



Submission to Independent Panel Review of electricity and gas retail markets in Victoria

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Capacity to submit

Community Information & Support Victoria (CISVic) is the peak body representing local community information and support services representing 60 community-based, not-for-profit agencies, staffed by over 320 paid staff and in excess of 3000 volunteers.

Our local services assist people experiencing personal and financial difficulties by providing information, referral and support services including Emergency Relief, financial counselling and financial literacy. Our agencies provide free services to an average of 300,000 people every year.

We direct people who need help to local centres for services.

Helping those most in need Our main work is with the vulnerable and disadvantaged, including those on welfare payments, single parents, newly arrived, refugees, those with mental health issues, drug and alcohol issues and those experiencing family violence and family breakdown.

Emergency relief Many of our agencies can provide emergency relief, both financial and practical, by providing food, food vouchers, travel cards, petrol vouchers, assistance with household bills, rent, pharmaceutical supplies and telephone bills.

One voice for many We liaise with all tiers of government and other peak bodies, conduct training and undertake sound, evidence-based research. We are grateful to the State and Federal Governments for their funding support for core and special projects. We also have increasingly strengthening contact and cooperation with a range of peer organisations.

This is a vital interface for not just CISVic and its members but also for the community support sector as a whole, exploring more effective use of resources, skills and funding conduits. This has included partnerships to deliver important training to volunteers and community workers.

We also sit on a number of state & federal government groups including a State Ministerial Advisory Council and Federal Consultative Committee and other relevant peak body advisory groups, including VCOSS (Victorian Council of Social Services), the ultimate state community peak body.

CISVic agencies are embedded in their communities

The CISVic membership service model is place-based and holistic in working with its communities and clients. The provision of supported services by CISVic member agencies is primarily directed at vulnerable and disadvantaged families and individuals who fall through service gaps. As generalist services providing a range of free, confidential and supported services, we connect vulnerable people and families to vital services and their communities.

Collectively, the CISVic ER Consortium of thirty (30) agencies, is the second largest Federal Government funded provider of ER services in Victoria. In total, forty-two (42) CISVic agencies deliver ER across forty-eight (48) sites from a combination of government, philanthropic and donated funds. Our engagement with community, local service providers and stakeholders is built on a strong local presence, place-based focus to problem identification and solution, and by drawing upon and enhancing local social capital.

Preliminaries

CISVic appreciates the opportunity to submit to the review of electricity and gas retail markets in Victoria. CISVic commends the Victorian Government on this timely review, some twenty years following reforms that led to a competitive energy market. In those twenty years, the market has grown, become unduly complex and have delivered mixed results to Victorian consumers. The recent Energy Consumer Sentiment Survey by Energy Consumers Australia found that:

“Victorian households are confident in their ability to make choices about energy products and services compared with other states and territories... households in Victoria are not confident that the market is working in their interests. Only 39 per cent of household consumers in Victoria say the market is working in their interest and only 29 per cent were confident the energy market would provide better value for money in the future.”¹

CISVic members provide support and assistance to vulnerable people and families experiencing personal and financial crisis. They do this through the provision of a range of support and referral services, including the provision of material aid and support through the Emergency Relief (ER) program. Support ranges from the provision of food parcels and vouchers, to advocacy to providers to manage overdue utilities bills, to short-term intensive support to address underlying issues leading to crisis. Other programs and services augment the ER program to provide vulnerable people with wrap-around supports to ensure that they don't fall of the edge of the welfare support system. Of those seeking ER due to financial crisis, approximately 39 per cent do so because of the high cost of utilities. For many families, the prohibitively high cost of essential services such as electricity and gas often lead to reduced living standards and wellbeing compared to the general community.

This submission focuses on what our membership sees in their daily practice, highlighting failures of the market as they relate to vulnerable consumers. We point the Review Panel to submission by the Victorian Council of Social Services (VCOSS) and other consumer advocacy groups for a more detailed and authoritative discussion of the policy and regulatory measures, and elements of market failure we identify in this submission.

¹ Energy Consumers Australia (2017) Energy Consumer Sentiment Survey Findings December 2016 (VIC), February 2017, p.5: at <http://energyconsumersaustralia.com.au/wp-content/uploads/Energy-Consumer-Sentiment-Survey-Findings-VIC-Dec2016.pdf>. Accessed 22 February 2017.

Competition and the long-term interest of consumers

1. (a) Has the introduction of competition to electricity and gas retail markets in Victorian delivered improved efficiency and benefits in the long term interests of consumer? Please explain the reasons for your response.

(b) If not, what measures or alternative model(s) would you suggest for the efficient and effective delivery of electricity and gas in the long term interests of Victorian consumers? Please explain your response

The need for essential services mean that vulnerable families and individuals continually juggle competing needs to ensure that they could keep the lights on. CISVic volunteers and front-line staff work with clients to sift through competing needs and broker a myriad of financial and service supports, in order to help families and vulnerable individuals keep their lights on.

While the Victorian concessions framework, energy retailers' hardship programs and community programs and services are critical to ensuring that vulnerable consumers remain connected to energy, we submit that more need to be done at the policy and regulatory level to address the challenges vulnerable consumers face when managing disproportionate costs of household essentials.

We contend that competition is not effective unless it benefits all consumers.

By its very nature, the stakes are higher in the purchase of gas and electricity – consumers can't afford to not be connected and they can't afford to make that wrong, costly purchase decision. Yet the energy market is overly complex, and products and services are very difficult to understand. Unlike other consumables, electricity and gas products are not transparent and often require detailed knowledge of consumption, tariff types and hidden costs before a like-for-like comparison can reliably be made. Also unlike other consumables, where mistakes in purchases can be rectified via return policies, rectification in gas and electricity purchases can be expensive and time consuming.

According to AGL, their data “shows that around one third of AGL customers pay their bill in full post the due date of the Reminder Notice”.² This finding is reinforced by research survey data from Ernst & Young in 2014 that found that “one in eight Australians missed

² AGL (2016) *AGL Response to the Essential Services Commission Draft Decision: Safety Net for Victorian Energy Consumers facing payment difficulties*, 18 November 2016, p.8: at <http://www.esc.vic.gov.au/wp-content/uploads/2016/11/PDF-Draft-Decision-Submission-AGL.pdf>. Accessed 2 March 2017.

an electricity payment because they couldn't afford it".³

Ultimately, while Victorian consumers can learn to better engage with the marketplace and make the right choice about their energy product, there is a group of consumers who invariably cannot do so due to their circumstance – this includes those experiencing financial exclusion, language barriers, reduced cognitive capacity, digital exclusion. These are the individuals and families we are seeing across our services; those who slip through the net cast by the competitive market.

We therefore submit that the market is failing for vulnerable consumers, and that a suite of policy measures need to be introduced in order to ensure universal right to energy is not threatened for *any* consumer. Some of these policy and/or regulatory measures include:

- The introduction of a social tariff that ensures affordable, reliable supply for vulnerable consumers, and includes support to transition to energy efficient households.
- Improving the Utilities Relief Grant to bring it in line with increased cost of utilities, ensuring families have more frequent - and with minimal barriers to - access.
- Improving the concessions framework to ensure that they are in line with rising costs of living and are responsive to technological changes in the market.
- Improvements to the pricing and marketing of energy products to enhance transparency and reduce complexity.
- Re-regulating the price of standing offers, or introduce a benchmark product that is simple to understand, is transparent and can act as a default product for all consumers.
- Regulation of fixed charges so that there is a clear separation of regulated distribution/transmission costs from retail costs on a consumer's retail bill.

Consequently, we submit that the Independent Review Panel also consider the concomitant question to the one enunciated here; whether the long-term interests of all consumers have been progressed by the introduction of competition to electricity and gas retail markets. We acknowledge that the market is complex, from the product offering to the broader market structure itself, our understanding of the market and consumer interaction is very limited. What we know from our work with vulnerable consumers is that

³ Ernst & Young Australia (2014) 'Voice of the Customer Is Getting Louder: Customer Experience Series™ - Utilities (Wave 3)'p.9 : at <http://s3.documentcloud.org/documents/1312217/ernest-amp-young-utilities-survey.pdf>. Accessed 2 March 2017.

there is an inevitability about the consumption of electricity and gas, that this inevitability gives retailers an advantage that vulnerable consumers cannot redress because the market is offering

We acknowledge that there are consumers in the community who have found benefits from a competitive market. However, we are very concerned that vulnerable consumers are disproportionately burdened by the high costs of electricity and gas – something that cannot be rectified by the competitive market. Such market failure can only be remedied by policy and/or regulatory measures in such a way that lead to the long-term interests of all Victorian consumers.

Consumer awareness, understanding and engagement

Consumers attending our services have complex needs, experience multiple disadvantage, and have competing priorities during a time of crisis. These factors make it difficult to prioritise engagement with the retail energy market, particularly as the market is unduly complex and difficult to understand. Additionally, our services have limited capacity to engage with vulnerable clients around issues of consumer choice, product comparison and switching retailers.

Vulnerable consumers face multiple barriers to engagement with the competitive market. In addition to language, literacy, decision-making capabilities (such as mental illness), poverty and lack of financial credit history; vulnerable consumers need to navigate a confusing energy market place offering a range of complex products and indecipherable pricing structures.

Some factors that contribute to the lack of vulnerable consumer awareness, understanding and engagement in the market include:

- An accessible 'market place' from which the range of products and services could be meaningfully assessed and compared.
- The complexity of products and services on offer, particularly tariff types and the lack of transparency and clarity around product differentiation such as savings, discounts, value-add etc.
- The high cost of fixed charges and standing offers, and the complexity (and lack of transparency) in which information about pricing and costs are presented to consumers.
- The lack of product innovation, and the question as to whether it is the product that is competitive or the marketing of them.⁴ This is particularly salient when we consider the high cost of fixed charges, which comprise the bulk of the energy bill.

⁴ CME (2015) *A critique of the Victorian retail electricity market*, June 2015: at <http://cmeaustralia.com.au/wp-content/uploads/2013/09/150601-FINAL-bosl-victorian-retail-market-report.pdf>. Accessed 24 February 2017. See pp.15-16 where the range of 'innovations' are outlined, but where the authors make the point that: "This might be good evidence of marketing to attract and retain customers and management by retailers of their credit risks, but surely not of product innovation"

In addition, vulnerable consumers are excluded from participation in the energy market when they cannot access products that require a certain level of income and access to technology and credit, such as:

- Direct debit deals.
- Internet only deals.
- Pay on time discounts.

Shopping around for an energy product takes time and know-how, and when there is so much complexity and confusion around where the 'savings' can be found, energy shopping is relegated lower down the priority list. In many instances, sophisticated knowledge of tariffs and consumption will be required in order to meaningfully decide on a product that best suits a consumer's needs.

Workers and volunteers in our services rely on government comparison and energy information sites to provide vulnerable consumers with the information necessary to make energy choices. However, this often requires access to client's consumption data, which in some instances, are very difficult to obtain. Importantly, there are limitations to how much workers can help consumers make energy choices. More support is needed to train staff and volunteers to work with their clients to navigate an unduly complex marketplace. Again, in relation to the general consumer, there exists a disproportionate burden on vulnerable consumers' capacity to engage with the competitive market.

We submit that this combination of barriers - comprised of consumer circumstance, market structure and technology – indicate a market failure vis-à-vis the vulnerable consumer and their capacity to effect

We therefore support:

- Increased government support for Victorian Energy Compare with a view to increase access to a user-friendly and understandable 'marketplace'/comparison tool.
- Exploring ways to harness and increase access to smart meter data by consumer to aid in consumer energy choices.
- Exploring ways to provide training, education support to vulnerable consumers (or the people/organisations who help them) to raise awareness and understanding of the energy market.
- Incentivise retailers to provide innovative products that meet the needs of vulnerable consumers.

Case Story – Janet and her good intentions

Janet is an articulate, well-dressed woman in her 50s. Janet has an underlying mental illness and is in receipt of Disability Pension Allowance. Janet attends our inner northern metro service on a regular basis, about three to four times a year, for practical support around her daily living and expenses. Janet recently came into the service with a stack of electricity contracts. Janet reports that she was ‘shopping around’ a few retailers to see what would suit her needs. Unfortunately, Janet had in fact signed onto three different providers.

With Janet’s permission, the volunteer worker Joseph proceeded to contact retailers and start the process of unravelling the contracts. Joseph then used the Victorian Energy Compare website to pull up three products for Janet to compare. This took quite some time as Joseph had to sift through information relating to Janet’s consumption, explain the differences between the products and their cost impact and address Janet’s limited cognitive capacity throughout the process.

In the end, Joseph found that there wasn’t much of a much-ness between the products he found as majority of the cost of each bill is in the fixed rate, and the ‘bells and whistles’ discounts either delivered minimal benefits (loyalty points) or were counter-acted by higher usage charges.

Case Story – Brendan and his multiple plans

“I am so confused, I just want to die. I don’t know who I’m with, I want it to all go away.”

Brendan is an 80 years old from a culturally and linguistically diverse background. He came to a member agency with 4 utilities bills from the past 12 months. He does not know which utilities company he is with, he is so confused and frustrated that he desperately wants it all to go away somehow. The bills have been paid by him.

They’ve come to his door and tell him to change his utilities company, he says he didn’t want to but eventually does. It is now up to the worker to sort through the bills and work out which utilities company he is currently signed up to.

On walking out, he states that he has another problem which he will discuss with the worker another time. Essentially, he has signed up with a funeral plan with weekly instalments of \$4. He recently received a phone call to notify him that it has now increased to \$8. When he questioned them why, he was told they couldn’t tell him.