

Making energy markets work

Submission in response to the review of electricity and gas retail markets in Victoria

3 March 2017



About VCOSS

The Victorian Council of Social Service (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 disadvantaged Victorians and advocates for the development of a sustainable, fair and equitable society.

This submission was prepared for VCOSS by Emma O'Neill in consultation with VCOSS member organisations.

Authorised by:

Emma King, Chief Executive Officer

© Copyright 2017

Victorian Council of Social Service

Level 8, 128 Exhibition Street

Melbourne, Victoria, 3000

+61 3 9235 1000

For enquiries:

Llewellyn Reynders, Policy Manager

Email: llewellyn.reynders@vcoss.org.au

VCOSS acknowledges the traditional owners of country and pays its respects to Elders past and present.

Contents

Executive summary.....	2
Recommendations.....	3
Victorian energy markets	4
Energy retail markets disadvantage vulnerable people	4
Rapid energy price increases.....	5
Victoria’s large retail charges	6
Price dispersion	7
Make energy pricing transparent.....	8
Require actual price display and prohibit percentage discount display	13
Prohibit benefit periods	16
Collect better cost and outcome data	17
Ensure competition benefits vulnerable people	19
Reduce barriers to market engagement.....	22

Executive summary

VCOSS welcomes the opportunity to contribute to the review of electricity and gas retail markets in Victoria.

Energy retailers sell an essential service. People's financial circumstances, health and wellbeing can be compromised if energy retail markets do not operate in a fair and transparent manner.

There are signs Victorian electricity and gas retail markets are not operating in consumers' interests and require reform. Energy prices have increased rapidly, rising by 119 per cent in the past decade. In Victoria, more costs go towards retailers' costs and margins than in other states and territories. Despite purchasing a largely homogenous product, people pay very different prices depending on whether they are on 'standing offers' (i.e. default offers), discount 'market offers' (the offers we tend to see advertised on websites, television etc.), or non-discount market offers.

VCOSS considers retail markets require reform in three main ways.

Make energy pricing transparent

Energy pricing displays are confusing and inconsistent. The use of discount percentage figures in advertising—rather than actual estimated prices—risks misleading people. Requiring retailers to display actual prices through standardised comparison rates would help to drive price competition and bring down energy bills.

Ensure competition benefits vulnerable people

Some low income and otherwise vulnerable people are shut out of better value energy deals, because they cannot pay on time, by direct debit or online. Government can help people afford energy by introducing a simple, low cost energy offer with a reasonable tariff that is specifically targeted at low income and other vulnerable households. We envisage each retailer would develop their own offer and tariff within regulated parameters, and be restricted from passing on unreasonable costs to low income customers.

Reduce barriers to market engagement

Energy is a daunting product. In Victoria, 29 electricity retailers and 11 gas retailers offer an array of energy deals. Despite the introduction of useful services like the Energy Compare comparison website, many people lack the time, literacy skills and internet access to engage with the energy market. Not everyone is able to individually undertake the process of searching and switching. An independent energy broker can help, by taking on the hard work. A broker would help drive price competition by providing a relatively easy and no-cost way for people to compare, switch and save, and bring down government concession costs in the process.

Recommendations

Make energy pricing transparent

- Require retailers to display actual energy prices, and prohibit the display of discount percentages in retailers' advertising and other communications.
- Prohibit the use of benefit periods in retail market contracts.
- Collect data about retailer costs and customer outcomes in retail energy markets on an ongoing basis.

Ensure competition benefits vulnerable people

- Introduce a simple, low cost energy offer with a reasonable tariff, specifically targeted at low income and other vulnerable households.

Reduce barriers to market engagement

- Consider introducing an independent energy broker for residential customers.

Victorian energy markets

VCOSS believes Victorian energy retail markets are not operating in consumers' interests and require reform. If a deregulated market is to survive in Victoria, energy must be made available at an affordable price, especially to low income and otherwise vulnerable households.

Energy retail markets disadvantage vulnerable people

Energy retailers sell an essential service. People's financial circumstances and their health and wellbeing can be compromised if energy retail markets do not operate in a fair and transparent manner.

People on low incomes spend approximately double the proportion of their total weekly budget on energy than wealthier households.¹ Increases in electricity and gas prices therefore disproportionately affect people on low incomes. High energy costs can push households into financial hardship, and prevent them paying for other household necessities.

Low income and disadvantaged groups are more likely to live in poorer quality housing, and have less capacity to improve their energy efficiency by installing insulation, shading and cooling systems, and efficient air-conditioning. Uninsulated homes use about twice the energy of insulated homes for heating and cooling. High energy use is often caused by poor quality housing, inefficient appliances and financial constraints on upgrading appliances or improving home energy performance.

Relatively affluent homeowners are reducing their reliance on the retail energy markets by installing solar panels and associated technology. Almost two thirds of Victorian households have either purchased solar panels or intend to do so in the next five years. More than one third of households are considering purchasing electricity battery storage.² However, renters in particular cannot access these substitutes, along with low income homeowners without upfront capital to install solar panels. As more affluent households increasingly can move 'off the grid' or reduce their reliance on the grid, retail energy markets regulation will increasingly need to focus on the needs of low income people with no other alternative energy options.

Currently, to participate in energy retail markets, people require relatively high literacy and numeracy levels, yet more than 40 per cent of Australians lack the literacy and numeracy skills

¹ Australian Bureau of Statistics, Household energy consumption survey, Australia: Summary of results, 2012, cat no. 4670.0; Australian Energy Regulator, *Annual report on the performance of the retail energy market, 2015-16*, 22 November 2016, 64.

² Energy Consumers Australia, *Energy consumer sentiment survey findings: Victoria*, December 2016.

required for everyday life.³ Energy deals are largely compared and sold online, making engagement difficult for low income households without internet access.⁴ Searching for better energy deals is simply not a priority for many people with complex lives, including major health and financial problems.⁵ This means many people cannot engage with the market, and individually undertake the process of searching and switching.

Victorian retail markets do not appear to be operating in consumers' interests, as indicated by:

- rapid price increases over the past decade
- a relatively large retail component of bills
- a high degree of price dispersion.

In addition, traditional competition and market performance measures do not assess equity implications. For example, any competition from the arrival of new retailers may have limited benefits for low income and other vulnerable households if they are implicitly excluded from some retailers' best offers (for instance, through use of online sign-up bonuses and online payment discounts).

Rapid energy price increases

Detailed data on retail price movements and their drivers are difficult to obtain. The available data are for electricity 'standing offer' prices, which tend to be higher than market offer prices. Between 2006 and 2016, Victorian electricity standing offers increased by 119 per cent, or an average of 12 per cent each year, far in excess of inflation.⁶

In Victoria, there does not appear to be a clear relationship between retail price increases and underlying wholesale and network costs. Since 2009, Victorian network costs have fluctuated and (with the exception of the AusNet network) are lower than New South Wales and Queensland, but Victorian consumers do not reap any benefit, paying similar sized bills to those states.⁷

According to one analysis, the increase in the wholesale plus retail charge between 2008 and 2014 does not seem to be explained by wholesale price changes, which were broadly constant over the period.⁸

³ Australian Bureau of Statistics, Programme for the International Assessment of Adult Competencies, Australia, 2011-12, cat. no. 4228.0.

⁴ In 2010-11, only 55 per cent of households in the lowest income quintile had internet access: Australian Bureau of Statistics, Household Use of Information Technology, Australia, 2010-11, cat. no. 8146.0.

⁵ See A Lorec, L Pedro, B Badesha, C Dize, I Fernow, L Dias, 'Tackling fuel poverty through facilitating energy tariff switching: A participatory action research study in vulnerable groups' (2013) 127 *Public Health* 894.

⁶ Ben Phillips, *Research note: Household energy costs in Australia 2006 to 2016*, ANU Centre for Social Research and Methods, February 2017.

⁷ St Vincent de Paul Society and Alvis Consulting, *The NEM: A hazy retail maze—Observations from Vinnies' tariff-tracking project*, December 2016, 11-12.

⁸ Carbon and Energy Markets, *A critique of the Victorian retail electricity market: A report for the Brotherhood of St Laurence*, June 2015, 13.

Victoria's large retail charges

Energy bills are made up of wholesale, network and retail costs, along with 'green scheme' costs in electricity bills. The retail component of electricity bills is greatest in Victoria. It is not clear why retailing is more expensive in Victoria than other jurisdictions.⁹

As a proportion of the bill, retail costs differ between standing offers and market offers. In Victoria, retail costs take up 37 to 44 per cent of electricity standing offer bills, and 21 to 29 per cent of electricity market offer bills. The market offer analysis assumes people pay on time and therefore receive a discount. In practice, the retail component will be higher than this as some people will not pay on time.¹⁰ One explanation is Victorian retailers are sacrificing cost recovery and margins on market offers (particularly conditional discount offers), and recouping them on standing offers and non-discount market offers.

VCOSS believes there needs to be more transparency in the demographics of customers on standing offers, discount market offers and non-discount market offers, and the extent to which there is a regressive transfer of costs from high income people to low income people. There are limited data on this question. AEMC analysis shows:

"In Melbourne and Sydney, higher income areas are more likely to have a high proportion of customers on standing offers. The reverse applies in many regional areas where lower income areas are more likely to have customers on standing offers."¹¹

There are also unanswered questions about retailers' fixed charges in Victoria. Fixed charges for electricity have been increasing since at least 2013 and now comprise 37 per cent of a low income household's electricity bill, which is high relative to other states and territories.¹² For one Victorian electricity product in 2016, 53 per cent of fixed charges were imposed by the retailer, with the remainder comprising network and smart meter costs.¹³

VCOSS members report some second and third tier retailers 'move on' customers with payment difficulties to the three major retailers, or, for example, implicitly exclude low income and other vulnerable people by operating 100 per cent online. The review can investigate how any such practices affect costs for the three major retailers, and any price implications for those retailers' customers.

⁹ St Vincent de Paul Society and Alvis Consulting, *The NEM: A hazy retail maze—Observations from Vinnies' tariff-tracking project*, December 2016, 33-35.

¹⁰ *Ibid* 17-20.

¹¹ Australian Energy Market Commission, *Retail competition review*, Final report, 30 June 2015, iii.

¹² Australian Energy Regulator, *Annual report on the performance of the retail energy market, 2015-16*, 22 November 2016, 64.

¹³ Origin 'Saver', Citipower network, annual bill for a new customer as of February 2016, 6000 kWh per annum, single rate, GST excluded, assuming 50 per cent of customers obtained a conditional discount: St Vincent de Paul Society and Alvis Consulting, *The NEM: A hazy retail maze—Observations from Vinnies' tariff-tracking project*, December 2016, 27.

Price dispersion

There is considerable price dispersion in the Victorian retail markets. As at October 2016, households with typical electricity consumption (depending on network area) can save up to \$590 to \$830 per annum by switching from the worst standing offer to the best market offer.¹⁴

Despite the same underlying network costs, retail pricing varies considerably within a single network. The difference between the best and worst market offers ranged from \$470 per annum in the Citipower network to \$590 in the Powercor network, for households with typical consumption levels.¹⁵

The degree of price dispersion appears to reflect price discrimination, whereby people who struggle to engage (or are apathetic about engaging) are on uncompetitive, high-cost standing or market offers, while engaged customers are on the best market offers. VCOSS is concerned low income and otherwise vulnerable customers are subject to inequitable price discrimination; a concern shared by some retailers.¹⁶

¹⁴ St Vincent de Paul Society and Alvis Consulting, *Victorian Energy Prices 2016*, October 2016, 4.

¹⁵ *Ibid.*

¹⁶ See, for example, Paul Simshauser and Patrick Whish-Wilson, 'Reforming reform: differential pricing and price dispersion in retail electricity markets', AGL Applied Economic and Policy Research, working paper no. 49, June 2015.

Make energy pricing transparent

Pricing in Victorian energy retail markets is not transparent, suggesting a lack of effective competition. The widespread display of discount percentages—rather than actual estimated prices—risks misleading or confusing people. There is no consistent form of pricing display, which makes it very difficult to compare prices and works against price competition. Inconsistent presentation of offers is a barrier to searching and switching among vulnerable people.¹⁷

Pricing displays vary across the range of energy offers, which comprise:

- standing offers
- non-discount, set price market offers
- discount market offers, which are usually conditional on customer behavior, requiring on-time payment, direct debit, online billing, a dual fuel deal or other conditions to receive the discount. Guaranteed, non-conditional discounts are rare.¹⁸

Set price offers are increasingly rare, comprising 18 per cent of electricity market offers in 2015-16.

Conditional discount offers are now the most common, at 56 per cent of all electricity market offers in 2015-16.¹⁹ Some retailers combine relatively low (e.g. 4 per cent) guaranteed discounts with much larger (> 15 per cent) conditional discounts. Discounts are typically off usage only rather than the entire bill (i.e. both fixed charges and usage charges).²⁰

Current discount levels create the impression of a good deal. For electricity it is common to see offers of 30 per cent off usage rates if bills are paid on time, while gas has typical discounts of 15 per cent.²¹ However, it is difficult to assess whether these discounts constitute competitive, good value offers when retailers are allowed to display only the 'headline' discount percentage and no other pricing information, such as an indicative final price. The examples in Figures 1 and 2 are taken from the AGL and Sumo Power websites, respectively.

¹⁷ Newgate Research, *AEMC 2016 retail competition review: Understanding vulnerable customer experiences and needs*, Consumer research report, June 2016, 7.

¹⁸ St Vincent de Paul Society, Victorian Tariff-tracking Project, Workbook 3: Electricity Market Offers, July 2016.

¹⁹ Essential Services Commission, *Victorian Energy Market Report 2015-16*, November 2016, 14.

²⁰ St Vincent de Paul Society, Victorian Tariff-tracking Project, Workbook 3: Electricity Market Offers, July 2016.

²¹ St Vincent de Paul Society and Alvis Consulting, *Victorian Energy Prices 2016*, October 2016, 4.

Figure 1: AGL Victorian electricity offers

VIC Electricity Plans

AGL Powercombo Savers™	AGL Savers™	AGL Fixed™
Up to 32% Off [^]	Up to 30% Off [^]	No rate changes for 2 years
<ul style="list-style-type: none"> Plus \$50 online sign up credit[†] 	<ul style="list-style-type: none"> Plus \$50 online sign up credit[†] 	<ul style="list-style-type: none"> Plus \$50 online sign up credit[†]
<p>This includes:</p> <ul style="list-style-type: none"> 28% Pay on time discount off usage charges Plus 4% Double Up Discount™ off usage charges when you sign up both your gas and electricity 	<p>This includes:</p> <ul style="list-style-type: none"> 30% Pay on time discount off usage charges 	<p>This includes:</p> <ul style="list-style-type: none"> No rate rises for 2 years 2 years fixed rates
<p>You'll also get:</p> <ul style="list-style-type: none"> Monthly billing & eBilling 12 month Energy Plan Period Variable rate 	<p>You'll also get:</p> <ul style="list-style-type: none"> Flexible billing options 12 month Energy Plan Period Variable rate 	<p>You'll also get:</p> <ul style="list-style-type: none"> Flexible billing options 24 month Energy Plan Period Fixed rate
More info >	More info >	More info >

Source: <https://www.agl.com.au/residential/energy-plans/electricity-and-gas-plans> (21 February 2017)

Figure 2: Sumo Power electricity offers

sumo POWER

13 88 60
WEEKDAYS 8.30AM - 5.30PM

[VIEW PLANS](#) [ABOUT US](#) [MENU](#)

[View plans and buy](#)
[Pricing](#)
[Terms and conditions](#)

Pay before or after you use. The choice is yours.

We have two great offers with awesome discounts, compare them below. It's simple to join online, or just give us a call on **13 88 60** and we can do it over the phone for you.

Join now and let us take care of the rest.

27% Pay on time + 5% bonus discount electricity plan	30% Pre-pay + 6% bonus discount electricity plan
<ul style="list-style-type: none"> ✓ Pay your bill on time and get 27% off your electricity usage charges for 24 months, plus a bonus 5% discount for the first 12 months ✓ Monthly billing ✓ Variety of convenient payment options ✓ No fixed term contract ✓ No cancellation fee <p>JOIN NOW</p>	<ul style="list-style-type: none"> ✓ Pre-pay your bills and get 30% off your electricity usage charges for 24 months, plus a bonus 6% discount for the first 12 months ✓ Monthly billing ✓ Variety of convenient payment options ✓ No fixed term contract ✓ No cancellation fee <p>JOIN NOW</p>

Moving home?
Call us on **13 88 60** before your move, and let us take care of your electricity needs.

Source: <https://sumopower.com.au/plans> (21 February 2017)

A large discount would seem a good deal to most people, but may in fact be a poor deal if the discount is applied to an inflated base rate and the final rate is uncompetitive.

The potential for people to be misled about the value of discount offers was highlighted in the case of *Australian Competition and Consumer Commission v AGL*.²² After entering into discount plans, a particular group of customers was informed by AGL that rates under the plans were increasing, but they would continue to receive their agreed discount. However, this was not in fact the case, because the new rates were higher than the rates AGL applied to otherwise similar customers who entered into energy plans following the rate increase. In effect, this ‘reduced the benefits of the discounts represented to the consumers when they agreed on their energy plan’.²³

Origin also misled customers by representing that under a particular plan, customers would receive discounts of up to 16 per cent off Origin’s energy usage charges for electricity, and up to 12 per cent off energy usage charges for gas. The rates used to calculate charges under this particular plan (to which the discount was applied) were higher than standing offer rates. Accordingly, customers entering into this particular plan effectively received a reduced discount.²⁴

The ACCC has cautioned:

*“Power bills are a significant cost for consumers, and discounted energy plans are attractive because of the opportunity to limit these costs. These plans can therefore provide a competitive advantage to energy retailers. However, the discounts on offer must be accurate, and the express or implied savings real for consumers.”*²⁵

Current pricing displays also make it difficult to determine how a conditional discount offer compares to other offers if discount conditions are not met. This can affect people’s ability to afford energy. In 2015-16 in Victoria, over three quarters of retailers had generally available offers²⁶ that would have resulted in people paying more than if they were on non-discount offers or the local retailer’s standing offer, if the discount conditions were not met.²⁷ Similarly, on average, people would have paid less for energy in 2015-16 if they were on a standing offer rather than a discount offer they could not comply with, as shown in Table 1. This is a particular concern for low income and otherwise vulnerable households who opt for pay-on-time discount offers but are unable to comply.

²² *Australian Competition and Consumer Commission v AGL South Australia Pty Ltd* [2014] FCA 1369.

²³ *Australian Competition and Consumer Commission v AGL South Australia Pty Ltd* [2014] FCA 1369 [249].

²⁴ *Australian Competition and Consumer Commission v Origin Energy Limited* [2015] FCA 55.

²⁵ Choice, ‘AGL fined for misleading marketing’, media release, 1 May 2015.

²⁶ That is, offers that were available to the market, distinct from ‘off-market’ offers made over the phone only, to individual customers, through third party marketing services etc.

²⁷ Essential Services Commission, *Victorian Energy Market Report 2015-16*, November 2016, 19. Local retailers are the retailer of last resort in each network area, being either Origin, AGL or EnergyAustralia.

Table 1: Average gas and electricity costs, Victoria, 2015-16

Product type	Average annual bill (\$) – residential			
	Electricity (4000 kWh)		Gas (54.4 MJ)	
	2014-15	2015-16	2014-15	2015-16
Undiscounted offers				
Standard contract	1384	1376	1196	1258
Market contract	1223	1306	1097	1196
Reduction from standing offer	12%	5%	8%	5%
Discounted offers				
Market offers (discounts not applied)	1332	1383	1208	1274
Market contract (discounts applied)	1139	1137	1072	1110
Value of discounts	14%	18%	11%	13%

Source: Essential Services Commission²⁸

Given actual energy prices vary according to household consumption levels and network area, more specific pricing information—namely estimated actual prices—is only provided once the retailer has an individual household’s details. Even then, however, it is difficult to establish whether discount offers, and other offers, constitute competitive, affordable deals, due to the following practices.

Retailers’ estimates assume compliance with discount conditions, and do not show the estimated actual price if conditions are not met. By contrast, the Victorian Government’s Energy Compare website includes an estimate of annual pricing if discounts are not applied. The example in Figure 3 is a GloBird Energy deal, which reveals the deal costs 54 per cent more if the pay-on-time discount condition is not complied with.

Figure 3: GloBird Energy pay-on-time discount offer, Citipower network

Estimate is for low consumption household, annual price estimate with discounts applied and discounts not applied



Source: Energy Compare website search (14 February 2017)

²⁸ Ibid 19.

A low income household can face financial stress and hardship if they are not properly informed about discount pricing. As Table 1 shows, on average, people paid 18 per cent more for electricity in 2015-16 if discounts were not applied, a significant amount.

Another problem is different estimate periods among retailers (for instance: monthly, quarterly, or annual). Often people have an option to choose the time period, but certain options may be excluded. For example, Powershop provides monthly, quarterly and annual price estimates, but we could only obtain monthly and quarterly estimates on the EnergyAustralia website. These different approaches make it difficult to compare ‘apples with apples’. Further, some retailers adopt different time periods within the one estimate. For example, Click Energy online estimates show estimated monthly costs but annual pay-on-time savings, which makes it difficult to assess value for money.

Figure 4: Click Energy online estimate

Citipower network, average annual usage of 5000 kWh



Source: <https://www.clickenergy.com.au/quick-quote/> (21 February 2017)

Acknowledging how difficult it is to compare energy offers, the Victorian Government introduced its own price comparison website, ‘Energy Compare’, in 2015. Energy Compare converts all retailers’ pricing into a consistent, comparable list of estimated annual prices, based on the individual household’s consumption levels and other factors.

To our knowledge, other states and territories with retail competition have not introduced such websites, and other industries—such as banking, insurance and superannuation—do not have government comparison websites. The need for such a website reflects the absence of a transparent, accessible retail energy marketplace, and does not rectify the absence of such a marketplace due to low knowledge of Energy Compare.²⁹

²⁹ Australian Energy Market Commission, *Retail competition review*, Final report, 30 June 2016, 52-53.

Require actual price display and prohibit percentage discount display

Recommendation

Require retailers to display actual energy prices, and prohibit the display of discount percentages in retailers' advertising and other communications.

Consistent, unambiguous displays of actual energy pricing, and prohibiting the display of discount percentage figures, can enhance price transparency. If an energy offer represents a good value, competitive deal, easily comparable, standardised actual prices can reveal it. It is not sufficient for actual pricing to be displayed only once a household has submitted their individual network, usage and other details.

Price display reforms offer a way of driving price competition, allowing fair comparisons to be made without resorting to the Energy Compare website, and making it harder for retailers to promote potentially misleading discount percentages that distract people from better value offers.

Prescribed pricing displays can be mandatory for retailers, third-party comparison sites, third-party marketers or brokers, and other channels through which energy deals are promoted or sold.

VCOSS recommends the review consider energy comparison rates as a possible form of price display, similar to the approach taken in the home loan market. Comparison rates would not remove the need for individualised energy quotes, but would help people navigate the market and identify broadly competitive deals. Comparison rates would be particularly useful for households not interested in or able to opt for 'extras' that can affect pricing, who are simply seeking an uncomplicated energy deal.

Ofgem, the UK energy regulator, has developed a tariff comparison rate based on per kWh rates. This comparison rate:

“represents the cost of a tariff for a typical consumer... It assumes a medium level of energy usage, and includes the unit rates, standing charges and discounts that apply to a given tariff. It will also include the value of bundled products, when these are capable of being expressed in p/kWh or £/year.

It can be used as a first point of comparison when comparing tariffs, as it will boil down the costs of a tariff into one p/kWh figure.”³⁰

Per unit comparison rates are superficially attractive, permitting energy prices to be compared like other common household goods such as groceries and petrol. However, per kWh units and per MJ units may not be easily understood by consumers, and this requires further investigation.

³⁰ <https://www.ofgem.gov.uk/key-term-explained/tariff-comparison-rate-tcr> (24 February 2017).

Comparison rates can be estimated prices for a particular time period (e.g. an annual price), based on different household consumption profiles (e.g. low, medium and high) or a single, average household consumption profile. It may be somewhat challenging to create comparison rates that take into account different network charges. However, in recent years, Victorian network charges have become increasingly similar, with the exception of the AusNet network.³¹ This is partly reflected in the similar median market offers for electricity in the Jemena and Powercor network areas, and the United Energy and Citipower network areas. Median market offers for gas are similar across distribution zones.³² Accordingly, the review can consider whether network charges can be averaged for the purpose of comparison rates.

Under a comparison rate scheme, retailers and others would be precluded from displaying discount figures. A prohibition on discount percentage displays can encourage genuine discounting, by requiring retailers to compete on the final price rather than a discount percentage that is applied to an ambiguous, possibly inflated base rate, and does not necessarily produce a competitive final rate.

Where the offer incorporates a conditional discount, two rates can be displayed: the rate if conditions are complied with, and the rate if conditions are not complied with. This reform helps people assess whether conditional discount offers represent good value compared with other offers. For example, Figure 5 shows estimated EnergyAustralia monthly costs for a high usage household in the Citipower network. This information is helpful, but does not allow people to determine whether the estimated price under the pay-on-time discount plan will be higher than the guaranteed discount plan, if they do not pay on time.

We note some retailers are already displaying some form of comparative rates for particular time periods and consumption profiles. For example, EnergyAustralia shows this information once an individual household's network area and consumption level are entered, but still prominently displays the discount percentages for each offer (Figure 5).

³¹ St Vincent de Paul Society and Alviss Consulting, *The NEM: A hazy retail maze—Observations from Vinnies' tariff-tracking project*, December 2016, 12.

³² Australian Energy Regulator, *Annual report on the performance of the retail energy market, 2015-16*, 22 November 2016, 60-62.

Figure 5: EnergyAustralia Victorian electricity plans

Citipower network, high consumption household, estimated monthly costs

32% off electricity usage rates*
\$50 sign up credit per fuel when you join online
20% GreenPower opt-in at no extra cost for 12 months

Get started →

Electricity Plans
No plan selected

Gas Plans
No plan selected

20% GreenPower
Renewable Renewable Energy

Can we help?

Postcode or suburb: 3000 or NMI number: Daily usage: High Usage period: Monthly Green energy: 0%

MOST POPULAR

Plan Name	Estimated Monthly Cost	Discount	Key Feature
Flexi Saver	\$160	Up to 32%	No exit fees
Anytime Saver	\$186	Guaranteed 18%	Guaranteed discount applies to market usage rates
Rate Fix	\$200	Freeze your rates	Freeze your rates with no rate rises for 2 years

Source: <https://www.energyaustralia.com.au/residential/electricity-and-gas/plans> (22 February 2017)

VCOSS recommends government facilitate collaboration between community organisations, consumer advocates, consumer panels/focus groups, and industry (particularly industry members familiar with the needs of low income and otherwise vulnerable people), to explore options for transparent displays of actual pricing that are easy to understand. This can include the direct input of potentially vulnerable consumers into developing new price displays.

Prohibit benefit periods

Recommendation

Prohibit the use of benefit periods in retail market contracts.

Discount offers are generally only available during a ‘benefit period’ that typically lasts 12 or 24 months. The benefit period is distinct from the contract term. For example, the AGL ‘Powercombo Savers’ plan (a discount plan) provides that:

“Your Market Contract has no fixed term and includes variable rates, which can change at any time with notice to you. However, at the end of your Energy Plan [benefit] Period you will be placed on a New Energy Plan which may include a different set of variable rates. We will write to you before this occurs.”³³

The three major retailers started using ‘benefit periods’ in Victoria in 2013. Since then, benefit periods have become widespread across the National Energy Market.³⁴ Ongoing contracts with limited benefit periods are becoming increasingly common in Victoria.

While the Energy Retail Code regulates market contracts, it does not specifically regulate benefit periods. There are individual, inconsistent and confusing practices among retailers in relation to:

- pre-contract communications with customers about the nature and length of the benefit period, and what will happen at the end of the benefit period
- whether, and how, retailers notify customers when the benefit period is about to end
- whether customers are automatically placed on new tariffs at the end of the benefit period, which can include standing tariffs
- whether retailers give customers an opportunity to consider their options prior to the end of the benefit period, whether this is an additional benefit period, a new contract, a standing tariff or other arrangement
- how retailers communicate end-of-benefit-period options—some retailers only list options over the phone (requiring people to make a quick, on-the-spot decision) and do not provide them in writing.³⁵

Without this information, people cannot assess the risks of benefit period deals, and may agree to revert to a poor value deal after a relatively short 12 to 24 month period.

Data are lacking on the number of customers on ongoing contracts with lapsed benefit periods. Approximately 50 per cent of customers nationally have not switched in five years,³⁶ therefore

³³ <https://www.agl.com.au/residential/energy-plans/electricity-and-gas-plans> (24 February 2017).

³⁴ St Vincent de Paul Society and Alvis Consulting, *The NEM: A hazy retail maze—Observations from Vinnies’ tariff-tracking project*, December 2016, 53.

³⁵ See further, *ibid* 50-54.

³⁶ Australian Energy Market Commission, *Retail competition review*, Final report, 30 June 2016, iii.

there may be a considerable number of people who are on poor value deals following the expiry of benefit periods.

The use of 'benefit periods' is confusing, obscuring the prices actually paid under the contract, and deters switching where the difference between the benefit period and the contract term is misunderstood. The review can consider prohibiting benefit periods in Victoria under the Energy Retail Code or the *Electricity Industry Act 2000* and the *Gas Industry Act 2001*. It would be clearer for people if 'a contract is a contract', with any benefits lasting over an entire contract term. Assuming retailers can only offer 'benefits' for limited periods, a prohibition on benefit periods would mean ongoing or multi-year contracts with 12 or 24 month benefit periods would become 12 or 24 month fixed-term contracts, helping to clarify that benefits, such as conditional discounts, only last for a short, well-defined period, and making it clear people will need to consider switching at the end of the contract.

Collect better cost and outcome data

Recommendation

Collect data about retailer costs and customer outcomes in retail energy markets on an ongoing basis.

As the Chief Scientist and others have observed, there is very little publically available information about retailer costs and margins or how much they contribute to retail prices.³⁷ The review can attempt to determine what retailer costs actually comprise, and why the Victorian retail component is larger than other states and territories.

There is an urgent need for greater transparency around retailer costs and customer outcomes in Victorian retail energy markets. Without this information it is difficult to conclusively determine whether there is effective competition, and whether markets are operating in consumer interests. This, in turn, is likely to weaken people's trust and engagement, and disadvantage people on low incomes. The Victorian government can collect data about retailer costs and customer outcomes on an ongoing basis, including in relation to:

- long-term wholesale, network and retail price trends
- the composition of retailer costs, including retailers' fixed charges
- the proportion of customers on each type of offer (standing offers, non-discount market offers, discount market offers with discounts either applied or not applied, and 'off-market' offers), including customer outcomes when any benefit periods end
- the demographic features of customers on each type of offer, including concession status.

³⁷ *Preliminary Report of the Independent Review into Future Security of the National Electricity Market*, Commonwealth of Australia, 2016, 45.

While VCOSS very much welcomes the current review, we appreciate it faces barriers in determining whether retail energy markets are competitive, because it lacks compulsory information-gathering powers. Separate to the current review, we would support the Victorian Government liaising with the Australian Government about the merits of an inquiry by the Australian Competition and Consumer Commission (ACCC) into the competitiveness of retail energy markets, including in Victoria. As part of a public inquiry process, the ACCC is able to exercise compulsory information-gathering and examination powers.³⁸

³⁸ *Competition and Consumer Act 2010* (Cth) pt VIIA.

Ensure competition benefits vulnerable people

Recommendation

Introduce a simple, low cost energy offer with a reasonable tariff, specifically targeted at low income and other vulnerable households.

Even with more transparent pricing, some energy offers will not be accessible to people with low incomes and other vulnerabilities.

Some people will have sufficiently certain incomes to take advantage of pay-on-time discounts (including through Centrepay payments), or have internet access allowing them to benefit from good value online billing discounts. Research shows some vulnerable people are supportive of pay-on-time discounts.³⁹

On the other hand, not all low income and otherwise vulnerable people can access the full range of offers in a competitive market, particularly pay-on-time and direct debit discounts, due to:

- irregular, unpredictable incomes (there are currently high rates of casual employment and underemployment)⁴⁰
- insufficient income support levels, making it difficult to budget and afford basic costs of living,⁴¹ with the minimum Newstart payment currently less than \$38 a day
- experiencing periods of employment and unemployment over a year or more
- unexpected financial costs that disrupt the household budget, including irregular school expenses, medical costs, car breakdown, fines, or moving costs
- an inability to afford internet access, and therefore access online-only deals or online billing discounts.

People facing the greatest financial difficulty can therefore be excluded from discount offers, which produced the lowest cost average bills in Victoria in 2015-16.⁴² This means the best available tariff may not in fact be available to low income and other vulnerable households, including when retailers advise people of these tariffs under hardship programs.

³⁹ Newgate Research, *AEMC 2016 retail competition review: Understanding vulnerable customer experiences and needs*, Consumer research report, June 2016, 8.

⁴⁰ Australian Bureau of Statistics, *Labour force, Australia*, August 2016, cat. no. 6202.0; Anthony Kryger, *Casual employment in Australia: A quick guide*, Research paper series 2014-15, Parliamentary Library, Parliament of Australia, 20 January 2015.

⁴¹ Councils of Social Service, *Payment adequacy: A view from those relying on social security payments*, 2015.

⁴² Essential Services Commission, *Victorian Energy Market Report 2015-16*, November 2016, 19.

As the Essential Services Commission has noted:

“analysis suggests that there has been a shift in the market so that customers wanting to minimise their energy bills must now enter contracts involving increasingly large conditional discounts, say, 20 to 35 per cent. Customers must ensure they are able to meet the relevant conditions (typically, by paying on time) or face the risk of paying substantially more for their energy.”⁴³

Further, even if a person is able to comply with discount offer conditions, they may not be well-placed to identify suitable deals through the Energy Compare website and explore the costs and benefits of different offers, including the risks of conditional discount deals.

These barriers to access and engagement likely enable inequitable price discrimination, to the detriment of low income and other vulnerable households. Accordingly, VCOSS recommends the introduction of a simple energy offer with a reasonable tariff, specifically targeted at these households.

We envisage retailers would be required to develop their own simple product within regulated parameters. The legislated ‘MySuper’ product, which replaced default super products, provides a broad model for a simple energy offer.

Case study: the ‘MySuper’ product

In 2013 the Australian Government introduced the MySuper initiative, which seeks to provide a superannuation product with a simple set of product features, irrespective of superannuation fund. Lower fees are charged for MySuper products, and there are legislated restrictions on the types of fees that can be charged. Many fees can only be charged on a cost recovery basis. The product excludes ‘bells and whistles’ services people are unlikely to need.⁴⁴ Default fund fees may fall about 10 per cent due to MySuper.⁴⁵

A simple offer can be made available to concession card holders. However, we welcome discussion about how eligibility can be determined, particularly based on retailer data about vulnerability indicators among customers.

A simple offer can include not only a reasonable tariff but product features that facilitate up-take by low income and other vulnerable households, including:

- an entitlement to pay using Centrepay and at Australia Post outlets
- an entitlement to bill smoothing
- exclusion of ‘bells and whistles’ services, such as solar advice and other services
- exclusion of inducements like rewards programs and gift cards that do not add value

⁴³ Essential Services Commission, *Victorian Energy Market Report 2015-16*, November 2016, 22.

⁴⁴ <https://www.moneysmart.gov.au/superannuation-and-retirement/how-super-works/choosing-a-super-fund/mysuper> (24 February 2017).

⁴⁵ J Minifie, T Cameron and J Savage, *Super savings*, Grattan Institute, 2015, 37.

- a prohibition on conditional discounts linked to on-time payments, direct debit, online billing, dual fuel deals and other features that can prevent low income and otherwise vulnerable households from accessing an energy offer.

A simple offer can include regulated tariff design. Similar to the MySuper product, this can include restrictions on the types of costs that can be charged. Retailers can be required to set the tariff at a break-even price. Break-even pricing already exists in the Victorian retail markets,⁴⁶ but is not necessarily reaching low income and vulnerable households. Actual tariffs would therefore vary between retailers based on their own cost structures, within regulated parameters.

⁴⁶ See Paul Simshauser and Patrick Whish-Wilson, 'Reforming reform: differential pricing and price dispersion in retail electricity markets', AGL Applied Economic and Policy Research, working paper no. 49, June 2015.

Reduce barriers to market engagement

Recommendation

Consider introducing an independent energy broker for residential customers.

The review can consider an independent energy broker for residential customers.

One private broker in the Victorian market, 'Energy Tailors', searches for the best offers based on a household's needs, provides a report about available offers, and assists customers to switch retailers. People receive updates when new offers become available offering financial or environmental benefits. The Energy Tailors website states they only charge a fee if they identify an offer that is cheaper than the customer's current offer, and the savings outweigh the fee. Energy Tailors claims people have saved \$250 to \$300 on average in their first year, though we cannot verify this.⁴⁷

In tandem with transparent energy pricing, an independent energy broker can:

- encourage greater price competition by providing a relatively easy and no-cost way for people to compare energy offers—in effect, it can create the marketplace that Energy Compare may not be able to create as a price comparison website alone
- encourage switching and help counteract people's inertia and bias by giving them confidence to take up better-priced energy offers (people would know that all available offers in the market had been analysed), conducting regular 'check-ups' to search for better deals, and assisting with the switching process itself⁴⁸
- provide feedback to government on the level of pricing transparency in the market and ease of comparability
- generate data about customer outcomes in the market.

Even with more transparent pricing, energy remains a daunting product for many people. An energy broker can help overcome people's limited ability to understand tariff structures (fixed and usage charges, time-of-use rates and so on); the difference between market and standing offers; choice of retailers; the various plans offered by an individual retailer; and household energy requirements.⁴⁹

⁴⁷ <https://www.energytailors.com.au/> (24 February 2017).

⁴⁸ See Oxera Consulting, *Behavioural insights into Australian retail energy markets*, prepared for the Australian Energy Market Commission, 11 March 2016, 19-24.

⁴⁹ See *ibid* 17-18.

An independent energy broker can particularly benefit low income and otherwise vulnerable households who face considerable barriers to engagement. Vulnerable people tend to have lower awareness of the number of retailers, the availability of various plans from a single retailer, and are more likely to be confused as to what an energy ‘plan’ actually means. Most vulnerable people are concerned about prices but feel there is not much they can do. Fear of making the wrong decision and embarrassment about personal financial situations are barriers to investigating options and switching. Many vulnerable people want to save money but find the array of offers confusing, and lack the time and energy to properly engage with the market and find a better offer. Most vulnerable people require a noticeable trigger event to search for better deals, including the shock of receiving an unexpectedly large bill, moving house, reaching the end of a contract or increased prices.⁵⁰

Government is considered the most reliable and credible source of independent information about retail energy markets, but vulnerable consumers tend to have very little to no knowledge of government comparator sites (a problem among all consumer groups). When informed of these sites, feedback is very positive.⁵¹

Previous studies⁵² have suggested greater promotion of government comparator websites such as Energy Compare, and improved guidance on the use of these sites. However, a more proactive form of government intervention is warranted. A UK study of vulnerable households showed independent, one-on-one, personalised intervention encouraged switching, particularly for young families. The ‘intervention’ took the form of tailored advice on tariff-switching, printed information materials, help accessing websites, and follow-up support. This type of assistance was particularly necessary for people experiencing complex lives, including significant health and financial problems. In these circumstances, time is limited and tariff-switching far from a priority.⁵³

An independent energy broker can provide these one-on-one, personalised supports that help overcome barriers to searching and switching, in a similar way to the Energy Tailors service. A broker can be valuable for professionals who already have contact with people experiencing energy difficulties, but are unable to assist with searching and switching—including health workers, financial counsellors, and community caseworkers. These professionals can connect people with a trusted independent energy broker.

⁵⁰ Newgate Research, *AEMC 2016 retail competition review: Understanding vulnerable customer experiences and needs*, Consumer research report, June 2016, 6-8.

⁵¹ *Ibid.*

⁵² For example, *ibid.*

⁵³ A Lorec, L Pedro, B Badesha, C Dize, I Fernow, L Dias, ‘Tackling fuel poverty through facilitating energy tariff switching: A participatory action research study in vulnerable groups’ (2013) 127 *Public Health* 894.

Victorian Council of Social Service

Level 8, 128 Exhibition Street,
Melbourne, Victoria, 3000

e vcoss@vcoss.org.au

t 03 9235 1000

www.vcoss.org.au

