

30 June 2017

Dr Peter Boxall
Chair
Independent Pricing and Regulatory Tribunal
PO Box K35, Haymarket Post Shop
NSW 1240



Dear Dr Boxall

Information Paper – 2017 NSW retail electricity market monitoring

The Public Interest Advocacy Centre (PIAC) is an independent, non-profit law and policy organisation that works for a fair, just and democratic society, empowering citizens, consumers and communities by taking strategic action on public interest issues. PIAC's Energy + Water Consumers' Advocacy Program (EWCAP) has been representing the interests of low-income and other residential consumers of electricity, gas and water in New South Wales since 1998.

Retail electricity prices across NEM states have steadily increased in real terms since deregulation of the retail electricity market began in the 1990s.¹ On the back of this, the price rises from 1 July 2017 will further burden consumers – particularly low income and vulnerable consumers, for whom any increase to cost of living is of substantial detriment.

PIAC supports continued monitoring of NSW retail electricity prices and welcomes the opportunity to provide input to the Independent Pricing and Regulatory Tribunal's (IPART) Information Paper.

PIAC is broadly supportive of IPART's proposed approach and makes some specific suggestions below to improve the effectiveness of the review. We also request that IPART considers our submission to the Australian Competition and Consumer Commission's inquiry into retail electricity supply and pricing, which explores some of the issues around retail competition in greater depth.

Retail competition

PIAC questions IPART's findings from its previous report that competition is working and is delivering better outcomes for customers. While it may be leading to preferable retail prices for some consumers, this is not the case for many in NSW, particularly many low income and vulnerable consumers.

For example, economic consultancy Carbon + Energy Markets (CME) recently analysed retail markets, by comparing deregulated markets in Victoria, New South Wales, South Australia and Queensland with the regulated retail markets in the Australian Capital Territory and the United Kingdom.² While noting the difficulty of identifying precise profit margins, CME reported that the retail electricity component of bills tends to be considerably higher in deregulated markets such as NSW than those where regulators set the prices.

¹ Carbon + Energy Markets, *Australia's retail electricity markets: who is serving whom?*, 2016.

² Carbon + Energy Markets, *Australia's retail electricity markets: who is serving whom?*, 2016.

This concern is mirrored in the work of the Grattan Institute, which recently reviewed retail markets in the NEM, and found that “profit margins appear to be higher than in other sectors – and more than double the margin that regulators considered fair when they set retail electricity prices”.³

PIAC contends that IPART should directly examine retail profit margins as well as movements in the retail component of electricity bills and market share to get a more accurate measure of whether competition is effective in the market. For businesses that are vertically integrated, it will be important to fully understand the relationship between the retail component and other components such as generation.

PIAC also supports IPART considering customers changing plans within the same retailer as a form of competition. However, care must be taken that these cases are where customers enter into new market offers, rather than being put onto a standing offer at the end of a contract period. PIAC recommends that IPART only count cases where customers have explicitly consented to entering a new contract with the same retailer.

Customer outcomes

When looking at the extent of rivalry to attract or retain customers as IPART intends, PIAC stresses the importance of considering that not all customers are engaged in the competitive retail market. The survey conducted by Newgate Research for the AEMC’s *2016 Competition Review* amongst other studies and reviews supported PIAC’s concern about the lack of customer interaction with the retail electricity market. While over 90% of those surveyed in NEM states with retail competition were aware of their ability to change retailers, less than one third of respondents had done so in the past twelve months.⁴

This ineffective interaction is particularly relevant for a number of low income and vulnerable consumers, who tend to be the least able to engage and the group who are least able to afford higher electricity costs. This lack of engagement may stem from a variety of reasons including being less numerically or financially literate, having a language barrier, or a disability or being on hardship plan or prepayment arrangement which would limit their ability to change retailers.

PIAC is also concerned that the common practice of retailers, to provide discounts only when bills are paid by the due date, is essentially a high late payment fee in disguise. Low income and vulnerable consumers often have trouble paying electricity and other bills on time. Therefore, they may miss out on the discount and pay more than they should for their energy services which may then push them further into financial hardship. It is not clear to PIAC whether the fee (as in the full price in the absence of a discount) accurately reflects any additional costs faced by the retailer as the result of a customer failing to pay on time.

The concerns and difficulties of vulnerable and low income households point to a failure of the retail electricity market to enable effective interaction by customers who are most in need of the benefits of competition.

PIAC strongly supports IPART explicitly examining the outcomes for vulnerable consumers as one its indicators.

³ Tony Wood and David Blowers, “Price Shock: is the retail electricity market failing consumers?” *Grattan Institute Report No. 2017-04*, 2017, pg. 3.

⁴ AEMC, *2016 Retail Competition Review*, 2016, pg. 2.

Further engagement

PIAC would welcome the opportunity for further engagement with IPART and other stakeholders to discuss these issues in more depth.

Yours sincerely,

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