3 July 2017

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Eva Wong and Rebecca Holland
Australian Competition and Consumer Commission

By email to retailelectricityinquiry@accc.gov.au

Dear Eva and Rebecca

ACCC inquiry into retail electricity supply and pricing

Thank you for the opportunity to provide feedback on the ACCC's issues paper.

This submission provides brief comments on our experiences with the nature and level of competition in retail electricity markets in the jurisdictions in which we operate, NSW and South East Queensland.

About Mojo Power

Mojo Power (Mojo) is a new and innovative Australian energy retailer. We seek to make a fair profit that better reflects the true costs of providing our services.

We offer a subscription fee pricing model. We make money from the subscription fee so we can focus on servicing customers, not selling them more electrons. For us this includes helping our customers reduce energy costs by managing their energy consumption more intelligently with solar, batteries and other controllable devices.

Prices, costs and profits

Mojo charges electricity rates that reflect our expected costs to serve electricity to our customers. That is, our expected network, wholesale and environmental policy costs. We generally change these rates in line with the ordinary price change schedule at the start of a financial year. The main driver of changing prices for the July 2017 price change event was changes in wholesale electricity costs.

Mojo also charges a subscription fee for customers to access our services and rates. This fee is charged monthly or annually, as chosen by the customer. The subscription fee compensates Mojo for the costs it incurs in providing retail services, such as personnel, IT systems and other operational expenditure. As Mojo builds scale and drives toward profitability as a new entrant business, the subscription fee will also include a profit margin.

We have one flat rate and one time of use rate per network area. Mojo therefore does not cross-subsidise across its customer base by having groups of customers paying different rates or on different levels of discount. In short, we don't rob Peter to pay Pauline.

We are not able to comment on the pricing and margins of other retailers. We can observe however that different retailers will have different profit margins depending on their position in the market (incumbent vs new entrant), the jurisdictions they operate in, their customer acquisition strategies as well as their cost and risk management structures.

If a finding can be made that some electricity retailers are making profits in some jurisdictions that are above what may be expected in a reasonably competitive market, the ACCC should be very careful in proposing a regulatory response. Policies that reduce the drive for customers to search for a better deal and switch retailer could result in increased headwinds for smaller and new entrant retailers who are a significant driver of competition in the market. Examples of such policies can be found in the reforms implemented by the UK energy regulator Ofgem throughout the 2000s, resulting in unintended impacts on competition and price outcomes for consumers.

Market structure and nature of competition

Competition is an iterative process. Consumers make decisions about the products and services they desire, forcing service providers to better meet their expectations through innovation and competition on price and service delivery. The process works best when consumers have good information about the products and services they are choosing, when there are low transaction costs to engage in the market, and when there are low barriers to product and service providers entering and expanding in the market.

The level of retail competition in the National Electricity Market (NEM) varies across different NEM jurisdictions. This reflects the different timings and stages of price deregulation across the markets. Regardless of jurisdiction the market is dominated by three vertically integrated retailers and a handful of second tier retailers.

Electricity is a low engagement product for most consumers. Electricity customers on average switch retailer every 4 to 5 years. Some never switch and therefore remain on standing offers. The main driver for switching is to get a cheaper price. In some jurisdictions the prices of standing offers have increased significantly over time, with marketing to new customers increasingly focussed on the size of the conditional discount from standing offer rates, rather than on underlying prices. This has resulted in significant levels of price dispersion in some jurisdictions.

This retailer behaviour is not necessarily a bad outcome. Some degree of price dispersion is required to induce customers to switch, and therefore pressure retailers to discipline their pricing. The real issue is whether the price dispersion reflects an appropriate inducement to switch to a better deal in an effectively competitive market, or whether the price dispersion is a symptom of some other market failure and results in poor market outcomes with some customers that cannot afford higher prices left paying them because they are unable to effectively engage in the market. In our view there is some measure of both occurring.

Policy measures designed to remedy issues observable in the market should target the causes and not the symptoms of the underlying market failures. For example, they should focus on providing consumers with clearer and better information on the choices available to them, rather than invasive regulation of the number and type of offers that retailers can present.

We also recommend the ACCC consider investigating areas where social services interact with energy policy and consider whether they are well targeted and send appropriate signals. For example, standardising concessions arrangements across jurisdictions should be a priority. Appropriate incentives could be signalled by ensuring concessions payments are proportional to total energy bills, incentivising state governments to work toward lowering vulnerable customer energy bills to realise a budget dividend.

We recommend that any policy measures designed to promote more competitive retailer behaviour should also be mindful of the need to allow innovation in products and services. This is particularly critical at a time when the energy market is experiencing a significant shift toward a decentralised and smarter system with consumers and the decisions they make at the core of this transition.

Customers and their interaction with the market

Given the market structure, prevalent discount pricing practices and the nature of consumer (dis)engagement in electricity services, it's no surprise that most retailers have a strong focus on customer retention. This manifests in ways that does not necessarily produce the best outcomes for consumers. A good example of this is the industry use of "winback offers".

When Mojo wins a new customer we notify the market of the customer's intention to switch to us, in accordance with relevant market procedures. This also tells the customer's current retailer they're going to lose the customer soon. The current retailer then usually calls the customer and offers them significant discounts to stay, often much larger discounts than they offer to the market generally. The larger incumbent retailers can offer such high discounts to winback customers because many of their other customers are paying higher non-discounted prices.

There's a few problems with a market that operates in this way. Firstly, most consumers are not receiving the benefits of competition for most of the time and a select few are receiving most of the benefits at the competitive frontier. Secondly, the main engine of competition, the savings on offer that drives consumers to seek out a better deal, is dampened because consumers don't have transparent information on the best offers available for them. Lastly, competition is affected when these practices are used as an anchor for new retail competitors to enter and expand across retail electricity markets in the NEM.

The market failure here is an information asymmetry. Consumers don't have information on the best offers available. The regulatory solution should tackle the failure itself and not the symptom. We therefore recommend that winback offers should be deemed "generally available" offers under the Australian Energy Regulator's Retail Pricing Information Guideline. This would require these offers to be published on retailers' websites, as well as on the Energy Made Easy price comparator site.

We also recommend that the ACCC consider gathering data on winback offer pricing so it can consider the extent to which such offers may be impacting customer switching behaviour in the market and acting as a barrier to retailer expansion.

If you have any queries regarding this submission please don't hesitate to contact me at **dadams@mojopower.com** or using the phone details below.

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