

A fair, well-functioning electricity market

VCOSS response to ACCC discussion paper on electricity supply monitoring



The Victorian Council of Social Service (VCOSS) welcomes the Australian Competition and Consumer Commission (ACCC) consultation on National Electricity Market (NEM) monitoring.

VCOSS is the peak body of the social and community sector in Victoria. VCOSS members reflect the diversity of the sector and include large charities, peak organisations, small community services, advocacy groups and individuals interested in social policy. In addition to supporting the sector, VCOSS represents the interests of vulnerable and disadvantaged Victorians in policy debates and advocates for the development of a sustainable, fair and equitable society.

VCOSS advocates on Victorian energy market issues, including Essential Services Commission (ESC) regulation. In 2019, the ESC will develop a framework for monitoring competitiveness and efficiency in the Victorian energy market, including a reference price for assessing competitiveness. The ACCC and ESC monitoring reports will each be useful for Victorian community and consumer advocates. Ideally, the monitoring measures in these reports will be complementary, allowing comparison of Victorian customer outcomes with other NEM customers.

Monitor equity and distributional impacts

NEM analysis to date has been overly focused on traditional competition measures such as market concentration, the number of market participants, barriers to entry and switching rates. While competition measures will help to explain customer outcomes, they do not by themselves reveal whether the market is delivering good outcomes for people. People may switch relatively frequently but end up on poor-value deals, particularly if they are subjected to high-pressure sales tactics.

VCOSS strongly supports analysing whether the NEM is delivering fair, equitable electricity supply, particularly to people vulnerable to energy hardship, including people on low incomes, renters, people with disability or long-term health conditions, and households with children.¹ We were very pleased to see this type of analysis in the ACCC's final report of the retail electricity pricing inquiry and recommend it continues in the monitoring report

Analyse whether the market is actually working for people

The ACCC should analyse whether electricity is reasonably priced, price changes over time and their reasons, the factors preventing more competitive pricing, and cost distributions among different customers and offer types.

¹ Victorian Council of Social Service, *Battling On: Persistent Energy Hardship*, November 2018.

We support electricity cost stack analysis that differentiates between retail costs and retail margins and the changes in these over time. When analysing the retail costs component, we recommend the ACCC breaks down costs to serve and costs to acquire and retain (CARC), to help determine what is driving retail costs and whether CARC costs change over time or vary by jurisdiction.

The retail price analysis should examine:

- the relationship between wholesale and retail prices and any divergence between the two (e.g. a wholesale price drop and a retail price increase)
- price dispersion among market offers and between standing/default and market offers
- the number of market offers exceeding Default Market Offer/Victorian Default Offer price levels, once these reforms commence
- the size and prevalence of discounting once default offers commence
- effective price outcomes among discounted and undiscounted offers
- pricing time periods and the timing of price changes (this measure should be designed to detect short-term pricing and any price change trends among retailers)
- pricing among the big retailers
- pricing among small- to mid-tier retailers over time.

The ACCC should also measure:

- the distribution of low-income and vulnerable customers across standing/default offers and market offers
- the actual prices paid by low-income and vulnerable customers, including hardship customers and those using payment plans or the Victorian payment difficulty framework
- the proportion of household income spent on electricity across different income groups including people reliant on Newstart and other income support payments, similar to the models used by the Australian Council of Social Service and the Brotherhood of St Laurence.²

To date, too little attention has been paid to the distributional impact of household solar uptake. Solar uptake is anticipated to increase significantly, and market regulation will most likely need to change to ensure electricity supply costs are fairly allocated. This requires accurate information on the distribution of network, retail and environmental costs between solar and non-solar households. These measures should allow regulators to monitor the effect of policy changes over time, for example as some costs are taken off bills or as network pricing is reformed.

VCOSS welcomes ongoing ACCC monitoring that allows community and consumer advocates to determine whether retail competition is working for people, and where policy reforms should be focused when the market fails people.

² Australian Council of Social Service and Brotherhood of St Laurence, *Energy Stressed in Australia*, October 2018.