Energy Pricing

EWON Anti-Poverty Week Conference

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Roles for Energy Price Regulation

- Address concerns about market power
  - Ensure consumers only pay efficient costs
  - Replicate the conduct of a commercial player in a competitive market
  - Relevant where competition is ineffective or is yet to be assessed.

- The Government has also emphasised a goal of facilitating competition in electricity.

- Price regulation is not used specifically to address affordability among vulnerable households, or to prevent large price increases where they reflect efficient costs.
  - IPART supports removal of price regulation where there is effective competition.
Recent Drivers of Energy Costs

Most drivers relate to areas where **policy decisions** have an impact

Change in average NSW residential customer bills, 2007/08 to 2012/13 ($nominal)
Customer Impacts

- The most vulnerable customers are those households that have low incomes and high levels of energy consumption.

Annual spending on electricity as a share of disposable household income —
Sydney and surrounding regions, 2012/13

- Also concern about households on low incomes with low energy consumption.
What about Affordability?

The Government has focused on two areas:
- Increased assistance programs
- Addressed some cost drivers (network reforms, reliability standards, closing some green schemes etc).

IPART has proposed affordability be improved in three ways
- Ensure that policy/regulatory settings support efficient supply costs.
- Support & harness effective competition for the benefit of customers.
- Ensure household assistance uses efficient mechanisms & is well targeted.
Improving Customer benefits from Competition

- IPART’s myenergyoffers website currently shows discounts of up to **16%**

- **Around half** of NSW customers are on market contracts for electricity.

- But around **half are not**, including many who struggle with energy bills.
  - There is a **paradox** here …
  - Concerns over price increases are not always reflected in action to get discounts.

- What are the **barriers** to taking up discounted offers?
  - “Complexity”?
  - Lack of interest or awareness?
  - “Trust” & confidence?
Complaints (& recent ACCC action) suggest **four areas for improvement:**

- **Sales & marketing** conduct
- Management of **post-sale price changes**
- Supplementary **fees & charges** (late fees, exit fees)
- Management of **collection** of overdue accounts
How do we promote effective competition?

- How can retailers address these customer concerns?

- What is the role of regulation in 'encouraging' improved customer outcomes and what are the implications?

- Can consumer organisations and social service agencies harness competition for the benefit of vulnerable households?
Effective retail competition can be a powerful tool, but is not sufficient to address general financial distress.

- Significant expenditure across Federal & State Governments
  - high numbers of eligible households.

Worth considering each of the following:

- More targeted and complementary mix of emergency assistance, ongoing income support and energy efficiency measures.
- Coordination amongst Commonwealth & State/Territory – funding & delivery
- Better sharing of information without compromising privacy & dignity.
Customer Assistance
- Fragmentation of information & roles?

- **Retailers** have close relationships with customers and important information about energy consumption & payment record.
  - Experienced in implementing hardship programs, but not policy agencies.
  - Naturally concerned about managing bad debt & other costs.
  - Limited information about incomes or household composition.

- **Energy networks** have useful skills & information, but limited contact with customers
  - Currently not significant participants.

- **Consumer groups** have experience ‘on the ground’, their own assistance programs and direct relationships with many of the most vulnerable.
  - Reservations about the effectiveness of competition for consumers?
  - Usually only in contact with households if they identify themselves (issues of dignity).

- **State Governments** provide significant funding.
  - But have very little direct information about households (energy consumption or income).

- **Commonwealth Government** has lots of information about household income.
  - But very little information about household energy consumption.