

ACT Energy Consumers Policy Consortium Submission to: ACCC inquiry into retail electricity supply and pricing: Issues Paper

ACT Energy Consumer Policy Consortium members:

[ACT Council of Social Service \(ACTCOSS\)](#)

[Care Financial Counselling Service](#)

[Conservation Council ACT Region](#)

[SEE-Change](#)

[Small Business Taskforce of the Canberra Business Chamber](#)

Author and Contact Officer:

Eileen Newmarch

ACT Energised Consumers Project Officer

Care Financial Counselling Service

PO Box 763

Civic Square ACT 2608

Ph (02) 6257 1788

Mobile 0412 127 882



This project was funded by Energy Consumer Australia Limited (www.energyconsumersaustralia.com.au) and the ACT Government, as part of Energy Consumers Australia's grants process for consumer advocacy projects and research projects for the benefit of customers of electricity and natural gas.

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

The ACT Energy Policy Consortium welcomes the opportunity to make a Submission to *the ACCC inquiry into retail electricity supply and pricing: Issues Paper*

The Consortium is comprised of representatives of [ACT Council of Social Service \(ACTCOSS\)](#), [Care Financial Counselling Service](#), [Conservation Council ACT Region](#), [SEE-Change](#) and the [Small Business Taskforce of the Canberra Business Chamber](#). The consortium considers that social, environmental and economic factors are fundamentally important in the formation and implementation of energy policy and that enhancement of equity and inclusion improves outcomes across all sectors.

Introduction

The priority in electricity supply and pricing should be that consumers, particularly consumers in vulnerable situations, are at the centre of decision making.

Over 13% of the Australian population is living well below the poverty line¹ and these people are in a particularly vulnerable situation.

However, analyses of historic income and expenditure suggest that a much broader and diverse range of household types are represented in the cohort of households in a vulnerable situation. These include:

- working poor who fall outside the traditional safety nets of the welfare system
- single parent households
- people living alone
- low-income renters
- people with medical conditions or disabilities

Increasing electricity prices means that many of these consumers are finding their electricity bills unaffordable and face disconnection, or limiting electricity use, often with adverse health consequences. In 2015/16 around 160,000 residential customers in Australia were disconnected for non-payment of their electricity or gas bills, up by approximately 47% since 2009/10.² The Consortium notes that increased competition in the wholesale market and in the retail market has failed to deliver lower electricity prices to the consumer and welcomes the ACCC Inquiry, which may shed some light on why this is the case.

Response to terms of reference:

Note that we have not commented on all terms of reference.

¹ ACOSS 2016, Poverty in Australia 2016 – Australian Council of Social Service and the Social Policy Research Centre and the University of NSW www.acoss.org.au/poverty

² KPMG Cutting through complexity. Quantifying the costs of customers experiencing difficulties in paying energy bills Energy Consumers Australia October 2016

i. the key cost components of electricity retail pricing in the NEM and how they have changed over time

The St Vincent De Paul Society in conjunction with Alviss Consulting have been tracking residential energy tariffs since 2010, and show that electricity prices have increased markedly since 2010 – well above the consumer price index, and increased in all jurisdictions except for Victoria and the Northern Territory from July 2015 to July 2016.³ Much of this price rise was driven by Network costs, but price increases in the wholesale sector over that last year have are leading to unprecedented increases in electricity in the coming year – ACT retail prices are increasing by 19 per cent.

ii. the existence and extent of any barriers to entry, expansion and/or exit in retail electricity markets

The existence of barriers to entry or expansion in the retail market may not necessarily be a negative. The low retail margins in the ACT may be seen by some as a barrier. ActewAGL in their submission on retail prices to the ACT price regulator, the Independent Competition and Regulatory Commission (ICRC), argued that they should have a competition allowance factored into the retail price, arguing it would make the retail market in the ACT more competitive. The ICRC did not allow this competition allowance. It is difficult to see that a competition allowance that would lead to higher prices can in any way work in the interest of consumers. More competition of itself is not the goal, it is effective competition to improve outcomes for consumers that should be the goal.

iii. the extent and impact of vertical integration in the NEM

iv. identifying any regulatory issues, or market participant behaviour or practices that may not be supporting the development of competitive retail markets

Competitive retail markets are not an end in themselves. The Independent Competition and Regulatory Commission (ICRC) cites data from the GetUp! Report of August 2016⁴ which compared household electricity bills in the regulated ACT retail market to the bills in the deregulated markets in Victoria, NSW, South Australia and south-east Queensland. This report found that the total annual bill in the ACT is the lowest of all NEM jurisdictions. It further found that the regulated retail component in the ACT is much lower than the estimated retail component on the best offers from the big three energy retailers (AGL Energy, Energy Australia and Origin Energy) in the other regions of the NEM. As the GetUp! Report noted, the charges for the provision of retail services in the ACT are on average

³ The NEM – A hazy retail maze Observations from the Vinnies Tariff-Tracking Project St Vincent de Paul Society and Alviss Consulting December 2016

⁴ Bruce Mountain, CME (Carbon+Energy Markets) [Australia's retail electricity markets: who is serving whom?](#) A report prepared for GetUp!, August 2016

about half of those in the other states in Australia.⁵ The outcome for ACT prices from having a regulated market can only be seen as a benefit for consumers.

v. the existence of, or potential for, anti-competitive behaviour by market participants and the impact of such behaviour on electricity consumers

vi. any impediments to consumer choice, including transaction costs, a lack of transparent information, or other factors

Distrust of the energy market is an impediment. Of particular concern is the finding by Energy Consumers Australia that less than one third of households (30 per cent) and only 41 per cent of small businesses nationally are confident that the energy market is acting in their long term interests. For households in the ACT only 22 per cent say the market is acting in their interests.⁶ This distrust of the market impedes active engagements by consumers.

Also, consumers in more vulnerable situations can have difficulty accessing tools such as the Energy Made Easy website, and indeed can be confused by the more commercial tools which are biased towards giving information only on a limited number of retailers. Information tools can be difficult to access for many consumers in vulnerable situations particularly those from Culturally and Linguistically Diverse backgrounds. Consideration should be given to making specialist assistance available for consumers in vulnerable situations. Some strategies could include ensuring there is simple English information about options, and possibly funding services to assist consumers in vulnerable situations in understanding the choice in the energy market and helping them optimise outcomes.

Also information is often web-based, which means consumers with limited access to, or use of, technology can be locked out of obtaining information.

Also, nationally about 30% of the population are renters, most are on low incomes and unable to engage with energy markets and newer technologies unlike homeowners. Many renters live in households with poor energy efficiency and are unable to take up offers from retailers to improve energy efficiency and to install solar panels etc.

vii. the impact of diverse customer segments, and different levels of consumer behaviour, on electricity retailer behaviour and practices

The market is increasingly becoming split between those who are actively involved in their energy management and those who are passive recipients of electricity plans. Those who are actively involved and have the money can invest in their energy management, eg

⁵ Referenced in the Independent Competition and Regulatory Commission (ICRC)'s Final report: Standing offer prices for the supply of electricity to small customers from 1 July 2017

⁶ Energy Consumer Sentiment Survey Findings December 2016 Energy Consumers Australia

installing Solar, purchasing energy efficient appliances, understanding and effectively using time of use tariffs. The consumers in the most vulnerable circumstances are often the least engaged or least able to make choices. This means that they can often be signed up to plans that are not the best plan for them. For example consumers in vulnerable situations are more likely to have difficulty paying accounts on time, yet many retailers now tie discounts to paying on time and consumers can pay hefty penalties for being one or two days late with payments.

More information is needed on how much vulnerable clients are disadvantaged by the contracts they have, what prices they have paid over a period of time (including whether they are accessing the benefits of any conditional discounts), and whether they could receive a beneficial outcome from switching. Assessments of consumer understanding, trust and satisfaction should be based on objective measures or tests rather than self-reporting through surveys.

Also, increasingly retailers are looking at developing apps for people to monitor electricity use. These apps will only be within access of the technology literate consumers. There needs to be more attention by the retailer on assisting vulnerable clients to access their usage information, and to be giving clients information on the best plan for them.

While this inquiry into retail electricity supply is mostly focussed on pricing there should also be information from retailers on the greenhouse intensity of their electricity and options available for lower greenhouse intensity electricity. Pricing might remain the predominant issue but all consumers should have an option to choose electricity with a lower climate change impact.

viii. the profitability of electricity retailers through time, and the extent to which profits are, or are expected to be, commensurate with risk, and

ix. all wholesale market price, cost and conduct issues relevant to the Inquiry

Recent wholesale price rises have been attributed in the main to uncertainty in the market and failure to invest in sufficient energy, along with closures of coal power stations that had reached their use by date. The Government response to the Finkel review is key to whether this issue can be resolved and some certainty about market direction introduced.

The report also outlines current initiatives and tools such as the Energy Made Easy website. These tools are difficult to access for many consumers in vulnerable situations particularly those from Culturally and Linguistically Diverse backgrounds. Consideration should be given to making specialist assistance available for consumers in vulnerable situations. Strategies should include ensuring simple English information about options, and funding services and community organisations to assist consumers in vulnerable situations in understanding the choice in the energy market and helping them optimise outcomes.

Conclusion

The Terms of Reference of the Inquiry appear to have an underlying assumption that if there is sufficient competition then the retail market will work effectively. However, outcomes for consumers should be the centre of decision making, rather than competition for competitions sake. Consumers in vulnerable situations are at the most risk as the electricity market becomes more complex and policies should be developed that ensure they are not disadvantaged by increasing complexity and choice.