The case for change

- Almost 800,000 electricity customers in New South Wales, South Australia and South East Queensland are on standing offer contracts. These are electricity plans that some customers are placed on when they have not gone out and chosen an electricity plan that is available in the market.

- In these states and regions, retailers have the ability to set the price of standing offers where they want. Standing offer prices are some of the most expensive in the market.

- From 1 July 2019, the Australian Government will be introducing a cap on the price that electricity retailers can charge most standing offer customers in New South Wales, South Australia and South East Queensland.

- Electricity prices in the other states and territories are already regulated and Victoria is introducing its own price-capped default market offer from 1 July.

- The Australian Government has also introduced new rules on how electricity plans are marketed to consumers.

- By requiring retailers to use the newly established reference price, consumers in these states will now be able to compare the competitiveness of different electricity plans when shopping around for new offers.
What’s happening from 1 July 2019?

- Energy retailers will now be required to advertise electricity plans against a new benchmark called the reference price.
- The reference price is a common benchmark set by the Australian Energy Regulator that applies to each region reflecting average household consumption allowing customers to better understand and compare different offers in the market and their relative value. This will make it much easier to find a better deal.
- Retailers previously calculated their discounts off different base rates, but now they must use the reference price when advertising the value of a plan. For example, if a retailer offers a plan with a 25% discount, this refers to a discount of 25% off the reference price.
- The reference price is also used as a price cap and is the maximum amount retailers can charge consumers on standing offers.
- The changes lock in a better deal for over 100,000 small businesses and almost 700,000 residential customers in New South Wales, South Australia and South East Queensland. These are electricity markets that were previously unregulated.
- People in other parts of Australia have different types of price regulation, and the Victorian Government is introducing price regulation from 1 July.
Key messages to consumers

Message summary

• To help consumers get a fairer electricity deal, new rules have been introduced capping how much energy retailers can charge customers who have not actively engaged in the electricity market and are on standing offer contracts.

• A new benchmark, known as the reference price, has been calculated for your area. So when you are offered a discount, you know the amount is being taken off a comparable rate offered by all retailers.

• This new reference price is not the ‘best offer’ in the market. Most offers sit below the reference price and this benchmark will make it easier to compare offers. So you should shop around to find the best deal against the reference price.

• Depending on where you live, an average household on a standing offer could save between $129 and $181 per year, and a small business could save up to $896 per year.

Detailed messages

• To help people who can’t shop around, a new price cap has been introduced. You may be too busy or find it too complicated—but you now know the new cap acts as a price safety net and protects you.

• For almost 700,000 customers and over 100,000 small businesses on standing offers in New South Wales, South Australia and South East Queensland, the introduction of a price cap will mean a drop in their annual electricity bill.

• If you are on a standing offer that is more expensive than the reference price you don’t need to do anything to access the benefits of the change. The lower prices will be automatically applied.

• But the reference price is not the best offer you can get, so you should still shop around if possible to try to find a better deal. Most available offers sit below the reference price.

• The best place to look for a new energy plan is energymadeeasy.gov.au because it’s free, government run, and it searches all generally available offers in your area. This means you’re not required to provide your personal details to find the best plan.

• You can also call your retailer and ask for the best plan for your household or small business. What is best for you may differ depending on your household or business size, the types of appliances you use, what time of day you use them and where you are living.

• The reference price will act as a new benchmark price across all retailers in your area, so that discounts offered by different retailers can now be compared. This way you’ll know the plan with the highest discount is the cheapest, as all offers are now required to be advertised against the benchmark price.

• This will make the way electricity prices are set and marketed much more transparent and fairer for consumers.

• For customers worried that because discounts are now lower it means the price they pay for electricity is higher, this is unlikely to be the case. Some big headline discounts looked like a good deal because they were discounting off high standing-offer prices. Because discounts are now calculated against the new reference price, the discounts may appear lower while the price remains the same.
Background

• Energy consumers have commonly found it increasingly confusing and difficult to navigate the electricity market to find the best plan.

• Following the Australian Competition and Consumer Commission (ACCC) review of retail electricity pricing in 2018, the Australian Government has acted to try to make the electricity market more transparent. The Government is introducing a price cap for plans that disengaged customers often find themselves on, and establishing the reference price—a new benchmark tool that consumers can use to compare the competitiveness of deals.

• The Australian Energy Regulator (AER), as the independent umpire for the electricity market, sets the reference price for each of the network distribution zones where there is no retail regulation. The reference price becomes the new price cap from which all other discounts in the market must be taken off.

• While the number of consumers on standing offers or standard contracts has continued to decrease over time, a substantial number of consumers continue to pay high annual prices because they cannot, or choose not to, engage with the competitive electricity market.

• Retailers already offering customers a standing offer below the new price cap will not be required to reduce their prices.
Glossary—key terms related to the introduction of the default market offer and reference price

AER

Australian Energy Regulator is the independent regulator of wholesale and retail energy markets and networks. Its role includes making the final determination of pricing in relevant distribution regions for the reference price.

Benefit period (or fixed benefit period)

The set time you get a particular benefit under the energy contract. For example, a discount for the first 12 months of the contract. You can contact your retailer to find out if this applies to your contract.

Benchmark price

This is the same as the reference price (see below).

Conditional discount

A discount you might get on your energy bill if you do what you agreed to do. For example, if you agreed you will pay the full amount of your bill on time and you do—you will get a pay-on-time discount.

Cooling off period

By law, if you sign up to a new energy contract you have a 10 business day cooling off period to:
• cancel the contract
• not pay any exit fees.

Price cap (on standing offers)

The price cap is effectively a maximum price set by the AER that can be charged for standing offers in your local distribution area from 1 July 2019.

Distributor

An electricity distributor owns the powerlines, poles and gas pipes that supply electricity and gas to your home or business. They also own and read your electricity and gas meters.

Contact your distributor for questions about your electricity meters, powerlines or electricity supply interruptions.

Distribution area

The particular area where an electricity distributor operates the network it owns.

Sometimes this means your neighbor across the road might be in a different distribution area from you, as the poles and wires to their home are operated by a different distributor.

Energy Ombudsman

There is an energy ombudsman in each state and territory government to help customers resolve problems with an energy retailer or distributor. For energy ombudsman contact details, go to energymadeeasy.gov.au/useful-contacts
Energy retailer

The company you pay for the electricity you use. Some customers have the same retailer for both electricity and gas. Contact your retailer for questions about your bill, getting the best deal or getting electricity to your house or business.

Market retail contract (also called a market contract or market offer)

A contract for electricity that includes terms and conditions not included in standard contracts. For example, some might offer discounts on their rates, smart metering or ‘green energy’ options.

Reference price

The reference price is a benchmark that allows customers to better compare different plans. So when a retailer advertises a discount of any amount on your electricity bill, it must be compared against the reference price.

The reference price is set by the Australian Energy Regulator (AER) and will vary depending on where you live and who runs your electricity network.

Residential customer

A customer who purchases electricity principally for personal, household or domestic use at premises.

Single rate tariff

Also called flat rate, standard rate or anytime rate. The same rate for energy applies whatever time of day you use energy. The rate is usually lower than the peak rate of a time of use tariff.

Small business customer

A customer who does not purchase electricity principally for personal, household or domestic use with electricity supply that is, or will be, at a rate above the average household. This includes a customer who consumes energy at a business premises.

Standing offer (or standard retail contract)

Provides a basic plan for electricity use. You might be on a standing offer if you have:
• been in the same location for several years
• never taken up a market retail plan.

Time-of-use tariff (also called a flexible tariff)

Refers to plans where electricity is priced differently at different times of the day, and can only be selected by customers who have installed smart meters.

These plans are designed to incentivise electricity usage during certain times of the day, and typically include:
• peak period—electricity costs the most during this period. Peak rates usually apply in the evening on Monday to Friday.
• off-peak period—electricity is cheapest. Off-peak rates usually apply overnight on Saturday and Sunday.
• shoulder period—electricity costs a bit less than peak. Shoulder rates usually apply in between peak and off-peak periods.
Case Study 1—Making energy choices easier

Antonio and Francesca are self-funded retirees living at Southport in South East Queensland.

Normally, they shop around for the best electricity deal, but for the past year it hasn’t been a priority and whatever discount they had from their retailer has now lapsed.

From talking to his friends, Antonio knows that he could probably get a better deal if he shopped around but he just hasn’t had the time.

When Antonio goes online to look for a new electricity plan, he’s surprised to find no advertised plans match the size of the discount he previously received. Antonio is also confused as to why all plans talk about a reference price.

A concerned Antonio calls his retailer to find out if he can sign up to a new plan with the same large discount he previously enjoyed. The retailer explains a recent change by the government means all new plans must be advertised against a new benchmark, known as the reference price. And this may be the reason why he’s unable to find a new plan that matches his previous discount.

Antonio is told the reduction in advertised discounts is due to the requirement to calculate all discounts against the reference price. When Antonio says that he just wants to get the cheapest deal available, the retailer advises him that the plans with the biggest discounts against the reference price will likely be the cheapest plans.
Case Study 2—Addressing business energy costs

Mary and Fiona are partners in a café in Adelaide. Business is generally ok, but their power bills have always been a concern since going into business four years ago. They are on a standard contract with their retailer and have not signed up for a new plan since starting their business.

Currently, the café uses around 20,000 kWh of electricity every year on a flat rate tariff and their annual bill last year topped $9500*.

While watching the news, Mary hears about changes to the electricity industry beginning on 1 July. After going online, Mary finds energymadeeasy.gov.au, an independent comparison website that helps find the best electricity plans.

It turns out the changes discussed on the news are about a new maximum price her retailer can charge. This means if her café continues to use the same amount of electricity as previous years, Mary and Fiona will only be charged $9120*, saving them nearly $400 a year even if they don’t do anything.

Mary puts all her business consumption information into energymadeeasy.gov.au, wondering if she can get an even better deal for her café. The website shows they could save almost $1000 if the café signs up to a better deal with another retailer. Mary sends Fiona a quick email to ask if she’s happy to change energy providers and spells out the savings they can make.

*REFERENCE: AER Final Determination DMO, p8. Small business flat tariff example for 20,000 kWh per year.
Case Study 3—Shopping around for a better deal

Tama and Natalie and their three children live in Liverpool in Sydney's west. Their power bill is one of their biggest expenses beyond the mortgage on their home.

Natalie recently received a letter from her electricity retailer informing her the discounts currently applied to her bill are about to expire, convincing Natalie to look for a new electricity plan. After going online, Natalie is confused as to why all new plans talk about a reference price.

A puzzled Natalie calls her retailer to find out what is going on. The retailer explains a new benchmark price set by the independent regulator came into force on 1 July, and from now on all electricity plans are required to be advertised against the reference price.

The retailer explains to Natalie the reference price is a change in advertising electricity plans that allows Natalie to compare the value of each plan, as all plans must now be advertised against a common reference price. This means when Natalie compares two electricity plans, even plans from different retailers, she will be able to identify the cheapest deal.

Natalie and her husband are still unsure, so the next day she goes online to energymadeeasy.gov, a free, government-run price comparison website to find out more information about the reference price and to compare different electricity plans.
Case Study 4—Protecting consumers in the market

Eli is in his third year of studying to be a teacher at the University of New England and lives in a share house with three other university students near Armidale in the north east of New South Wales.

When they moved in, they stayed with the electricity retailer that was already supplying the house and have never changed their electricity plan.

In Armidale, it’s freezing during winter and Eli and his flat mates all have heaters going in the bedrooms of the old house they live in, as well as a reverse-cycle air conditioner in the main living area. This makes their electricity bill for winter expensive—around $1400* for the quarter.

Eli and his flat mates haven’t considered getting a better deal, because none of them know how long they will stay in the house and feel signing up to a new electricity plan will tie them down.

On Facebook, Eli reads a post about recent changes that will reduce electricity prices. It says the government has introduced a compulsory price cap to protect customers who aren’t on a special discounted deal, stopping retailers charging unjustifiably high prices on their electricity bills.

He learns that if you are being charged something higher than the price cap your electricity company has to reduce your rate, otherwise they will be breaching the law. Eli understands he doesn’t need to do anything for this change to take effect. When their next bill arrives, it’s $100 cheaper than the previous bill.

*REFERENCE: AER Final Determination DMO, p8

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Frequently asked questions—Introduction of the default market offer and reference price

When does the new reference price and cap on standing offers come into effect?
On 1 July 2019.

Do I have to do anything on 1 July when this happens?
No, you don't have to do anything. If you are currently on a standing offer, your energy retailer will set your rates in line with the new price cap from that date. You might receive a letter or phone call from your energy retailer advising you of the change.

If you are on a market offer, the amount you currently pay shouldn't change as most plans are well under the new price cap. So you don't need to do anything if you don't want to.

What if I don’t want to change my electricity plan?
The only real change for someone on a standing offer will be that the rate in relevant areas will be set at, or below, the new price cap. For most standing offer customers this will mean a reduction in their electricity bills.

If you're on a market offer, you are likely to be someone who is already comfortable shopping around. You have the choice of staying with the plan you have, or shopping around for a new one.

How does the new price cap work?
The new price cap is effectively a maximum price for standing offers, set by the Australian Energy Regulator, that can be charged for electricity services in your local distribution area. It will essentially become the price charged to customers on standing offers and will also become the reference price that all discounts must be calculated against. This means that if you are offered a 20 per cent discount from one provider and a 30 per cent discount from another provider, you know that those discounts are both compared to the same starting point (the reference price). It provides an 'apples-for-apples' comparison.

Does it also cover my gas bills?
No, the reference price and price cap are only for your electricity bill.

Does the price cap mean I will be on the cheapest electricity deal?
No. The price cap is not intended to be the lowest or cheapest electricity offer available, but it will be cheaper than most existing standing offers. You should still shop around if you want to find an even better offer. We recommend you use the Australian Government’s website energymadeeasy.gov.au to find the best deals in your area. This website will compare all offers available to you and does not pay any commission to the service providers.
How do I know if I am on a standing offer or another type of offer?

If you haven’t contacted your electricity retailer in the last few years to get a better deal, you will likely be on a ‘standing offer’. Also, if you have been on a fixed-term contract that includes an introductory discount (like 20 per cent off your usage for 12 months), you may have gone back onto a standing offer when that ran out. If you’re not sure, call your current energy retailer and ask what sort of electricity plan or offer you are on. Or, please check your bill for the tariff type that currently applies.

How much will I save on my household electricity bill after 1 July 2019 if I currently have a standing offer?

Savings depend on how much electricity you use each month or quarter, but the average household on a flat rate tariff can expect to make the following estimated savings depending on where you live:

<table>
<thead>
<tr>
<th>State</th>
<th>Expected savings</th>
</tr>
</thead>
<tbody>
<tr>
<td>New South Wales</td>
<td>$129–$181 per year (or average of up to $15 per month)</td>
</tr>
<tr>
<td>South East Queensland</td>
<td>$118 per year (or $9.83 per month)</td>
</tr>
<tr>
<td>South Australia</td>
<td>$171 per year (or $14.25 per month)</td>
</tr>
</tbody>
</table>

For households that are on a mix of flat rate and controlled load tariffs, the savings could be an additional 20 per cent.

REFERENCE: AER Final Determination Report, Table 20, p. 61.

Why is a price cap on standing offers being introduced?

In October 2018 the Australian Government accepted the recommendation of the Australian Competition and Consumer Commission (ACCC) to introduce a price cap, as one way of helping to better protect consumers and reduce their electricity bills. This is because over the past few years some existing standing offers had become unjustifiably high. As a result, long-term or loyal customers were not capturing the same benefits as new or mobile customers.

The price cap also sets a baseline to better inform customers shopping around by ensuring discounts and plans are being measured from the same starting point.

What’s the purpose of the reference price?

The reference price is effectively a benchmark—or common point of comparison—that makes it easier for consumers to understand the value of the plans being offered. It means market offers and discounts are being measured against the same starting point for each distribution area. Plans that offer a specific discount, say 25 per cent, do so against the reference price. Or, when you see two plans—one offering a 20 per cent discount and another offering a 25 per cent discount, for example—you know they are working from the same starting point. It’s an ‘apples-for-apples’ comparison.

What’s the difference between the reference price and the new price cap on standing offers?

The AER will determine a single price, which will be used for two different purposes. One purpose is the reference price, which uses this price as a baseline for comparing different plans, including discounts, and makes it easier for customers who like to shop around. The other purpose is to act as the price cap or maximum price that energy retailers can charge for their standing offers.

Will I have to change plans to access the newly adjusted discounts?

Not necessarily. It is more likely you will be accessing the same rate and type of discount. It’s just the calculation of the discount that changes.
**Will I still get my pay-on-time discount when the reference price is introduced?**

Depending on what sort of plan you were on before 1 July, you will still get your discount. But discounts on new offers in the market will need to be calculated off the reference price, which will change the way in which new offers are advertised. Discounts will still be commonly available and customers will be able to search for the plan that works best for them, but all discounts will work off a common reference price for each distribution area.

**Which energy markets are affected?**

A: All of New South Wales, South Australia and South East Queensland will be subject to a new price cap, set by the Australian Energy Regulator, because they are not currently subject to retail price regulation by state-based regulators. Victoria is commissioning and setting its own default market offer price cap for standing offers.

**Why aren’t all energy markets covered?**

Retail prices in all other markets (Tasmania, Western Australia, Northern Territory, Australian Capital Territory, and regional Queensland) are regulated by other authorities. Victoria’s default market offer will mean prices in the Victorian electricity market will also be separately regulated from 1 July.

**Which customers are affected?**

The only customers directly affected are those currently on standing offers. This means they haven’t actively sought a better offer from their electricity retailer in the past few years or may have had a fixed-term market offer expire. Estimates of the numbers affected, and where they are located, are:

<table>
<thead>
<tr>
<th>State</th>
<th>Households on standing offer</th>
<th>Small businesses on standing offers</th>
</tr>
</thead>
<tbody>
<tr>
<td>New South Wales</td>
<td>423,859</td>
<td>70,625</td>
</tr>
<tr>
<td></td>
<td>(13 per cent of customers)</td>
<td>(21 per cent of customers)</td>
</tr>
<tr>
<td>South East Queensland</td>
<td>194,735</td>
<td>26,793</td>
</tr>
<tr>
<td></td>
<td>(14 per cent of customers)</td>
<td>(25 per cent of customers)</td>
</tr>
<tr>
<td>South Australia</td>
<td>67,576</td>
<td>13,607</td>
</tr>
<tr>
<td></td>
<td>(9 per cent of customers)</td>
<td>(15 per cent of customers)</td>
</tr>
</tbody>
</table>

Importantly, the number of customers on standing offers has been falling over the past decade as people become more familiar with how a competitive energy market works, and now sits at approximately 14 per cent on average. It is expected that by 2021 there will be less than 10 per cent of residential customers on standing offers.


**How much are standing offers at the moment?**

Standing offers vary depending on where the customer lives and who their energy retailer is. Average annual bills from major retailers at the moment range from:

<table>
<thead>
<tr>
<th>State</th>
<th>Residential flat rate</th>
<th>Residential flat rate with 30 per cent controlled load</th>
<th>Small business flat rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>New South Wales</td>
<td>$1596–$2138</td>
<td>$2259–$2606</td>
<td>$6783–$8754</td>
</tr>
<tr>
<td>South East Queensland</td>
<td>$1668</td>
<td>$2096</td>
<td>$6481</td>
</tr>
<tr>
<td>South Australia</td>
<td>$1941</td>
<td>$2639</td>
<td>$10016</td>
</tr>
</tbody>
</table>


**How do standing offer rates compare to market offer rates?**

Standing offers are generally set at higher levels than market offers after taking into account any discounts. Market offers usually include conditional discounts like a pay-on-time discount, or a discount for paying through direct debit. If you don’t meet these conditions (for example, if you don’t pay by the bill due date), you won’t get the discount for that bill.

**Am I likely to be on a standing offer?**

If you haven’t signed up to a new electricity plan or renegotiated a new plan with your retailer, you are most likely on a standing offer, or paying standing offer rates because your advertised discounts may have expired.
Are there any risks for the customer of changing from a standing offer to a market offer?

Each customer will need to make their own assessment and we recommend you use the independent government website energymadeeasy.gov.au to find the best deals in your area. The main thing to know is that market offers are usually set at a lower rate than standing offers, but you need to ensure you can access the discounts attached, such as pay-on-time provisions or use of direct debit.

I'm a solar, demand or time-of-use customer. How does this affect me?

It doesn't. The price cap only applies to residential and small business customers on flat rate pricing (often called a flat rate 'tariff'). Standing offers for solar, demand or time-of-use customers are not capped at the new price cap rates. However, retailers will be required to compare both their flat rate and time of use offers to the reference price. This means that time-of-use customers are able to more easily compare time-of-use offers when they are shopping around for a better deal.

How did the Australian Energy Regulator work out how to set the price cap for standing offers?

There are a complex set of requirements included in the calculations, but they include the underlying wholesale cost of energy, distribution and transmission costs, allowance for a reasonable profit, examining market and standing offers across each region—as well as the need to maintain competition in the market.

Why is my market offer higher than a standing offer?

A: Some customers decided to take up premium market offers that may appear more expensive than standing offers. These are often packages that include ‘bells and whistles’ such as ‘live-time’ solar monitoring, connections to internet-connected appliances and other services linked to smart electricity metering. While these premium packages may appear more expensive than no frills electricity offers, some customers find these premium market offers are good value for their circumstances.

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Photos: Front 8 Jordan Pl © Department of the Environment and Energy