pay on time discounts) for households with this consumption level. Figure 2 below shows estimated annual bills for stand-alone gas market offers post discounts.

Figure 2 Lowest to highest annual bills (incl GST) for gas market offers post July 2015, including discounts and pay on time discounts - Households consuming 21,000Mj per annum[31]

1. Energy Australia	$1,027
2. AGL	$1,043
3. Origin Energy	$1,048

[31] These bill estimates are based on rates published on the retailers' websites on the 5th of August 2015 and it must be noted that retailers may change their rates at any time. Additional discounts for customers choosing to pay by direct debit are not included in these bill calculations.

3. Retail market developments

This section discusses emerging issues and trends in the energy retail market, and this update report highlights two emerging issues:

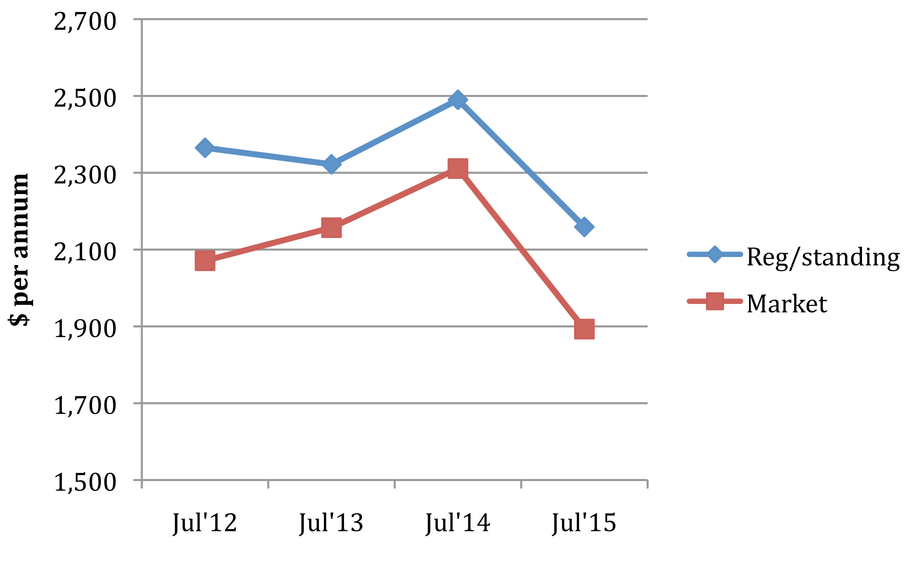
1) Increasing price difference (the price-spread) between electricity standing offers and market offers

2) The increasing difference in cost between paying bills on time and paying bills late. This difference is due to larger pay on time discounts and late payment fees

3.1 The price-spread

South Australia deregulated electricity retail prices on 1 February 2013 and while a difference between standing offer bills and market offer bills (including discounts) is to be expected, an increase in the difference could mean that the retailers pass through cost reductions as pay on time discounts rather than adjusting their base rates. Chart 13 below shows the difference to annual bills for typical consumption households on AGL's standing offer and market offer (including pay on time discounts) from July 2012 to July 2015.[32] It shows that AGL's market offer (including discounts) was $290 less (or 12%) than the regulated offer in July 2012. After deregulation, the difference (the price-spread) decreased to $170-$180, or 7%, in July 2013 and July 2014. However, it is important to note that AGL was required to offer a transitional rate to standing offer customers for two years after deregulation and that this rate was lower than most market offer rates. The transitional rate ceased existing in February 2015 and as of July 2015 the difference between the standing offer and the market offer is again 12%, or $270 per annum.

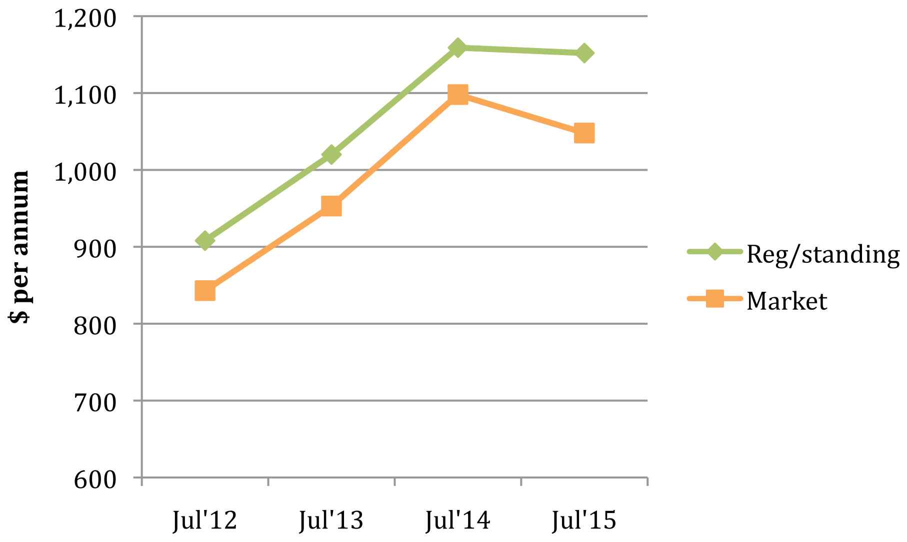
Chart 13 Electricity: Estimated average annual bills for AGL's standing offer and market offer customers using 6,000 kWh per annum (single rate)



[32] Based on households consuming 6,000 kWh per annum. The July 2012 standing offer is the regulated rate.

For gas, the difference between the annual bill for customers on Origin's standing offer and Origin's market offer (including discounts and pay on time discounts) has increased from approximately $65 in July 2012, 2013 and 2014 to $105, or 9%, in July 2015. See chart 14 below.

Chart 14 Gas: Estimated average annual bills for Origin's standing offer and market offer customers using 21,000 Mj per annum



3.2 Pay on time discounts and late payment fees

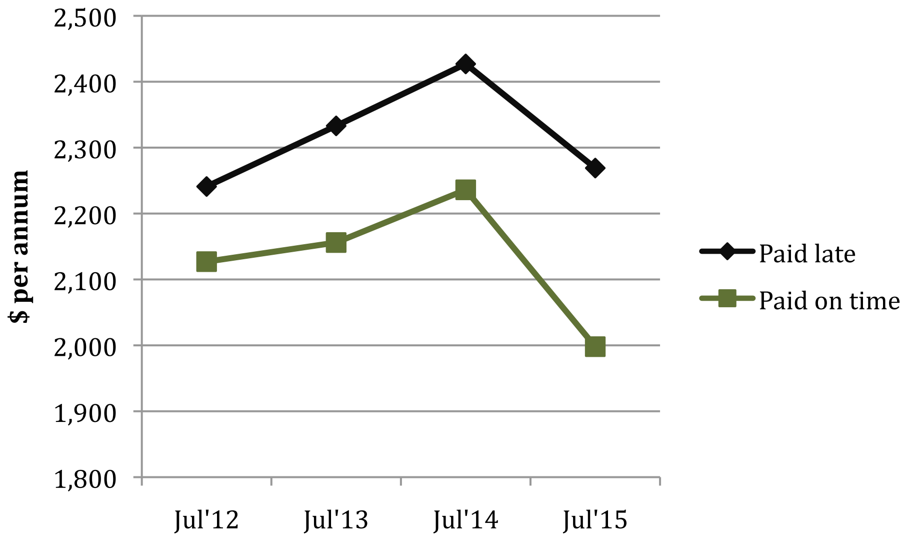
We have previously raised our concern regarding the use of late payment fees as well as the significant impact they can have on late paying households' bills when applied in conjunction with a pay on time discount.[33]

Discounting is clearly an effective marketing tool and we note that all retailers currently offering discounts make these conditional upon bills being paid on time. QEnergy, Momentum and Pacific Hydro are the only retailers that do not offer discounts (including pay on time discounts).

In July 2012, annual market offer bills were on average 5% (or $110) more for late paying customers compared to customers that paid on time. As of July 2015, the difference is 13% or $270 per annum. Chart 15 shows the average annual bill for customers that pay on time and customers that pay late from July 2012 to July 2015.[34]

[33] See, for example, St Vincent de Paul Society, *South Australian Energy Prices July 2014, An update report on the SA Tariff-Tracking project* by May Mauseth Johnston (August 2014)
[34] Based on households consuming 6,000 kWh per annum (single rate). Late paying bills do not include pay on time discounts (as per retail offer) and include four late fees (if applied by the retailers).

Chart 15 Average annual electricity bills for market offer customers that pay late and pay on time, 6,000 kWh per annum (single rate)



Pay on time discounts combined with late payment fees, means that South Australian households can be significantly penalised for late payment. Or conversely, South Australian households can be significantly rewarded for prompt payment. It does, however, highlight an issue that negatively impacts on households with cash-flow problems. Energy Australia, for example, currently offers 21% off usage charges if bills are paid on time but it also charges $12 for each bill paid after the due date. This results in late paying customers (with average consumption levels) paying $475 more per annum compared to customers that pay their bills on time. Table 5 below shows the annual difference between paying late and paying by the due date for each of the retailers.

Table 5: Difference ($ and %) in annual bill between paying all bills on time vs. paying all bills late (based on 6,000kWh per annum, single rate, 4 bills per annum). Electricity offers taking affect after July 2015.

	Difference	
Energy Australia	$475	25%
Commander	$443	22%
Dodo	$423	21%
Simply	$388	21%
Alinta	$386	21%
Origin	$368	19%
AGL	$317	17%
Powerdirect	$312	17%
Lumo*	$261	14%
Red Energy*	$230	11%
Diamond	$130	6%
QEnergy	$59	3%
Momentum*	$0	0%
Pacific Hydro	$0	0%

* The Price and Product Information Statements do not stipulate whether late payment fees apply and these calculations do therefore not include a late payment.

4. Supply charges

The supply charge is a fixed daily charge that is paid in addition to the consumption charges for electricity/gas used. High supply charges result in low consumption households paying a proportionally higher cost per unit of energy than high consumption households. This has significant equity implications as some customer classes characterised by low and fixed income also use less electricity than the South Australian average. Pensioners make up one of these lower consumption groups.[35]

4.1 Electricity supply charges

Consumers shopping around for a better market offer should thus be aware that some retail offers have significantly higher supply charges than other retailers and/or contract types. Chart 16 below shows the daily supply charges (cents per day) for the various offers available post July 2015. The blue columns to the left represent the supply charge for standing offers, the red columns are the market offers including guaranteed discounts (but not pay on time discounts) while the green columns are market offer bills including pay on time discounts.[36] It shows that while most retailers apply the same supply charge to their standing offer and their market offer, three retailers (Energy Australia, Lumo and Pacific Hydro) apply higher supply charges to their standing offers than they do to market offers. Furthermore, as three retailers (Lumo, Red and Diamond) offer pay on time discounts that include the supply charge, the supply charge can be significantly lower for customers on these offers if they pay their bills by the due date. Lumo's high supply charge for standing offer customer (approximately 90 cents/day), for example, means that customers would pay $80 more per annum in fixed supply charges on this offer compared to Lumo's market offer (including pay on time discounts). $80 per annum is also the difference between the lowest annual supply charge, including pay on time discounts, for market offers (Red Energy) and the highest (QEnergy).

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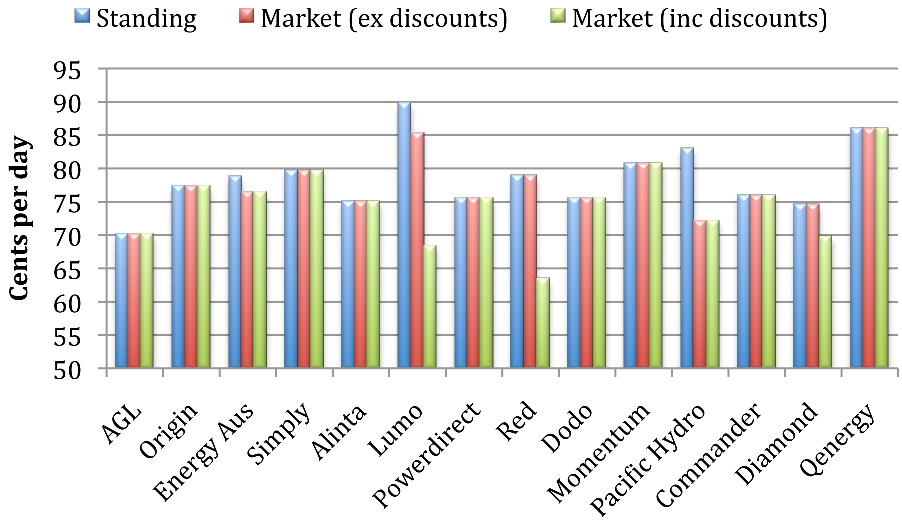
[35] ABS survey data shows that households with government pensions and allowances as their main source of income have a mean weekly electricity consumption of approximately 122kWh and that households with wages and salaries as their main income source use approximately 20kWh more per week (142kWh/week). See ABS, *4670.0 Household Energy Consumption Survey 2012*, Table 8, September 2013. Furthermore, Victorian consumption surveys have found that concession card holders in general, and households on the aged concession in particular, have lower consumption than the general population. See *Victorian Utility Consumption Household Survey 2007* by Roy Morgan Research for Dept. of Human Services, Final report, April 2008, p 75. The lower consumption levels among aged concession card holders relates to the average size of these households. Pensioners, as a customer group, are on average smaller households (fewer people) compared to the population on a whole and this has an impact on their consumption levels.

[36] These market offers were collected between the 1st and 4th of August 2015 and it should be noted that retailers may change their rates at any time. Discounts (excluding GST) have been applied to consumption and/or total bill as per offers listed in table 3.

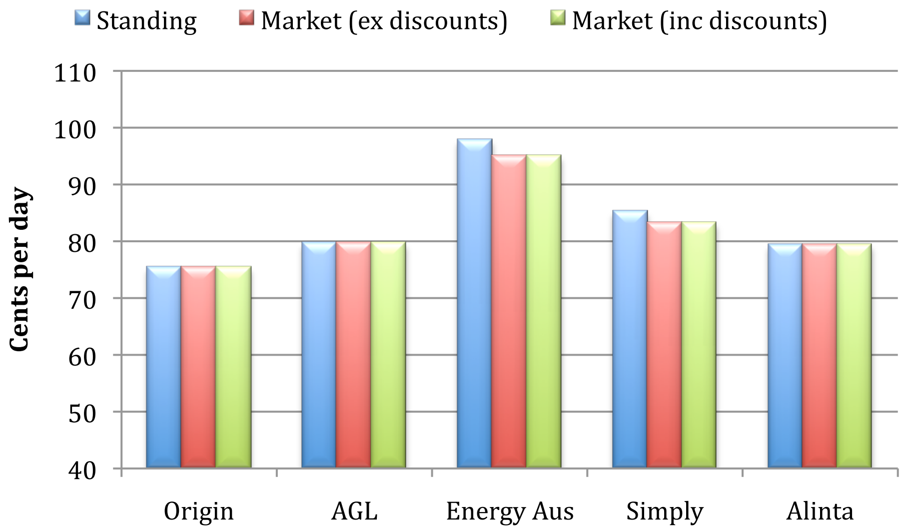
Chart 16 Daily supply charges for electricity (single rate and controlled load), standing offers and market offers post July 2015 (incl. GST)



4.2 Gas supply charges

The price discrepancy between the different retailers' supply charges is similar for gas. Chart 17 shows that Energy Australia's high standing offer supply charge of 98 cents per day means that customers would pay $80 more per annum in fixed supply charge on this offer compared to Origin's standing offer (approximately 75cents/day). Furthermore, none of the retailers offer pay on time discounts that impact on the gas supply charges.

Chart 17 Daily supply charges for gas, standing offers and market offers post July 2015 (incl GST)



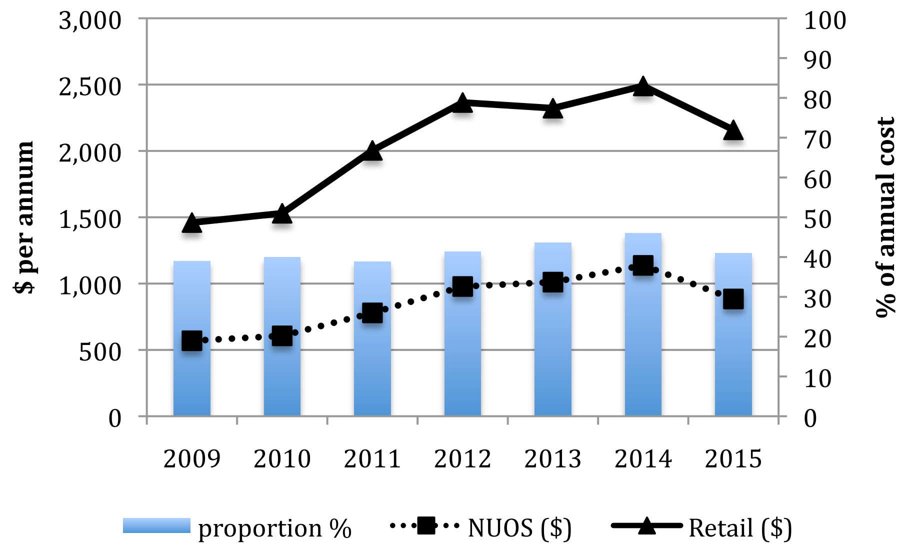
5. Network charges

The South Australian electricity network, SA Power Networks, introduces new Network Use of System (NUOS) charges as of 1 July every year.[37] These NUOS charges are approved by the Australian Energy Regulator (AER) and comprise Transmission Use of System (TUOS) and Distribution Use of System (DUOS) as well as other costs such as jurisdictional charges and metering charges. The retailers can, and generally will, build changes to the NUOS (in relation to both shape and price) into their retail tariffs.

The chart presented in this section shows that NUOS charges increased every year from 2009 to 2014 before being significantly reduced in July 2015. The NUOS currently accounts for 41% of an average consumption customer's bill.

Chart 18 shows annual retail bills (solid line), NUOS charges as annual cost (dotted line) and NUOS as proportion of annual bill (columns).

Chart 18 SA Power Networks: Retail bill per annum, NUOS charges and NUOS as proportion of total bill from 2009 to 2015 (based on the regulated/standing offer retail tariff, single rate, 6,000 kWh per annum)[38]



[37] SA Power networks was previously known as ETSA Utilities

[38] Based on the regulated/ AGL's standing offer rates from 2009 to 2015, presented as annual bills for households using 6,000kWh per annum (single rate). The annual NUOS charges have been calculated by allocating 1,500kWh per quarter (again based on annual consumption of 6,000kWh) to the step charges stipulated in the NUOS. The annual NUOS cost also includes fixed charges.