CORNWALL INSIGHT
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Chart of the Week

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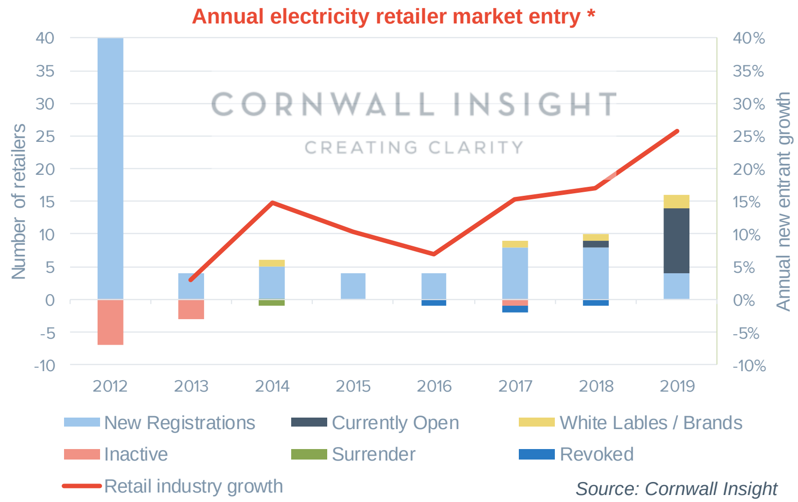
"In 2019 alone there have been four accepted retail registrations, ten current open applications and with the announcement of a new white label retailer, this amounts to a 25% increase on the total registered electricity retailers in 2018."

I think I can, I think I can: Can new retailers make it in the NEM?



Source: Cornwall Insight

Electricity retail registrations have exploded since 2016. 30 new electricity retail licenses have been awarded by the Australia Energy Regulator (AER) in that time, representing an increase of 70% since 2016.

So far in 2019 alone there have been four accepted retail registrations, 10 current open applications and with the announcement of a new white label retailer, this amounts to a 25% increase on the total registered electricity retailers in 2018.

These new entrants into the electricity retail space should assist to drive competition and lower prices as they offer alternative tariffs using innovative business models, including:

- Monthly fees
- Direct wholesale price pass-through
- High solar feed-in-tariffs and battery storage
- Wholly-online business to drive down costs
- Fixed price monthly bill for max monthly volume

The significant increase in electricity retailers will no doubt be pleasing to Australian Federal Government who along with the Australian Competition and Consumer Commission (ACCC) have been keen on promoting competition as a way of driving down retail prices. Competition is inherently limited in a market with about 6mn residential customers and 46 active retailers, where only eight retailers have more than 100,000 customers (2017-18).

The influx of new retailers in the NEM is a positive sign and appears to be occurring as some of the fundamental factors that make it difficult for smaller retailers, such socialised pricing and limited hedging liquidity, are being eroded.

Historically, excessively discounted prices provided by the Tier 1 retailers were subsidised by their higher priced offers and those large retailers were also vertically-integrated resulting in minimal generation volumes making it to market to satisfy hedging opportunities for smaller retailers. Interestingly, since the introduction of the Default Market Offer, Tier 1 retailers have increased their lowest priced market offers (by 3-7% on average) in comparison to the Tier 2 retailers who have dropped their lowest market offers by up to 3%. This has made the best Tier 2 offer more competitive against the Tier 1 retailers, but it is yet to be seen whether this will result in any customers moving away from the Tier 1 retailers. It is also interesting to note that the total cap volume traded on the ASX has been increasing by more than 50% year on year from 2016 to 2018.

However, retailer growth is also more difficult than ever with residential customer numbers growing by only 1-2% since 2015-16 and total average electricity usage per customer also dropped by 4-8% on 2016-17 levels (excl. Tasmania).

The UK saw a similar boom in new electricity retail entrants beginning in 2010 but has subsequently seen 11 bankruptcies/ exits since January 2018. These failures may ultimately cost consumers more than $300mn in unpaid industry fees. This rapid loss of retailers in the UK has been attributed largely to unsustainable business models and risky/ insufficient hedging strategies.

Both new retailers and the AER could learn from these issues. Australian customers need innovative retailers to provide customers with value in a rapidly changing energy environment and simultaneously the AER needs to ensure that consumers continue to be protected while incentivising innovation and competition in the retail space.

** 2012 was the introduction of the National Retail Law giving the AER authority to grant retail licence authorisation. All retail licences transferred over in 2012 were considered new registrants for the purpose of the chart.*