



Submission to IPART's Retail Electricity Market Monitoring 2017

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NSW Farmers' Association Background

The NSW Farmers' Association (the Association) is Australia's largest State farmer organisation representing the interests of its farmer members – ranging from broad acre, Livestock, wool and grain producers, to more specialised producers in the horticulture, dairy, egg, poultry, pork, oyster and goat industries.



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Executive Summary

The New South Wales Farmers Association (the Association) welcomes the opportunity to provide comment on IPART's Retail Electricity Market Monitoring 2017. We support IPART's efforts in monitoring and ensuring the competitiveness of NSW's retail electricity market for residential and small business users. Farmer's, as residential electricity users and as operators of small businesses, clearly fall within this remit.

While the Association supports IPART's efforts in monitoring the retail electricity market, we disagree with IPART's previous conclusions that NSW markets are indeed competitive, particularly with respect to regional NSW. As such we do not feel that the market is providing our members with the best value on electricity.

The Association fundamentally disagrees with IPART's characterisation of the market as one of driving innovation, and would suggest that the proliferation of market offers has more to do with increasing price opaqueness and limiting price competition. The Association does not believe that previous IPART monitoring has adequately explained why up to 70% of consumers do not regularly participate in the market, and subsequently cannot support the conclusion that this level of participation does not raise concerns around the competitiveness of the market. Finally we do not believe that regional and rural users are getting the same benefits from competitive markets, as evidenced by the lower cost-savings achieved by switching from the standing offer to the best market offer.

To address these issues, the Association recommends that IPART:

- undertake analysis on consumer sentiment to determine whether consumers view the provision of electricity as a commodity product, and whether they view the market as an innovative market;
- undertake more in-depth analysis on consumer sentiment to determine why consumers find it 'too much of a hassle' to participate in the electricity market, despite the ability to make considerable cost-savings;
- urge NSW and Federal Governments to increase activities that creates price transparency within the retail electricity market including more resources in promoting and improving the *Energy Made Easy* website, and consideration of regulatory requirements, such as a standard comparison rate for electricity market offers;
- continue its work to monitor the disparity between regional and metropolitan electricity prices; and
- provide greater context as to the significant price disparities between NSW's unregulated retail market compared to the regulated market in the ACT.

1. Innovation as an indicator of competition

The Association fundamentally disagrees that the myriad of electricity offers available in the market is a sign of innovation, and that this innovation demonstrates the competitiveness of the retail electricity market. We believe that a more appropriate explanation for the number of offers is attempts by retailers to increase search and transaction costs for consumers, and create price opaqueness that will limit true price competition.

Despite assertions to the contrary, the retail electricity market is largely a commodity product/service. The reliability and quality of the product/service is dictated by the network infrastructure, which is the same regardless of which retail provider a customer

uses. In a competitive commodity market there is a tendency towards a single price, as prices are readily visible, and consumers will gravitate to the lowest market price. Significant price disparities and price opaqueness in such markets is an indication of monopolistic or oligopolistic power. This is particularly so for this highly concentrated market, where the three largest players hold over 90% of market share.

There are some limited differences in the market product offerings including the availability of feed-in tariffs, renewable energy, and demand-management programs. All these innovations, with the exception of demand-management programs, have been largely driven by government programs or public policy provisions. The market on its own was not responsible for the introduction of these innovations. Furthermore, it is highly contentious to characterise differences in prices or price structures as innovation.

As an example, over 90 electricity offers were found for residential customers looking for a fixed-rate plan in metropolitan Sydney using the Federal Government's *Energy Made Easy* comparator website. One major retailer offered 10 different plans, despite all plans offering feed-in tariffs, and all but one plan offering renewable energy (i.e. the products offered essentially the same). Furthermore, it was difficult to discern which offer was the cheapest, given the variety of discounts offered.

Recommendation: IPART undertake analysis on consumer sentiment to determine whether consumers view electricity as a commodity product (i.e. do they perceive differences in quality and reliability between retailers), and whether they view the market as an innovative market.

2. Customer participation as an indicator for competition

The Association is surprised at how readily IPART has dismissed concerns that the overwhelming majority of customers do not actively engage in the retail electricity market. According to IPART's 2015-16 review, only around 30% of customers regularly shopped around for electricity providers, and the rate of switching between providers had decreased, despite significant savings from switching.

IPART has suggested that this is not an indication of lack of competition, stating: "*For some, the cost of their time to search for and switch to a cheaper deal outweighs their potential benefit from a lower bill. For these customers, not participating in the market is a rational choice.*"

The Association suggests that lack of participation is a sign of an uncompetitive market if search costs are inflated by market participants to ensure that the cost of participating outweighs benefits. IPART's 2015-16 review highlighted consumer surveys that suggested that 25% of respondents did not actively participate as they felt "it was too much of a hassle" to engage. Was this because the respondent's time was too valuable, or was navigating this market too difficult? If the latter is true, then this is a clear sign of a non-competitive market. It should be noted that 10% of respondents failed to give any reason for their lack of participation in the electricity market.

The same survey found that 68% of respondents found navigating the electricity market more difficult than navigating highly complex insurance, telecommunications and bank services markets. It should be noted that regulators have found the banking services sector sufficiently complex for consumers that they have mandated comparison rates. This requires service providers to advertise a single price in a manner that is readily comparable between providers.



Similarly, the mere existence of the *Energy Made Easy* website is not the panacea to the problem of price opaqueness. IPART's 2015-16 review suggests that only 10% of consumers are aware of the website's existence. Furthermore, feedback from market participants suggest that the site fails to adequately cover all offers available, and even with the tools offered by the website, it is still difficult to discern what the best offer is.

The Association has had significant contact with its members who have found it extremely difficult to understand the financial implications of market offerings, particularly when switching from single-rate offers to time-of-use or dynamic demand tariff offers.

IPART's comparison of electricity market to the airline and telecommunications industries to suggest significant price differences are a function of competitive markets is wholly inadequate. The price disparities in these markets are not just a function of willingness to pay, but a function of extreme differences in quality and reliability of services, due to the significant differences in infrastructure used by service providers. This is not the case for electricity.

Recommendation: IPART undertake more in-depth analysis on consumer sentiment to determine why consumers find it 'too much of a hassle' to participate in the electricity market.

Recommendation: IPART to urge NSW and Federal Governments to increase activities that creates price transparency within the retail electricity market including significant resources in promoting and improving the Energy Made Easy website, and consideration of regulatory requirements, such as a standard comparison rate for electricity offers.

3. Regional electricity prices

The Association does not believe that regional NSW is benefiting to the same extent from competitive retail electricity markets. In absolute terms, regional NSW pays more for electricity than metro areas. This might not be a function of an uncompetitive market, but the higher network costs of Essential Energy. However, the difference between the best market price and the standing offer is much smaller in regional NSW compared to metropolitan NSW. This is an indication of a less competitive market.

On 1 June 2017, residential plans were compared for a household of four, with no demand-management technologies, no pool, and connection to gas, using the *Energy Made Easy* comparator website. The following differences were identified between the highest standing offer and best market price registered for various locations on the three NSW electricity networks:



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	Standing Offer	Best Market Price	Percentage Difference
Essential Energy Network (not adjacent to other networks)	\$3065	\$2083	32%
Essential Energy Network (adjacent to Endeavour Network)	\$2732	\$1727	36%
Essential Energy Network (adjacent to ActewAGL Network)	\$2732	\$1593	41%
Endeavour Network	\$3265	\$1608	50.7%
AusGrid Network	\$3119	\$1527	51%
Suburban areas in the ACT	\$2295	\$1462	33.8%

Based on the figures highlighted above, it would suggest that competition is not providing many in regional NSW users with the full cost-savings from competition compared to metropolitan users. This is despite assertions by IPART that there are no barriers to competitive markets in regional NSW.

The differences highlighted in the table above do not accord with the differences highlighted by IPART in their 2015-16 review. This may be due to the fact that the *Energy Made Easy* website does not have all market offers available, or that electricity market offers have changed since IPART's analysis.

Equally concerning is the significantly lower electricity prices in the ACT. The ACT regulates electricity prices charged by ActewAGL. This minimal intervention has ensured that ACT electricity prices are lower than any offers available in NSW. It may have contributed to electricity market offers on the Essential Energy network in nearby NSW towns (such as Queanbeyan and Goulburn) being 20-25% cheaper than prices offered elsewhere on the Essential Energy network that are not adjacent to other networks.

Recommendation: IPART continue its work to monitor the disparity between regional and metropolitan electricity prices.

Recommendation: IPART provide greater context as to the significant price disparities between NSW's unregulated retail market compared to the regulated market in the ACT.

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