

28 November 2014



Mr John Pierce
Chair
Australian Energy Market Commission

Submitted online: www.aemc.gov.au/Contact-Us/Lodge-a-submission.aspx?Nodeid=26200

Your ref: RPR0003

Dear Mr Pierce

Submission to 2015 Retail Competition Review Consultation Paper

The Public Interest Advocacy Centre (PIAC) thanks the Australian Energy Market Commission (AEMC) for the opportunity to provide comment on the Consultation Paper, *2015 Retail Competition Review* (the Consultation Paper). The Council of Australian Governments (COAG) Energy Council has directed the AEMC to undertake an annual review of the state of retail competition across the National Energy Market (NEM).¹ As part of that review, the Consultation Paper seeks comment on the AEMC's proposed approach to the review. The examination of competition itself will take place in 2015.

The importance of assessing the effectiveness of competition

In less than two decades, NSW has moved from having a single electricity monopoly that offered a single price to a market where dozens of retailers offer scores of different electricity contracts. One perceived benefit of this arrangement is that consumers are able to find an offer that suits their needs.

However, PIAC takes the view that the deregulated market places an expectation on consumers to remain engaged in the market in order to ensure that they pay the lowest price or find the product that best meets their needs. Accordingly, PIAC believes there is a risk that consumers who 'set and forget' their electricity supply arrangements, or are not able to effectively navigate the competitive market, will pay more than they need to for essential energy services.

It is, therefore, extremely important the operation and outcomes of the competitive market are effectively monitored, to ensure they are occurring in what is truly the long-term interests of consumers. As PIAC submitted to previous AEMC reviews of competition, it is crucial that ongoing monitoring seeks to understand how the competitive retail electricity market develops, in an effort to ensure outcomes for small customers continually improve.² Such monitoring serves both as a tool for consumer advocates such as PIAC and as a potential basis for government intervention in the market.

The AEMC's 2014 review of competition provided a detailed picture of the competitive market. PIAC offers the following comments about how the 2015 review could improve on that previous work.

¹ AEMC, 2014, *Consultation Paper: 2015 Retail Competition Review*, 1.

² PIAC, 2014, *the next piece of the puzzle*, 7. Available at <http://www.piac.asn.au/publication/2014/03/next-piece-puzzle>.

Comparison of available data

The Consultation Paper outlines nine processes or reviews currently being undertaken by jurisdictional regulators and other agencies that are relevant to the AEMC's 2015 review of the effectiveness of competition.³ These reports include price monitoring and other assessments of the competitive market.

The Consultation Paper states that the AEMC will engage with the agencies carrying out this work as part of its review. PIAC submits that the AEMC should compare the outcomes of its own research with other available reports and include details of areas of agreement and disagreement as part of developing its 2015 report. As the competitive market develops, so will monitoring of the competitive market. It is also in the long-term interests of consumers to minimise duplication in market monitoring, as regulators are often under-resourced. If duplication is reduced, regulators will be able to cover a greater range of issues. A thorough assessment of the data collected by different agencies is a crucial step in minimising this duplication.

Recommendation 1

PIAC recommends that the AEMC examine the findings of other market and price monitoring work across the NEM and include a summary of areas of agreement and disagreement in its 2015 report into the effectiveness of competition.

PIAC notes that while the Consultation Paper refers to work being done by consumer organisations to monitor outcomes of the competitive market, specific instances are not listed. PIAC, therefore, recommends that the AEMC examine the Tariff Tracking Project, run by the St Vincent De Paul Society and Alviss Consulting.⁴ This project monitors outcomes in a variety of regional centres and rural areas, where energy markets generally have lower levels of retail competition than capital cities.

Recommendation 2

PIAC recommends that the AEMC examine the research produced by the St Vincent de Paul Society's Energy Tariff Tracking Project as part of its review of the effectiveness of competition.

Customer switching as an indicator of competition

The Consultation Paper notes that 'high or low switching rates are not necessarily a sign of a well-functioning market'.⁵ PIAC welcomes and endorses this position. Just because a customer switches to a different offer does not mean they have switched to a better offer. Where the new offer for example, has a contract where prices increase quickly, significantly and regularly, PIAC submits the competitive market has made consumers worse off and is acting against their long-term interests.

Nonetheless, PIAC accepts that customer switching is a readily available measure of activity in the competitive market and will form some part of any thorough examination of competition. Accordingly, PIAC recommends that the AEMC seek information about whether customers have moved to a better offer with their current retailer (without churning to another company). This data will show the extent to which incumbent retailers are responding to market pressure from competitors offering lower prices. In the case of the big three retailers (AGL, Origin, Energy Australia), this analysis would help illustrate whether the competitive market is exerting positive influence on its most powerful participants.

³ AEMC, above n 1, 7.

⁴ Reports for all NEM jurisdictions are available at:
http://www.vinnies.org.au/page/Our_Impact/Incomes_Support_Cost_of_Living/Energy/, at 11 November 2014.

⁵ AEMC, above n 1, 12.

Recommendation 3

PIAC recommends that the AEMC examine the rate at which customers are moving to new contracts without leaving their current retailer.

Product innovation

PIAC submits that the AEMC should have particular regard to product innovation in the retail electricity market. One of the key benefits that competition and price deregulation are intended to provide is a wider choice of products. The AEMC's 2014 review of competition across the NEM found that there was a low level of product differentiation in NSW, with price regulation being cited as the reason for this.⁶

With the process of price deregulation having begun in NSW, PIAC believes that product innovation will be a revealing indicator to examine as part of the 2015 retail competition review. In addition, with price regulation currently being phased out, PIAC recommends that the AEMC examine whether any other barriers exist to the product innovation by retailers in NSW.

Recommendation 4

PIAC recommends that the AEMC examine the extent of product innovation in the NSW retail energy market, including whether hurdles other than price regulation exist to greater innovation.

Price outcomes

PIAC takes the view that the ultimate promise of the competitive market is that it exerts pressure on suppliers to drive down prices. A wide array of different products provides a range of options that are more suited to a given range of households. However, the most important factor for the vast majority of electricity consumers is the final price they pay.

PIAC submits that it would be useful for regulators, policy makers and consumers to know if there is evidence of competition actually pushing prices down (in real or nominal terms). While it can easily be said that competition has put 'downward pressure' on prices or 'constrained price growth' these are different to genuine price decreases. PIAC takes the view that the latter would be of most benefit to consumers. PIAC accepts, however, that such an analysis may be difficult, as the exact product offered by energy retailers may change subtly over time, precluding a genuine 'apples with apples' comparison.

Recommendation 5

PIAC recommends that the AEMC examine whether competitive market has resulted in reduced electricity prices, in real or nominal terms, in any areas of the NEM.

Once again, PIAC thanks the AEMC for the opportunity to provide comment on the Consultation Paper. If you would like any further information, please do not hesitate to contact me, or Oliver Derum, EWCAP's Senior Policy Officer, on 02 8898 6518, or oderum@piac.asn.au.

Yours sincerely



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⁶ AEMC, 2014, *Final report: 2014 Retail Competition Review*, 111.