

Submission to
Independent Pricing and Regulatory Tribunal:
Retail Electricity Market Monitoring 2017

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CPSA is a non-profit, non-party-political membership association founded in 1931 which serves pensioners of all ages, superannuants and low-income retirees. CPSA has 108 branches and affiliated organisations with a combined membership of 24,000 people living throughout NSW. CPSA's aim is to improve the standard of living and well-being of its members and constituents.

CPSA welcomes the opportunity to respond to IPART's information paper, released as part of the Retail Electricity Market Monitoring 2017 process. The paper proposes that competition is working well within the electricity market and that the outcomes delivered by a competitive market structure are better than those that could be delivered through a system in which prices are regulated.

CPSA is concerned that IPART's analysis of competition within the electricity market does not consider the needs and outcomes for vulnerable market participants. NSW electricity prices have skyrocketed over 66% in real terms¹, far exceeding growth in the Consumer Price Index (CPI). Recent research by the NSW Council of Social Services (NCOSS) has shown that low income households are struggling to meet the rising costs of living, with the cost of essential services like electricity a top concern². The NCOSS 'Turning Off The Lights: The Cost of Living in NSW' report highlights that low income households are putting off medical and dental treatment, borrowing money from family and friends and selling personal possessions in order to pay for electricity bills they can no longer afford.

Clearly, the competitive market structure is failing to deliver sufficient outcomes to low income vulnerable consumers. Accordingly, this submission focuses on the barriers faced by vulnerable consumers when it comes to participating in the NSW electricity market.

Markets for essential services

Electricity is an essential service which all households require, meaning that participation in the energy market is not a choice but a necessity. This gives electricity retailers significant market power compared to consumers as there is an implicit understanding that consumers must continue to participate in the electricity market regardless of whether the products available meet their needs and regardless of the cost of those products. The choices of consumers participating in electricity markets are constrained because energy is an essential service. Given this dynamic, IPART must assess competition from the perspective of consumers and the capacity of the electricity market to deliver affordable products.

¹ Phillips, B. (2017) 'Research Note: Household Energy Costs in Australia 2006 to 2016' ANU Centre for Social Research and Methods. Available:

<http://rsss.anu.edu.au/sites/default/files/Household%20Expenditure%20on%20Electricity%20Trends.pdf>

² NSW Council of Social Service (2017) 'Turning off the lights: The Cost of Living in NSW' Available:

<https://www.ncoss.org.au/sites/default/files/Cost-of-Living-Report-16-06-2017-FINAL.pdf>

- **Recommendation 1:** That IPART assesses competition from the perspective of consumers with reference to the capacity of the electricity market to deliver affordable products.

Electricity retailers obtain even greater market power relative to consumers through a complete lack of transparency. This lack of transparency means that consumers are forced to make market decisions with limited information. Competition should not be viewed as well-functioning when consumers are unable to make informed decisions due to a lack of information. The practice of unilateral price variation essentially renders consumer choice redundant, as electricity retailers are permitted to vary the price of electricity at any point during a fixed-term contract. There is no obligation for retailers to inform consumers that the price of electricity under their contract has changed. While CPSA understands that electricity retailers require a level of flexibility given that costs are variable, it is difficult to see how this practice could possibly be considered acceptable for consumers. Unilateral price variation shifts the risks involved in electricity trading away from retailers and onto consumers, when in fact this risk should be understood as an unavoidable part of the business of selling electricity on to consumers.

- **Recommendation 2:** That the practice of unilateral price variation be abolished.

CPSA is concerned that the practice of unilateral price variation is undermining competition within the electricity market. Price changes are a key signal for market participants to take a particular course action, with that action based on the nature of the price change. However, the structure of the electricity market and widespread practice of unilateral price variation means that these price signals are not necessarily visible to electricity consumers, which means they are less likely to take action as a result. At the very least, electricity retailers should be required to inform consumers of any variations in the price of electricity, so that consumers can in turn use that information to make a decision about whether or not to switch energy retailers.

- **Recommendation 3:** That in the interest of promoting competition that produces beneficial outcomes for consumers, electricity retailers should be required to inform customers immediately of any variation in the price of electricity.

Vulnerable consumers and markets for essential services

While the lack of transparency and practice of unilateral price variations create barriers to a competitive electricity market for the average consumer, vulnerable consumers have an even harder time. Factors like a person's age, disability, income, housing tenure, language, education and access to the internet influence their capacity to participate in market transactions³. These people have no choice but to participate in the market for electricity as it is an essential service, however they are disadvantaged by the fact that they are less able to afford services. On top of that, vulnerable consumers without additional support have a reduced capacity to access and assess the range of information required to make an informed decision.

The electricity market is failing vulnerable consumers. Vulnerable consumers, who spend the majority of their income on essential goods and services, are less able to absorb electricity price increases without cutting back spending on other essential goods and services. These households are being forced to forgo medical and dental treatment, borrow money from friends and family and sell personal possessions in order to pay ever-increasing electricity bills. The number of NSW households who have entered a payment plan with their electricity retailer has increased dramatically from 60,960 in June 2014 to 86,327 in March 2017⁴. The NCOSS Cost of Living Report 2017 highlights that low income households are much more likely to be disconnected than other households⁵. Disconnections have an immediate and highly detrimental impact on a household's quality of life. This highlights the abject failure of the market to deliver affordable electricity.

The Australian Energy Regulator estimates that around 4-5% of electricity consumers in NSW are switching retailers each month⁶, which is taken as an indicator that competition is working well. However, it seems that this is likely to reflect a smaller number of engaged consumers who are switching regularly, rather than an overall market trend. NCOSS research shows that vulnerable households are more likely to be on a 'standing

³ Chester, L. (2011) 'The participation of vulnerable Australians in markets for essential goods and services' Journal of Australian Political Economy, 68(Summer), 169-193

⁴ Australian Energy Regulator (2017) 'NSW - customers on payment plans' Available: <https://www.aer.gov.au/retail-markets/retail-statistics/nsw-customers-on-payment-plans>

⁵ P18: NSW Council of Social Service (2017) 'Turning off the lights: The Cost of Living in NSW' Available: <https://www.ncoss.org.au/sites/default/files/Cost-of-Living-Report-16-06-2017-FINAL.pdf>

⁶ Australian Energy Regulator (2017) 'Electricity customer switching' Available: <https://www.aer.gov.au/retail-markets/retail-statistics/electricity-customer-switching>

offer' contract, which tend to be the most expensive on the market⁷. Given the level of financial hardship vulnerable households are experiencing as a result of high electricity bills, this cannot be viewed as a rational response – it is a market failure.

The significant human cost of the electricity markets failure to meet the needs of vulnerable consumers warrants immediate intervention. In addition to requiring electricity retailers to disclose price variations to consumers, there is a need to overhaul the low income household rebate to ensure that it is working optimally for both vulnerable consumers and the NSW Government. As electricity prices are set to rise into the foreseeable future, the rebate must be paid as a percentage of the overall electricity bill, rather than as the current flat yearly rate. Setting the rebate as a percentage, rather than a flat rate would ensure the value is maintained regardless of price changes and inflation. In order to ensure that no vulnerable household is left out of pocket, the current rebate would need to form the base level of a percentage based rebate.

- **Recommendation 4:** That the Low Income Household Energy Rebate should be paid as a percentage of the overall bill, rather than at a flat rate.

The overrepresentation of low income household rebate recipients on expensive 'standing offer' contracts means that the NSW Government is essentially subsidising the bottom line of electricity retailers, rather than providing financial assistance to vulnerable households. Offering advice and support to all low income household rebate recipients to assist in switching to the best value-for-money contract would greatly improve the effectiveness and efficiency of the rebate. Specifically, electricity retailers should analyse electricity usage patterns for the last two quarter in order to determine which pricing arrangement offers best value for money for rebate recipients based on individual household needs. Vulnerable consumers would then pay less for electricity and the NSW Government funded rebate would provide an additional subsidy off this lower rate, thus ensuring highly targeted financial assistance.

- **Recommendation 5:** That electricity retailers should be required to notify recipients of the Low Income Household Rebate of the best value plan available to them and provide support to switch plans.

⁷ P29: NSW Council of Social Service (2017) 'Turning off the lights: The Cost of Living in NSW' Available: <https://www.ncoss.org.au/sites/default/files/Cost-of-Living-Report-16-06-2017-FINAL.pdf>

CPSA occasionally receives calls from pensioners who are not aware of the low income household rebate and accordingly have not been receiving it. Given the vulnerability of these consumers, electricity retailers should be obliged as part of the sign-up process to determine whether the consumer is eligible for the low income household rebate.

- **Recommendation 6:** That electricity retailers should determine a customer's eligibility for the low income household rebate at the point of sign up.