

AEMC Strategic Priorities for Energy Market Development Public Forum 2012

Retail markets and consumer participation session

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Retailers play an important role in bundling the costs of the entire supply chain and billing customers. The retail market is the interface between customers and upstream costs that are affected by a range of policy, resource, historical, international and financial factors.

Ensuring that the market is acting in the long term interests of customers is complicated and requires a great deal of effort from a range of organisations. But it can be done and a number of areas that would benefit from change are currently under review.

Our current price determination expires in June next year. It is timely, therefore, to think about retail price regulation and how to transition to a deregulated environment.

IPART supports the removal of retail price regulation where there is effective competition. We have seen increasing levels of customer activity, with customers moving off regulated prices, presumably in response to high levels of discounting in the market. These discounts provide some indication of the level of competition in NSW, however without having considered all aspects of the retail market and the outcomes for customers, I cannot make comment on the appropriateness of continuing retail price regulation. However, I can make comment on actions that I think would support competition and therefore the removal of retail price regulation.

Removing price regulation will require action from retailers, regulators, governments and customers.

The first and arguably most important area to focus on is the behavior of retailers and their interaction with their customers. Retailers should be engaging with their customers to improve customer understanding of, and confidence in, the market. This will encourage customers to actively engage in the competitive market, and importantly, to maximize their chances of obtaining a good outcome from

participating in the market. It will help customers enter the market, get a better deal and hopefully remain in the competitive market.

Retailers can play a crucial role in a number of ways.

Firstly, they can improve their marketing practices. The industry has already started tackling this problem with the development of Energy Assured. But retailers must continue to make improvements to their marketing channels, including door to door marketing. Additionally, we have recently seen issues arise in relation to switching websites, including Energy Watch. Rod Sims, Chairman of the ACCC, has warned the industry that the ACCC will actively monitor this area, with a view to improving the performance of the industry.

Secondly, retailers can help customers gain confidence by taking ownership of their pricing decisions and helping customers better understand their bills. In recent years the NSW Energy Ombudsman has received a significant increase in complaints about high bills. Additionally, we have seen increased complaints to IPART from customers who simply cannot understand their bills (both market and regulated), why bills are increasing and what they can do about it.

Historically retailers have provided little information to customers as to why prices are changing. An absence of information can create suspicions of unfair conduct in the eyes of many customers, when in many cases there are legitimate reasons for rising prices. Customers who contact IPART have usually spoken to their retailer first without resolution and in many cases have been directed to us by retailer call centers. We can see considerable benefit in improved communications between retailers and customers to make customers more informed and aware. An educated customer is more likely to engage in the market successfully.

There is also scope for retailers to make it easier for customers to engage in the market. IPART currently operates the myenergyoffers comparison website in NSW and there are other price comparison websites available in other jurisdictions. However, our myenergyoffers website only includes offers that are generally available. We have experienced an increase in contact from customers who have difficulty in determining whether a particular offer will benefit them. In some cases, we have observed that customers have found it too hard to assess their offers and give up rather than enter into a market contract.

Of course, we encourage retailers to innovate their product offerings in the competitive market, but this increases the need for retailers to provide clear, easy to understand information and to help customers understand whether an offer is good for them. The easier that retailers can make it for customers to understand and compare offers, the more likely customers are to enter into the competitive market successfully. In this regard we welcome recent comments from TRUenergy and Origin in relation to offering time of use pricing to customers.

An emerging area of concern for customers has been the way that retailers have changed their rates once the customer has entered into a contract. Most contracts on offer have clauses that allow retailers to change the rates after notifying customers. So customers sign up to a deal, think that they have secured their rates and then receive notification that the rates are changing. Many contracts also have termination fees, limiting customer's options to respond to the price changes. While the rates may be changing for legitimate reasons, such as increases in network prices, customer understanding of the terms and conditions of contracts is generally insufficient and is leading to customer dissatisfaction.

This is an area that I think retailers should focus on to both improve outcomes for customers and to avoid any unnecessary government intervention. Again, it will also improve customer's confidence to enter the market if they know what their discount is and how it will move.

While there is plenty for retailers to do, it is not all up to them. Others can take actions.

IPART can continue to play a role as well. Firstly, if we are asked to continue regulating retail electricity prices, we can consider the most appropriate way to regulate. In each retail determination, we have considered our form of regulation to both rely on the state of competition and to develop the competitiveness of the market. For example, when prices were not cost reflective and the Standard Retailers were not exercising their full discretion to move them towards cost reflective levels, we imposed a target tariff regime, forcing the retailers to increase their under recovering tariffs.

As competition developed, we moved to a weighted average price cap, relying on competitive pressures to deliver cost reflective prices. If we are asked to continue retail price regulation, IPART will assess the competitiveness of the market and determine the most appropriate form of regulation that is consistent with the terms of reference and context for the review. We could also spend time considering the transition to deregulation and how to structure this transition for the benefit of customers and the competitive market.

Secondly, we will continue to make recommendations about inappropriate policies that drive prices higher. Clearly price regulation, particularly in NSW, has not protected customers against price shocks, however placing downward pressure on retail prices by correcting inappropriate policy settings can reduce the temptation for political reliance on retail price regulation as a protection against rising prices.

In recent years IPART has made recommendations about:

- ▼ Improving network productivity by reviewing and adjusting network reliability standards, the regulation arrangements set out in the National Electricity Rules, the Limited Merits Review regime and the governance of the NSW electricity distribution businesses. We are pleased that many of these areas are currently under consideration. We will continue to support our initial recommendations by participating in these reviews.
- ▼ Reviewing green schemes to ensure that they are complementary to the carbon price. Additionally, we have made recommendations to change aspects of the Renewable Energy Target. We will make a submission to the current review of the RET. We also made recommendations to close the NSW Government's Solar Bonus Scheme, which has occurred.

Addressing these issues will be in the long term interests of customers irrespective of retail price regulation. We consider there is scope for a range of industry players to be more involved in some of these key debates.

Thirdly, we will continue to address issues in the retail market to support competition. For example, in 2010 we recommended the introduction of a price comparator website and improved price disclosure. These recommendations were implemented and we consider that they have improved the functioning and competitiveness of the retail market. If we continue price regulation, we will consider if further improvements can be made to enhance the market and to aid a transition to deregulation.

We have also recommended a review of customer assistance measures. We would like to ensure that assistance measures are well-targeted. We consider that such a review could address energy affordability issues and remove political pressure to regulate to protect these customers.

As flagged in our submission to the Commonwealth Government's Draft Energy White Paper, IPART is going to propose a change to the NER to improve the annual network price setting process. We would like network prices to be set earlier so that retailers and customers know and can respond to the upcoming network price changes. Additionally, we would like to see greater consultation between the regulator, networks, retailers and consumer representatives in relation to the price setting. We think that this will allow customers to better respond to price structures and levels and to allow the retailers to develop their retail price offerings.

Governments can improve the retail market by acting upon these recommendations. There is also a role for the AEMC to address some of these problems through Rule changes.

Further, when governments are deciding whether or not to continue price regulation, they should consider the competitiveness of the market. Retail price regulation should be used as a tool to protect customers against market power and not for other purposes.

Retail price regulation is not a panacea for other issues – for example, if a government is concerned about price shock for vulnerable customers, retail price regulation is not a targeted solution. Indeed, as demonstrated in recent years, retail price regulation does not protect any customers from bill shock.

In terms of improving customer confidence in the market, governments can assist retailers through improved communication and education of customers.

Significant work has been undertaken by government, industry and stakeholders to develop the National Energy Consumer Framework (NECF) to apply to the national electricity market. To date, the NECF has not been adopted by all participating jurisdictions. 1 January 2013 has been mentioned as a possible start-date in NSW. We support the move to NECF.

So retailers, governments and regulators can all take actions to support the transition to deregulation. Some of the issues that I have touched on relatively lightly today are critical issues facing the industry. There is a lot to be done in the industry to improve the long term interests of customers. Many of these issues go beyond retail price regulation but get associated with it. Securing credibility in the eyes of the customer is the best way to avoid unnecessary intervention.

However, as a word of caution, often retail price regulation is cited as hindering many aspects of the industry that are not directly related to retail price regulation. Deregulating retail prices will not solve all the problems in the energy market. For example, some parts of the industry have called for the removal of retail price regulation to help address the peak demand problem. Deregulating retail prices will not resolve this problem. Likewise, retail price regulation does not impede time of use pricing.

To summarise, IPART supports the removal of retail price regulation where there is effective competition. We are keen to play our part to move to deregulation and encourage others, including retailers and policy makers to actively work towards this end.