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Ms Eva Wong
ACCC Retail Electricity Inquiry

By email: retailelectricityinquiry@acc.gov.au

Dear Ms Wong

IPART submission to ACCC inquiry into retail electricity supply and pricing

Thank you for the opportunity to make a submission to the Issues Paper for the above inquiry.

IPART provides independent regulatory decisions and advice to protect the ongoing interests of consumers, taxpayers and citizens of NSW. We regulated retail electricity prices in NSW until retail prices were deregulated in 2014. We are now responsible for monitoring and reporting annually to the NSW Government on the performance and competitiveness of the retail electricity market for small customers. Our experience makes us well placed to comment on the ACCC's inquiry into retail electricity supply and pricing.

We are currently undertaking our third annual review of retail competition. In our previous reviews, we found that competition for residential and small business customers in the NSW retail electricity market was delivering customers greater choice, service innovations and prices consistent with a competitive market.

Our response to the questions in the Issues Paper is attached to this letter.

IPART's contact officer for this submission is Fiona Towers, Executive Director, contactable on (02) 9290 8420.

Yours sincerely



Peter J. Boxall AO
Chair

IPART RESPONSE TO ISSUES FOR COMMENT

Issue 1 – Prices, costs and profit

1. The factors that have been driving the rising costs that electricity retailers have incurred in supplying electricity to customers over time.
2. Any factors that may impact on the future price of retail electricity services.
3. The profits and returns made by electricity retailers.
4. Other industries or jurisdictions that the ACCC could look to in making findings or recommendations.

IPART formerly regulated retail electricity prices and now monitors competition

As pricing regulator, IPART reviewed the factors that drove retail electricity prices changes. This involved estimating the costs that an efficient retailer would incur to supply electricity to small customers; including purchasing wholesale electricity, managing risk, complying with green scheme obligations, paying network charges, recovering retailing costs and earning a reasonable retail margin. Our reports, available at www.ipart.nsw.gov.au, contain information on the factors driving retail price changes in NSW up until retail price deregulation in 2014.

IPART is required to monitor and report annually on competition in the retail electricity market for small customers. Our role as Market Monitor is set out in the *National Energy Retail Law (NSW)*. We are currently undertaking our third annual review. In our first two annual reviews, we found substantial innovation and continued price discounting delivering benefits to small customers in NSW.

Caution against unnecessary intervention in the market

Regulatory experiences from other jurisdictions provide important insights on the implications of intervention in retail electricity markets. In the UK, concern over observed price differentials and some customers not engaging in the market led to requirements that retailers remove price differentials not based on costs, and limit the number of tariffs that they can offer. While well meaning, this intervention actually resulted in less innovation, reduced competition and overall made customers worse off.¹

Issue 2 – Market structure and nature of competition

5. The ways that electricity retailers currently compete.
6. The level of competition between electricity retailers in each NEM area and distribution area within each NEM area.
7. Any impediments to competition between electricity retailers.

Price differentials are a sign that the market is working

Price is the most common way that retailers attract and retain customers. Because customers respond to prices differently, ie, have different demand elasticities, there will inevitably be

¹ Competition & Markets Authority, *Energy market investigation – Summary of final report*, June 2016, pp 41-42.

price differentials in the market. We consider price differentials are a sign that the market is working, and support innovation and dynamic efficiency.

There has been a substantial increase in the range of products and services available to electricity customers since price deregulation in NSW. Retailers are designing products and services in response to different customer needs and are increasingly using non-price features to attract and retain customers. For example, retailers are offering customers integrated solar PV and battery storage plans, bundled energy, data and telecommunications plans, products to remove bill shock and options to pre-purchase electricity at discounted rates. Most of these developments have occurred in the period following the removal of retail price regulation, and competition in retail electricity market continues to evolve.

The market is delivering competitive prices, service improvements and innovation

A competitive market does not mean prices never increase; it means price changes should reflect changes in the efficient cost of supplying electricity. Competition creates incentives for retailers to improve service, develop products to meet customer needs and find ways to lower their costs so they remain competitive.

In our first two annual reviews of retail competition in NSW since prices were deregulated, we found substantial innovation and continued price discounting delivering benefits to customers. We also found that retail price changes were broadly consistent with changes in the underlying cost of supplying electricity. Our findings were the same across electricity distribution areas in NSW.

In our view, innovation is one of the strongest indicators of a competitive market. In the period since price regulation was removed, retailers have increasingly designed products and services to cater for the needs of different customers. Offers are being designed to make it easier for customers to manage their bills, get more information and control over energy usage, receive real-time price signals and achieve energy self-sufficiency. We expect that the benefits of a competitive market will increase over time.

Economic barriers mean structural changes in the market are likely to take some time

We have found that there are no substantial barriers for smaller retailers to enter the NSW electricity market. Limited access to competitively priced hedging products is an economic barrier that relates to the presence of large vertically integrated electricity businesses in the market. This presence could mean that a new retailer to the market needs considerable financial capacity to rapidly gain market share. The main implication of this and other economic barriers is that structural changes in the market are likely to take some time to occur. Smaller retailers are able to access exchange-traded derivative product to hedge their risk exposure.

Issue 3 – Customers and their interaction with the market

8. Any impediments that customers face in choosing a retail electricity service and any differences between customer types and NEM areas.
9. How customers' ability to make informed choices about electricity can be improved.

Comparing retail electricity offers

Some stakeholders are concerned about the complexity involved in comparing electricity offers. Retailers typically advertise based on a percentage discount; however, the largest discount is not necessarily the cheapest offer as retailers may have conditional and unconditional discounts, and use different reference rates for discounts.

To find the lowest priced offer, customers may need price comparator tools like energymadeeasy.gov.au, which allows them to search for the offer that provides the lowest bill (either with all discounts applied or just guaranteed discounts), based on their consumption. As competition in the retail market continues to strengthen, we expect customers' searching and switching costs will fall as retailers will strive to make their offers as visible and easy to access as possible.

Market-driven solutions are preferred to regulatory intervention

Recently we have seen the emergence of services that take the complexity out of comparing energy offers. POWERUP, a new service from CHOICE, continuously monitors every deal offered in the market and automatically switches subscribers to a better energy deal if it saves them \$150 or more per year. A market-driven solution such as this is preferred to regulatory intervention.

Not participating in the market can be a rational decision

Customers have a role to play in improving the performance and competitiveness of a market. The more well-informed and engaged customers are, the more pressure there is on retailers to offer competitive prices and services.

However some customers do not participate in the market and forego price discounts and other benefits on offer. For some, the cost of their time to search for and switch to a cheaper deal outweighs their potential benefit from a lower bill. For these customers, not participating in the market is a rational choice.

Some customers need assistance to engage in the market

Some customers have difficulty engaging in the market because of language or other barriers. In our view, there is an opportunity for retailers to assist these customers, along with targeted government assistance programs such as those already provided by the Ethnic Communities Council of NSW.²

² <http://www.eccnsw.org.au/What-we-do/Advocacy.aspx>, accessed 8 June 2017.