

ACCC Retail Electricity Pricing Inquiry

Overview of submissions made in response to the issues paper

24 July 2017

On 31 May 2017 the ACCC released an Issues Paper, inviting comment on issues that it should focus on throughout the Retail Electricity Pricing Inquiry. Over 80 submissions were received.

This is an overview of issues raised in submissions, rather than a comprehensive summary of all submissions made to the Issues Paper. This summary does not include recommendations made in submissions.

The views and opinions expressed are those of submitters and do not reflect the ACCC's views or position on the issues summarised here.

Costs, prices and profits

- Submissions provided detail on the costs that contribute to a retail electricity bill – network charges, wholesale energy costs and the carbon price. Limited merits review, withdrawal of generators and costs of compliance with multiple regulatory regimes have also contributed to increased retail costs.
- The vast majority of submissions from users and representative associations raise concerns with the level of retail electricity prices. Some submissions note that prices are becoming too expensive for vulnerable customers to continue paying electricity bills. Some consumers are going without food, energy or medical treatment in response to rising electricity prices. Submissions also note that electricity costs are significant for businesses of all sizes.
- Submissions note that it is reasonable to expect retailers to pass on costs along with an efficient and sustainable profit margin, but it appears that current profit margins are above this level. Submissions also note that price increases are out of step with increases to wholesale energy and network cost increases.
- In contrast, retailers argue that price increases have been in response to increases in wholesale energy and network costs, rather than increased retail margins. Retailers are incentivised to minimise costs. Retailers also note that a standardised comparison of all retail margins is likely to be challenging as retailers will likely calculate costs and allocate risks differently.
- Many submissions raise concerns with the level and volatility of wholesale energy prices and the impact this has on overall costs. A number of submissions specifically refer to prices and reliability of electricity generation in South Australia.
- Submissions made by electricity distributors support the introduction and take up of cost reflective retail tariffs as a way of limiting exposure to higher network charges.

Market structure and nature of competition

- Some submissions note that the substantial increase in the range of products available since deregulation and the level of price dispersion is a sign the market is working.
- In contrast, other submissions note that the retail market is highly concentrated and vertically integrated 'gentailers' benefit from economies of scale. Smaller, standalone retailers find this difficult to compete with.

- Submissions were divided on whether there are significant barriers to entry in retail electricity markets. Some submissions argue that these are not substantial, as evidenced by the number of retailers operating throughout the National Electricity Market. However, other submissions argue that there are barriers to retailers achieving a certain scale, which limits the ability of smaller retailers to compete with large, vertically integrated retailers.
- Submissions also raise concerns with the impact of vertical integration on retail prices, as 'gentailers' have a greater ability to absorb rising wholesale prices. In contrast, large retailers state that there is no evidence to suggest that vertical integration has raised barriers to entry or entrenched market power.
- Particular concerns were raised with the level of competition outside of metropolitan areas – consumers in these areas are not benefiting from competition in the way that consumers in metropolitan areas are. Some submissions note that there are also limited retail options for large users that were not big enough to purchase energy directly from the spot market. At times, businesses only receive two or three quotes for electricity services.
- Concerns were also raised with retention and win-back strategies. At times these can be confusing and irritating for customers. Smaller retailers are also unable to compete with the strategies of larger retailers.
- Other issues raised in submissions include the rapid growth of embedded networks and the lack of access to competition in such networks. Submissions were divided on the extent to which the ACCC should consider embedded networks while other relevant inquiries are underway.
- Concerns were raised with the impact of renewable energy and technologies such as batteries on competition. While these innovations may expand customer choice, they can impact on the wholesale generation market. New technology is also costly and will take time to implement.
- A number of submissions note the proposed rule change to reduce the time interval for settlement in the wholesale electricity market from 30 minutes to five minutes. Some submissions consider this will have a positive impact on competition and prices, however others raise concerns that this could actually increase the market power held by some 'gentailers'.

Customers and their interaction with the market

- Many consumers raise concerns with the complexity of the retail electricity market. Consumers find it difficult to identify the best option for them and to choose or switch providers. This complexity leads to disengagement.

Fees and discounts

- A number of submissions were concerned about discounting practices, particularly:
 - lack of consumer understanding of what component of the bill a discount will apply to
 - the fact that some discounts vary through the life of the contract
 - difficulties in comparing offers, particularly between retailers, as the underlying tariff that the discount is taken from differs from offer to offer
 - the level of 'pay on time' discounts. Some submissions argue that these are 'late payment fees' in disguise as the discount amount does not correlate to the costs to a retailer when a bill is not paid on time.

- Retailer submissions note they use discounting because consumers like it and it is easy for consumers to understand discounts.
- Some submissions raise concerns with fees generally, stating that they are confusing and it is difficult to determine what they apply to.

Billing

- Submissions from many small customers, businesses and representative associations state they find the content and structure of bills confusing and changes could be made to ensure that bills come in a standard format showing all the components of the bill and the options available to customers.

Comparing offers

- Some submissions from consumers explained that the process of switching and comparing offers is difficult and cumbersome. Some customers are also confused by the different names and terminology used by retailers. This made it difficult for them to compare offers.
- Some submissions note there are issues for users when comparing offers, particularly around discounting, fixed benefit periods, standing offers, and price comparison sites. The large number of offers and the lack of information in advertising also confused customers.
- Large users are concerned that there is a lack of transparency around retail prices that makes it difficult for them to find the best deal. In certain locations, there are limited offers for large users of electricity that are not buying directly from the spot market. Many retailers impose deadlines on business customers to accepting offers (sometimes remaining valid for only 48 hours).
- Business customers' experience with the retail market can vary due to both size of the business and location. Some medium to large consumers were satisfied with the information presented on offers and bills other customers found this confusing.

Comparator websites

- Submissions indicated there was a lack of awareness about government-run comparator websites, the AER's Energy Made Easy website and the Victorian Government's Energy Compare website.
- Of those that had experience with a price comparator, some concerns were raised with the high level of detail provided by the price comparator website, which made it difficult to compare and choose an offer. Other submissions note it was difficult to find your current offer (for comparison purposes) and there was no allowance for solar generation.
- Large users submitted that price comparators should be available provide separate information just for business customers.
- Submissions also raise concerns with private price comparators not being forthright about the fact that they are aligned with an electricity retailer, or do not display all available market offers.

Vulnerable customers

- Many submissions raise concerns with vulnerable consumers and the particular difficulties that they face in engaging with the retail electricity market. Vulnerable

consumers are more likely to be disengaged, which is particularly concerning as vulnerable consumers will be affected most by increasing electricity prices.

- There are many categories of vulnerability, including low energy literacy, low language literacy, low financial literacy, low levels of numeracy, low digital literacy, disability, age, income and housing status. There is no single solution that will assist all vulnerable consumers.
- Submissions state that vulnerable customers have more difficulties engaging with the market and understanding the tools and options available to help them. Some groups (e.g. tenants) also are constrained in their access to long contract products or products that require physical changes to the premises.
- Submissions state that vulnerable consumers have trouble engaging with the market to determine the best offer for them. To be engaged, a customer requires internet access, and users without it are unable to shop around. They may also pay more as they miss out on online payment services and incentives.

Access to usage data

- Submissions note that access to usage data and smart meters could lead to improved outcomes for consumers and enhanced competition. However, customers may not find this information useful if they cannot understand it. Further, even where this data is available, there is low take-up of tariffs that would enable consumers to limit electricity during peak times.
- Some retailers note that the regulatory processes around improving customer access to data are costly and may disproportionately impact on retailers.

Other issues

- Submissions raise concerns with a range of additional issues that impact on customers' ability to engage with the market. These include
 - confusing and potentially misleading information provided in marketing
 - transfers without explicit informed consent
 - services provided by energy brokers and other third party connection companies
 - the lack of understanding around embedded networks and the inability to seek recourse through the ombudsman process in many jurisdictions.