

AER DMO Forum

5 December 2018

Rosemary Sinclair

CEO



What I'll cover today (quickly!)



1. Consumer and market context – affordability in a market for an essential service
2. Defining the problem
3. How does the DMO relate to other ACCC recommendations?
4. Work already underway
5. Key elements to re-establish the safety-net
6. Pivot to consumers

1. Consumer and market context

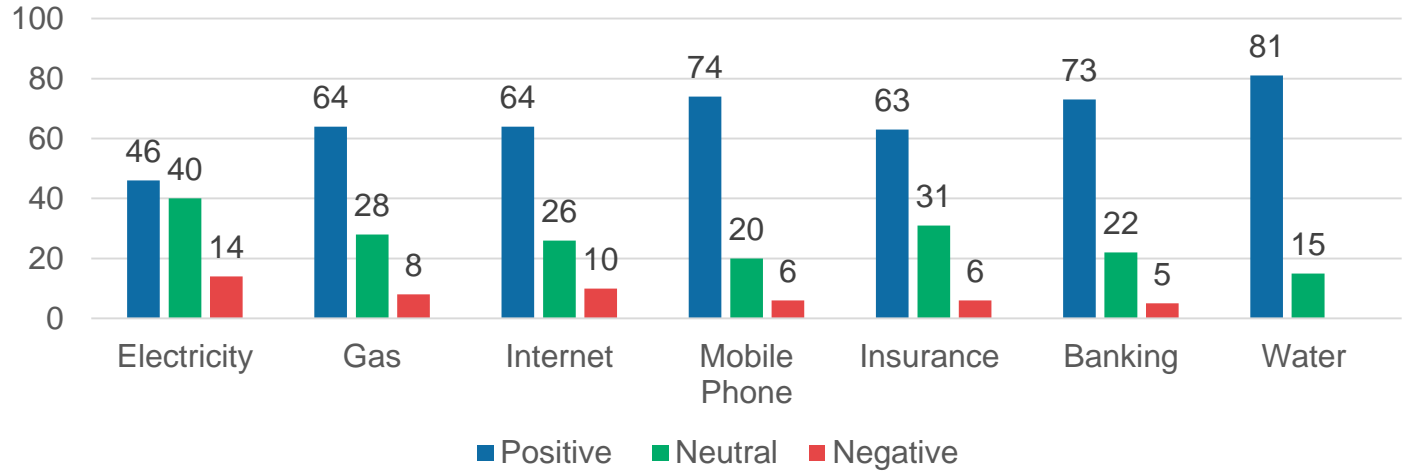


What consumers are telling us ... comparing sectors



Energy
Consumer
Sentiment
Survey
June 2018

Satisfaction with utilities and services

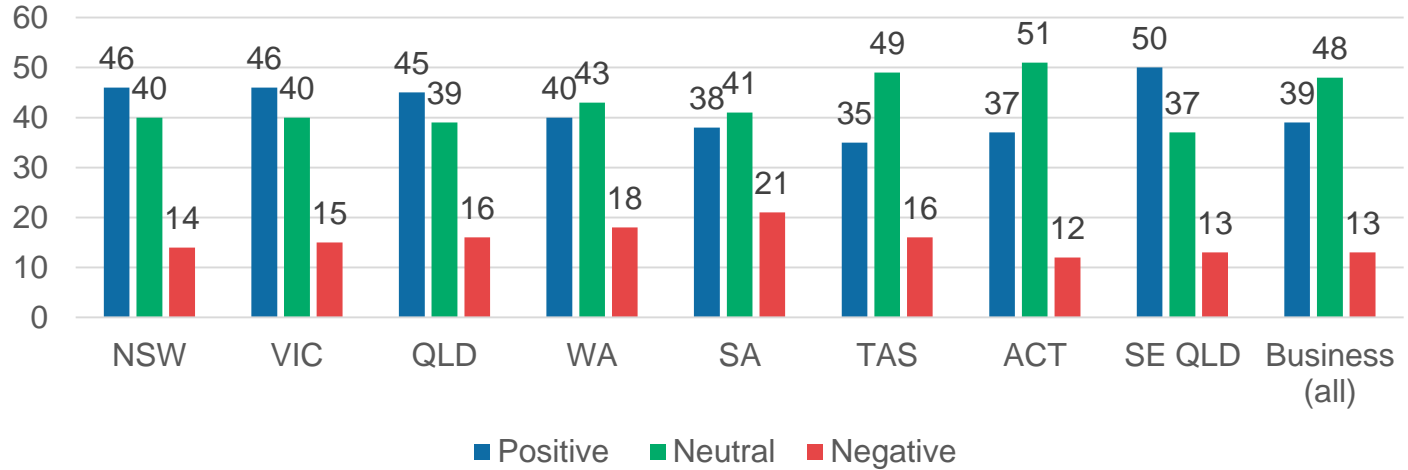


What consumers are telling us ... value for money



Satisfaction with electricity value for money

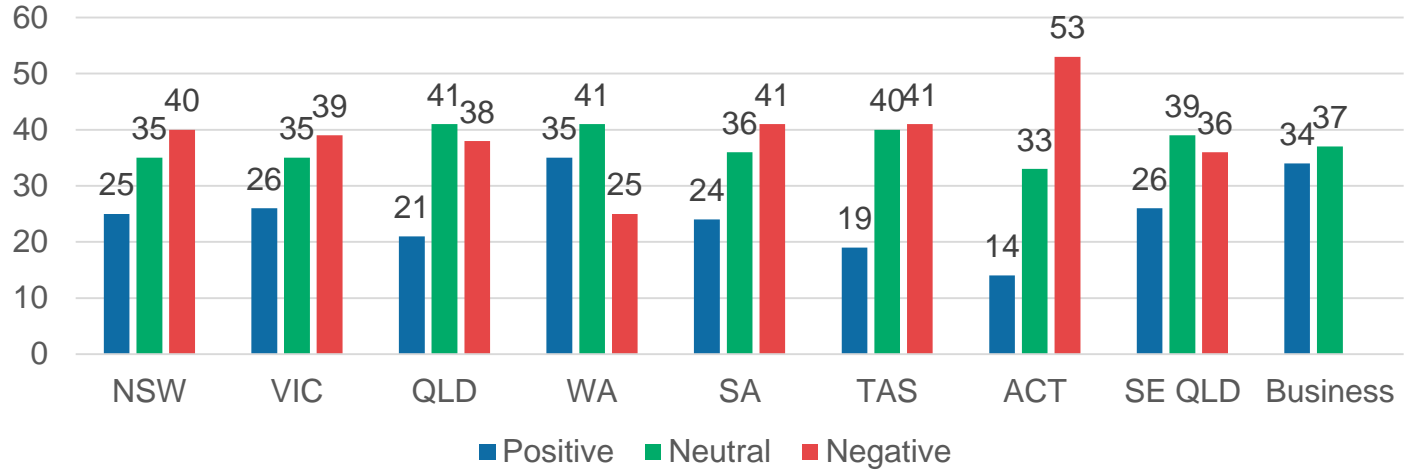
Energy
Consumer
Sentiment
Survey
June 2018



Do you trust the sector?

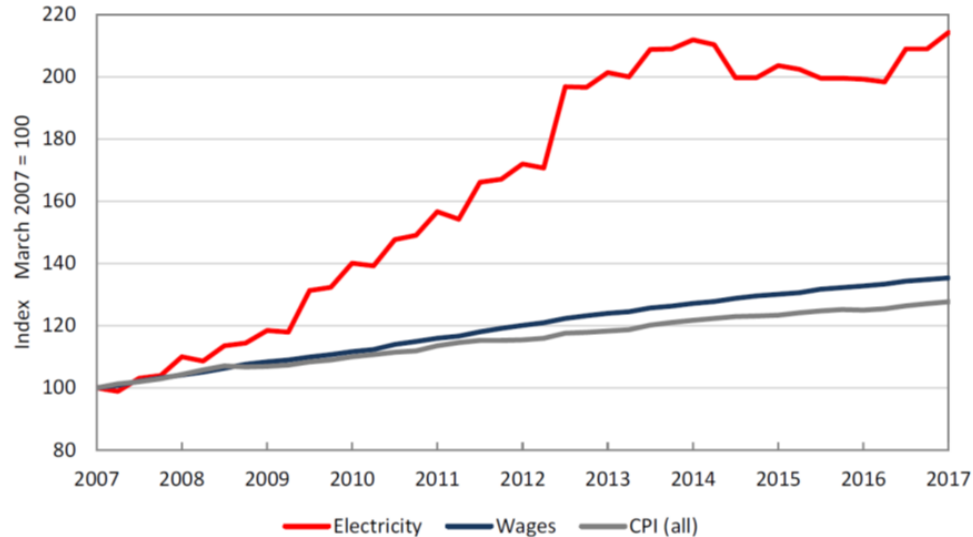
Confidence in the market

Energy
Consumer
Sentiment
Survey
June 2018



In the short term, the price of regaining trust and confidence is the price

Figure 1.3: CPI for electricity compared with other sectors and wage growth



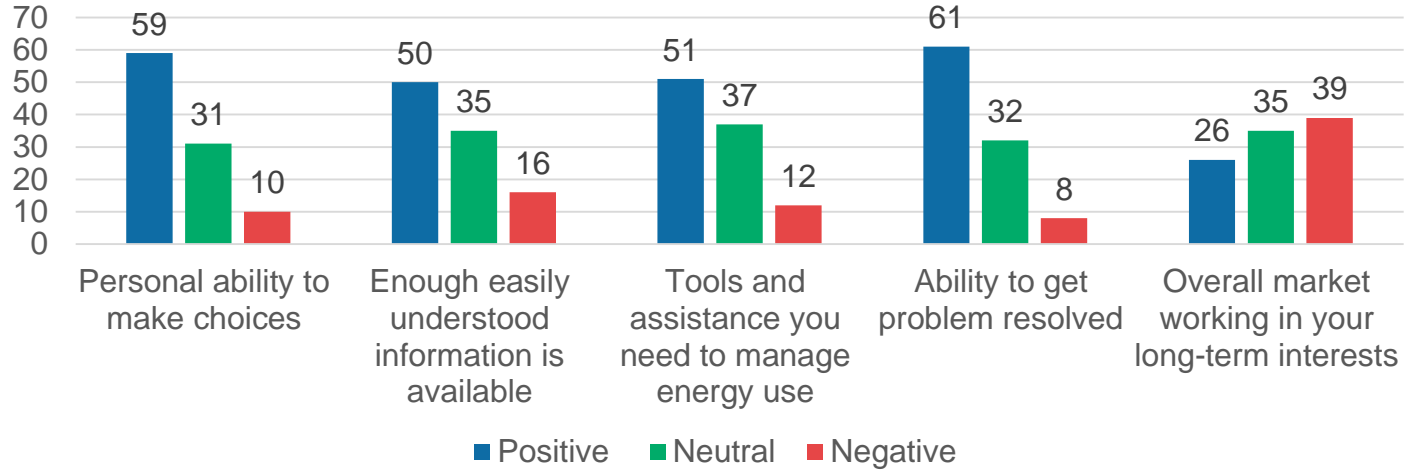
1. Immediate action on prices and to clear up choice for consumers.
2. Longer-term outcomes ... orderly transition, seizing opportunities.

Source: ABS, Consumer Price Index 6401.0 and ABS, Wages Price index 6345.0, Australia.

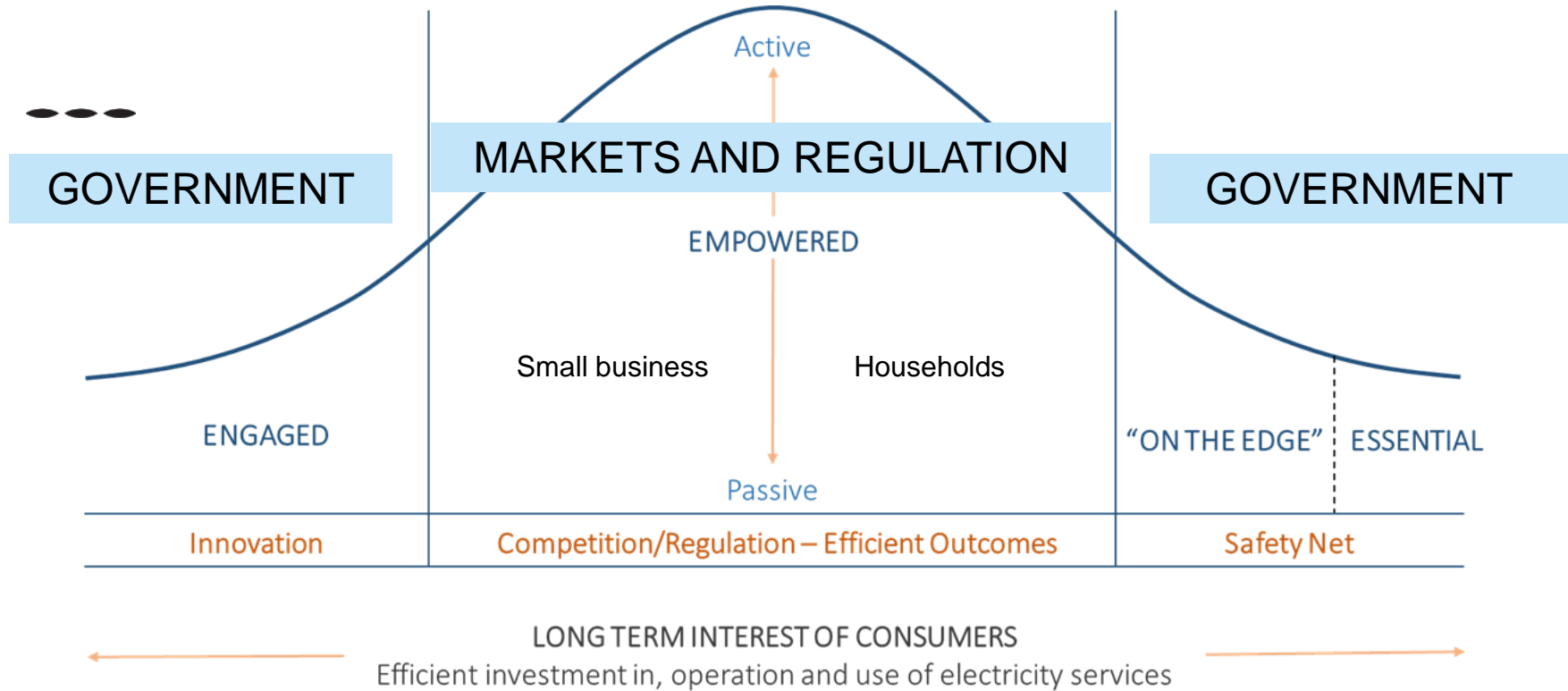
A market you can't manage

Energy
Consumer
Sentiment
Survey
June 2018

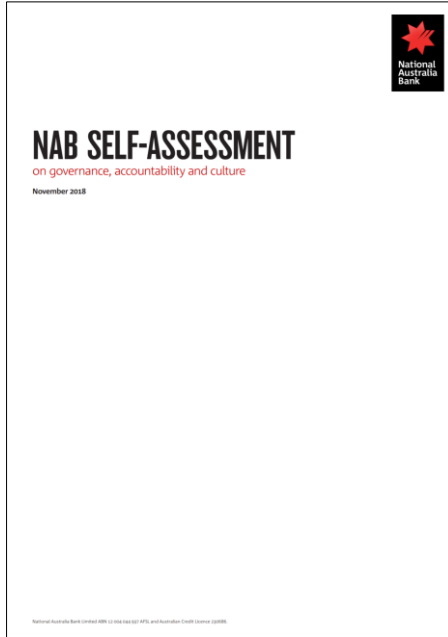
Confidence in information and tools – Victoria



A more sophisticated vision of a market for an essential service



Moving from 'fight' to fix' when it comes to confusopoly and the broken safety-net



4. We have not listened to or learned enough from our customers, regulators and employees.

Where we've gone wrong has usually been preceded by internal or external signals and warnings. Despite this, we have been too quick to create and accept a convenient narrative to explain our decisions, actions and mistakes. This means we've responded late, and missed or resisted signals that challenged our existing position and presented an opportunity to purposefully question our viewpoint.

5. While we have a strong commitment to customers, we have too often put other priorities first.

We too rarely asked what the impact of our decisions would be for our customers. We failed to be guided by the reality that good customer outcomes are critical to sound financial performance. We let the perception evolve among employees that delivering on short-term financial results remained the primary focus, despite extensive changes to remuneration frameworks.

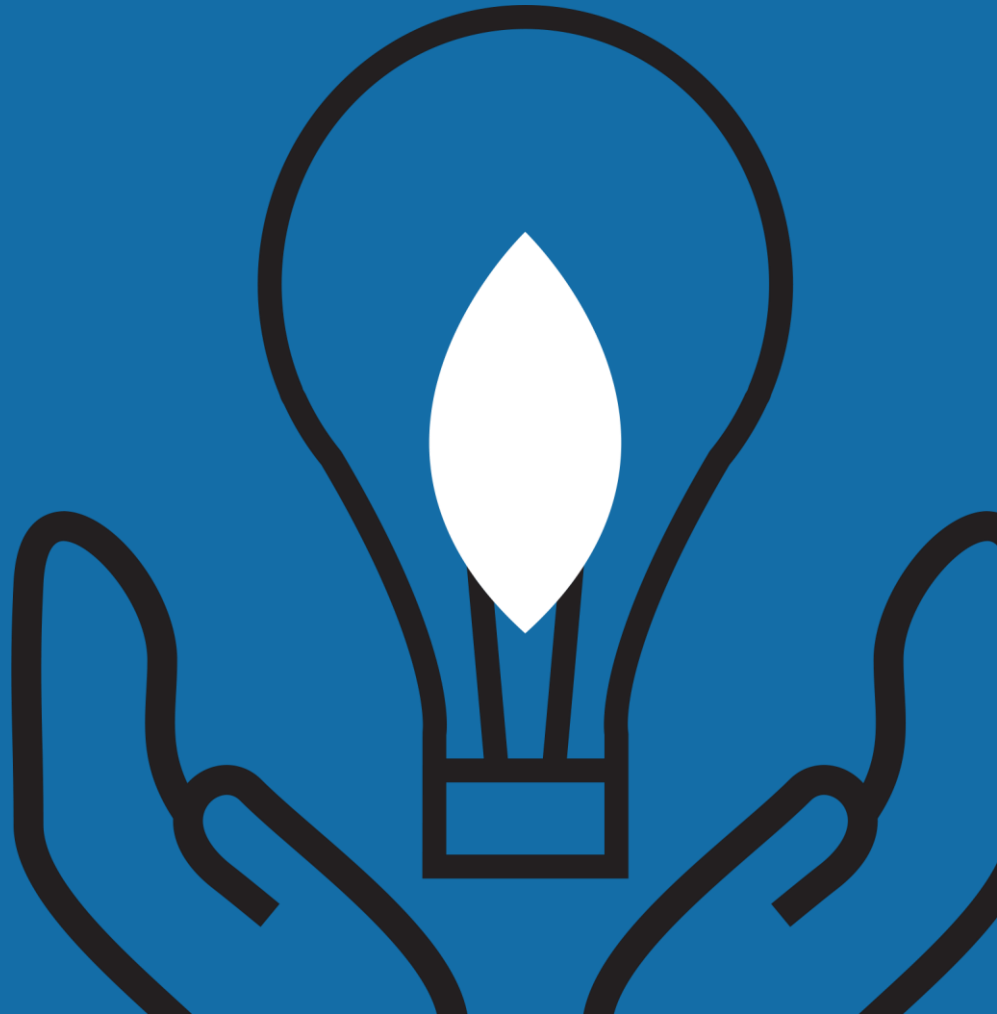
A consumer statement of expectations... *The Energy Charter*

The Five Principles



Source: The Energy Charter,
<https://www.theenergycharter.com.au/>

2. Defining the problem



ACCC Price Monitoring Discussion Paper

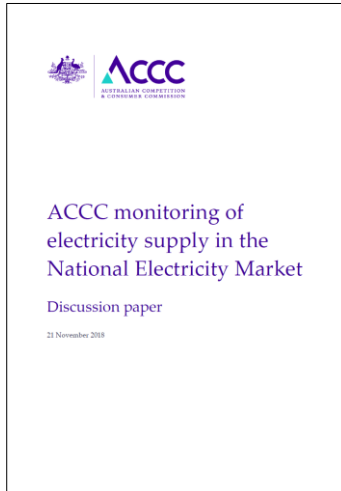
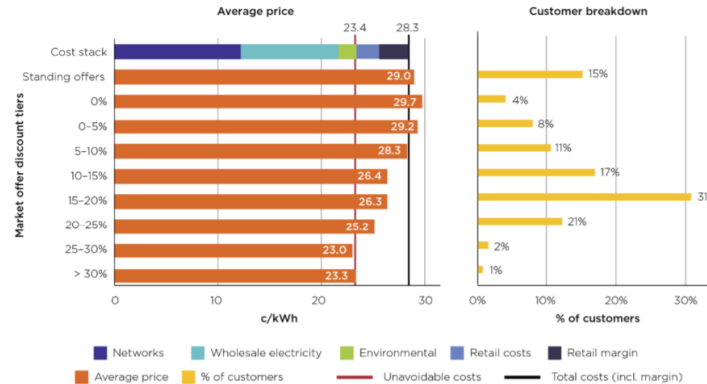


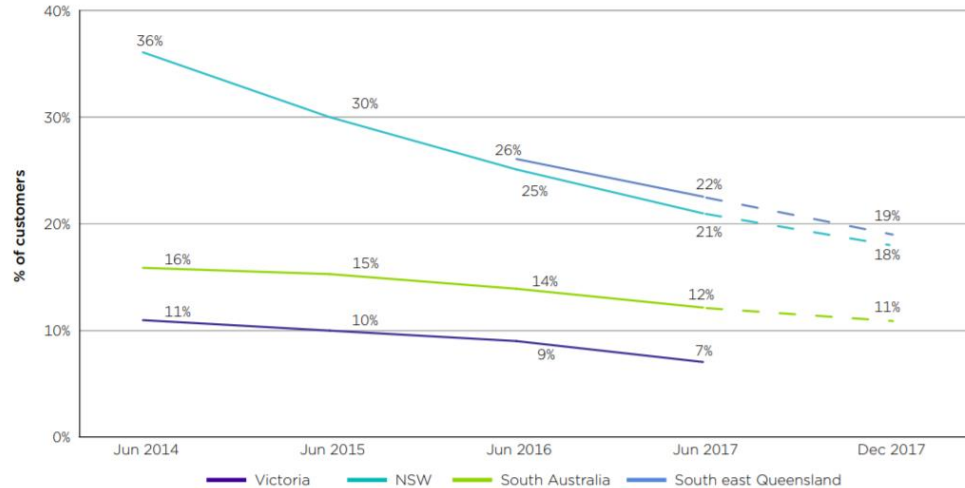
Figure 2: Average effective price outcomes (c/kWh) and average proportion of customers by offer category, NSW residential non-solar customers, 2017-18 est., real \$2016-17, excluding GST (Figure 1.11 in the REPI Final Report)



- The ACCC engaged a survey company to conduct a survey of over 4 000 consumers which enabled analysis of demographic and socioeconomic indicators and their relationship to electricity prices. For example:

Less and less households on standing offers however

Figure 12.4: Residential customers on standing offers in non-price regulated jurisdictions, 2014-17



Source: ACCC analysis based on AER data; ESC Victoria data.

Note: The dotted lines indicates a six-month gap between figures (rather than 12 months). Figures for Victoria for December 2017 are not included as the ESC Victoria only reports annually. Figures for south east Queensland prior to June 2016 are not included as reporting to the AER for Queensland only commenced in the 2015-16 financial year.

Consumers on standing offers paying more than their share

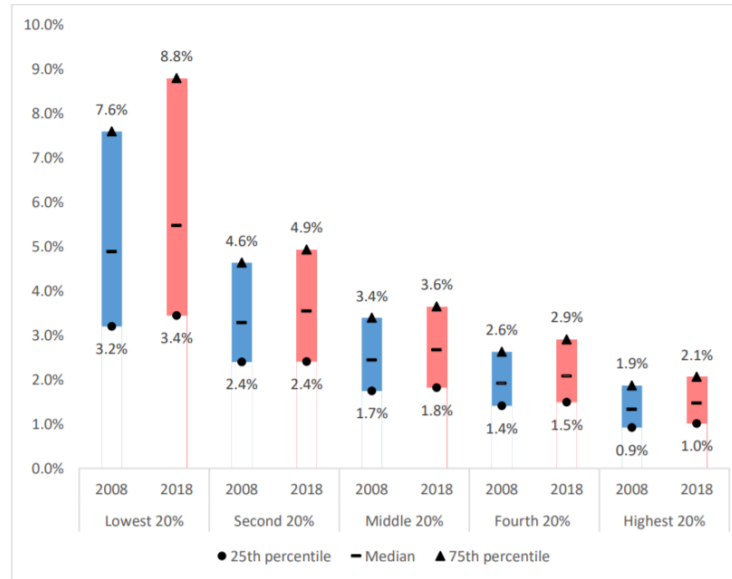
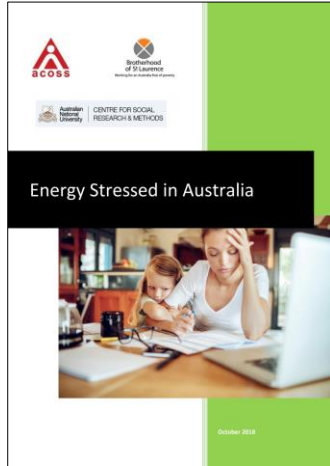
Figure 12.3: Standing offer and market offer revenue from residential customers by retailer type, excluding GST, 2016-17



Source: ACCC analysis based on retailer data.

A market you can't exit

Figure 2. Percentile distribution for electricity and gas expenditure as a percentage of income by disposable income quintiles



The graph shows the percentage of energy expenditure for the middle range of different income groups. Within each income quintile, the top of the column is the 75th percentile, the dash is the median, and the bottom of the graph is the 25th percentile. This graph shows that 25% of the lowest income quintile spend over 8.8% of their income on energy.

Source: Phillips 2018

Small business at risk on standing offers

Figure 18.4: SME customers by offer type and region as at 30 June 2017



Source: ACCC analysis of retailer data.

Note: NEM figure excludes Tasmania and regional Queensland.

There are more than 2.1 million small businesses in Australia!

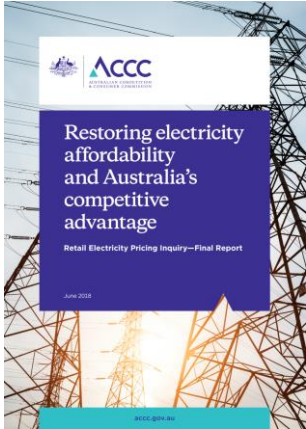
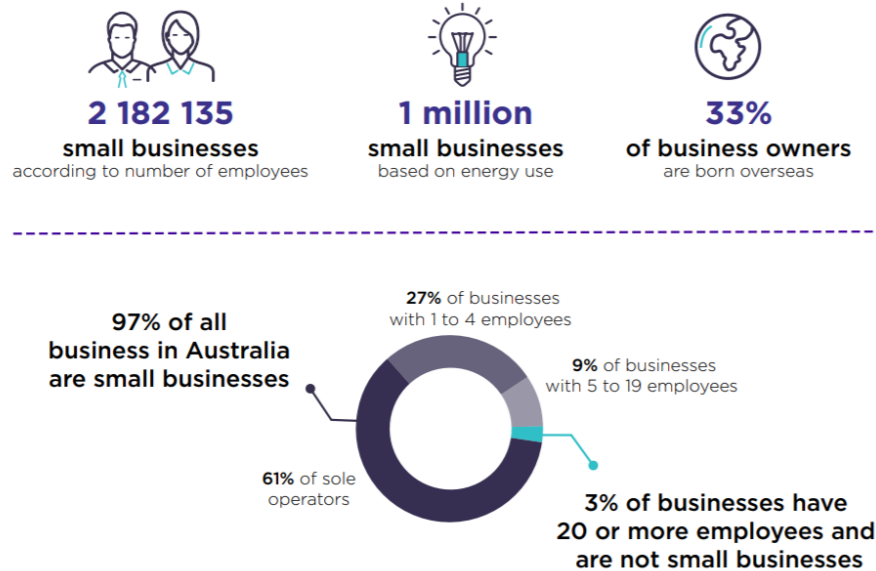


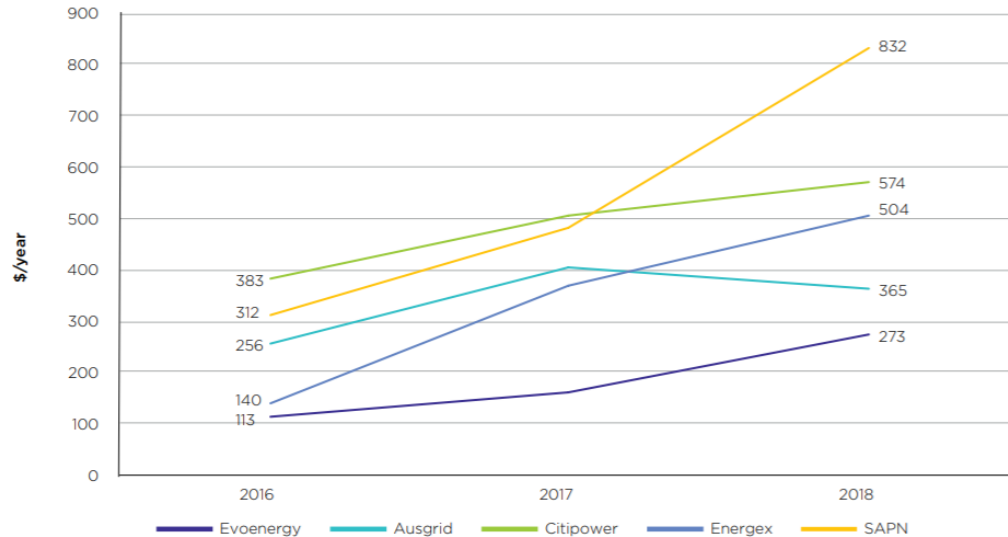
Figure 18.1: A snapshot of Australian small business



Source: ABS data and Alviss tariff tracker on behalf of Energy Consumers Australia.⁸⁶⁵

Fixing the safety-net an opportunity for an industry leadership

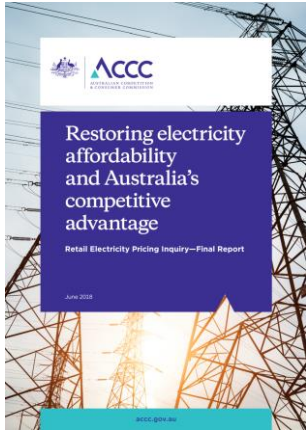
Figure 12.1: Gap between the median standing offer bill and lowest price market offer bill in Canberra, Sydney, Melbourne, Brisbane, Adelaide (2016-18)



“It is clear that the standing offer is no longer working as it is intended and is causing financial harm to customers”

Source: AEMC, 2018 Retail Energy Competition Review Final Report, June 2018, p. 76; AEMC, 2016 Retail Energy Competition Review Final Report, June 2016, pp. 17, 20, 23, 25.

ACCC recommended standing offers be abolished



Chapter 12

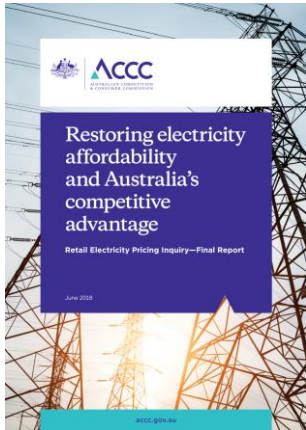
30. In non-price regulated jurisdictions, the standing offer and standard retail contract should be abolished and replaced with a default market offer at or below the price set by the AER.
- Designated retailers, as defined in the NERL, should be required to supply electricity to consumers under a default offer on request, or in circumstances where the consumer otherwise does not take up a market offer.
 - The default offer should contain simple pricing, minimum payment periods, and access to bill smoothing and paper bills.
 - The AER should be given the power to set the maximum price for the default offer in each jurisdiction. This price should be the efficient cost of operating in the region, including a reasonable margin as well as customer acquisition and retention costs.
 - The default offer should be used by retailers in all circumstances where a standing offer is currently used. This includes circumstances where a consumer has moved into a premises but has not contacted the retailer, where a consumer has not selected a market offer before the expiry of a market contract, and where a consumer is switched through a retailer of last resort event.

3.
How does the DMO relate to
other ACCC recs?

...



And establish a 'reference bill' to improve how offers are advertised and marketed



Chapter 13

31. The application of the consumer data right to the electricity sector should be pursued as a priority under the consumer data right framework regulated by the ACCC. Consumers and their authorised representatives should have access to at least historical consumption data, product data, meter data and customer data.
32. If a retailer chooses to advertise using a headline discount claim it must calculate the discount from the reference bill amount published by the AER.
 - The AER should publish a reference bill amount for each distribution zone using AER bill benchmarks for medium (2–3 person) households and the price set by the AER for default offers (recommendation 30).
 - Retailers must calculate all discounts off the reference bill, including win-back and retention offers that have discounts attached to them
 - Headline discounts in advertising must only include guaranteed (unconditional) discounts.
33. Conditional discounts should be no higher than the reasonable savings that a retailer expects that it will make if a consumer satisfies the conditions attached to the discount. Retailers should bear the onus of substantiating that the conditional discount is reasonable.

Implementing ACCC as a package to secure 20-25% savings

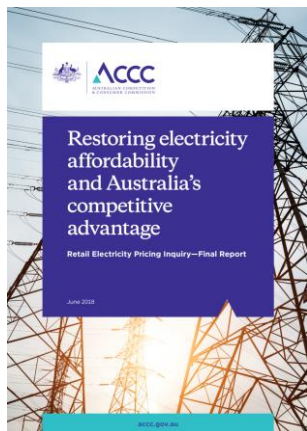


Table A: Achievable average annual residential bill savings by 2020-21

Region	Achievable savings (\$ per annum)						2020-21 Bill	% Reduction
	2017-18 Bill	Networks	Wholesale	Enviro	Retail	Reduction		
Victoria	1457	39	192	34	26	291	1166	20
NSW	1697	174	155	43	37	409	1288	24
South east Queensland	1703	147	192	18	62	419	1284	25
South Australia	1727	13	227	89	42	371	1356	21
Tasmania	1979	113	226	75	—	414	1490	21

Source: ACCC REPI Final Report <https://www.accc.gov.au/publications/restoring-electricity-affordability-australias-competitive-advantage>

4.
DMO in the context of work
already underway



The DMO in context ... rule changes



- Rule changes:
 - Strengthening protections for customers in hardship (completed)
 - Estimated meter reads (completed)
 - Notification of end of fixed benefit period (completed)
 - Advance notice of price changes (completed)
 - Preventing discounts on inflated energy rates (completed)

Important early steps to re-establish the safety-net



- AGL 16 November 2018 – *“new safety-net ... more than 150,000 household electricity customers across Australia will receive an average annual saving of between \$50 - \$180 off the standing offer, assuming average annual usage of 4.4 MWh on a peak only tariff.”*
- Energy Australia 27 November 2018 – *“eligible concession-card customers on default or “standing offer” tariffs would receive a 15 per cent discount on their electricity and gas usage.”*
- Origin 30 November 2018 – *“concession card holders in New South Wales, ACT, Queensland and South Australia on standing offers or non-discounted plans will get an automatic 10 per cent discount on electricity usage charges from 1 January 2019.”*

1 January 2019 prices a critical marker



- Energy Australia [30 November 2018](#) – *“keep electricity prices flat for Victorian households in 2019 by paying more than \$15 million worth of increases in supply-chain and other costs.”*
- Origin [30 November 2018](#) – *“hold residential electricity prices flat for all other customers in Victoria from 1 January 2019, absorbing higher network and green scheme costs. Origin will also freeze natural gas prices for Victorian residential customers despite an increase in network costs.*
- AGL [30 November 2018](#) – *“prices will come down by 1.6% on 1 January 2019...Gas prices will come down by 0.9% for residential customers and 1.2% for small businesses.”*

New Retail Pricing Guidelines (particularly Basic Plan Information Document) and EME enhancement is positive



You are eligible for (15) promotional offers. [View offers](#)

All prices are inclusive of GST except where indicated.

Residential electricity market offer

- Ongoing contract with 1 year benefit period
- Single rate** tariff
- Smart meter compatible
- Solar feed-in
- [View plan information](#)

Need to know

- \$11.96 Connection fee
- \$11.96 Reconnection fee
- \$11.96 Disconnection fee
- \$167.90 Disconnection fee
- \$6.50 Cheque dishonour payment fee
- \$2.30 Direct debit dishonour payment fee
- \$12.73 Late payment fee
- Payment processing fee 0.45%
- Credit card payment processing fee 0.45%

\$1,550 with discounts
\$2,000 per year




Discounts:

- Direct Debit
- Pay on time

[Compare](#)

Estimated price

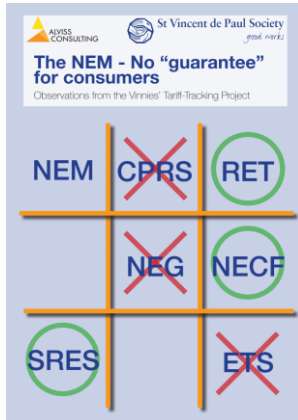
Show prices:

 1 person	LOW 9.3 kWh/day	\$1,240 with discounts	\$1,240 per year
 2 to 3 people	MEDIUM 14.3 kWh/day	\$1,700 with discounts	\$1,700 per year
 4 to 5+ people	HIGH 19.2 kWh/day	\$2,140 with discounts	\$2,140 per year

Estimated prices are based on typical usage in your postcode, with regular usage on weekday afternoons and evenings. Prices are not personal estimates and your household's usage may vary. Prices exclude solar payments, concessions and bonuses.

From fact sheets (BPIDs) to billboards ...

Five minutes to midnight



4.3 The retailer-customer power imbalance

For years energy consumers have been told to exercise their market powers to deal with rising energy prices. The mantra has been to “search and switch”, “exercise choice” or “if you snooze you lose”.

When this has not sparked extensive market participation it has often been assumed that energy is too complex or too boring for the average consumer to understand or deal with. As such, new and different ways of informing customers have been attempted.

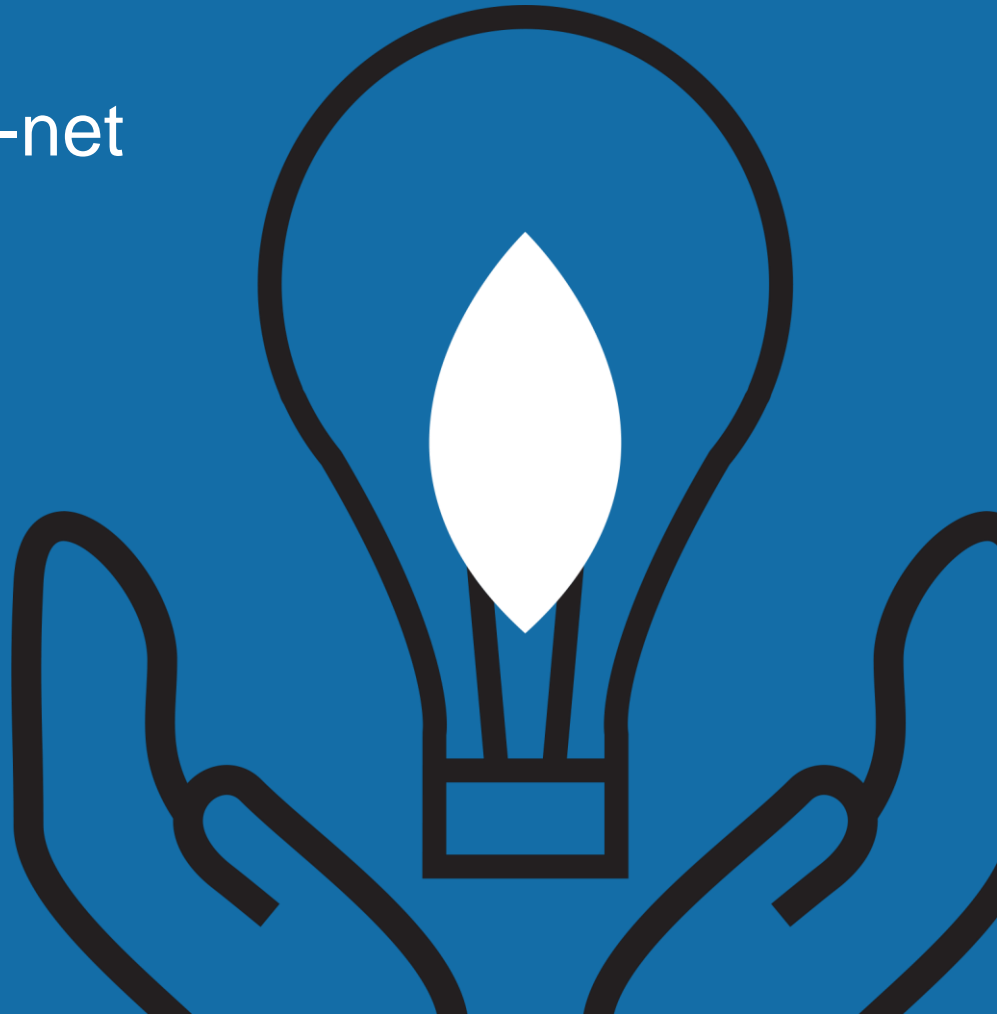
Perhaps it is not that energy is too complex or boring, but that we have made it opaque and frustrating in the name of market innovation. There has been an assumption that a high number of offers (even if there is no clear difference between them), constant changes to discounts, and offers with multiple components all signal competition. Instead, it may be that they have simply added unnecessary complexity.

To counter the impact of this complexity on customers, however, we have required numerous protections to address the power imbalance between retailers and customers. This has resulted in every retailer, big or small, now allocating substantial resources to regulatory issues. This is another element that adds to the cost of energy retailing.

WE WOULD LIKE TO TAKE A BIG STEP BACK AND COMMENCE THE PROCESS OF DESIGNING AN ENERGY RETAIL MARKET ON THE SINGLE PRINCIPLE OF IT BENEFITING CONSUMERS. WHAT DO WE THINK CONSUMERS GENERALLY WANT? LOWER PRICES AND LESS COMPLEXITY.

In our view, it was not necessarily the idea of a competitive energy retail market that was bad. It was the execution.⁴⁶

5. Elements of a new safety-net



ACCC Price Monitoring will provide a new six monthly snapshot of prices and costs

COMPETITION AND CONSUMER ACT 2010

INQUIRY INTO ELECTRICITY SUPPLY IN AUSTRALIA

I, Scott Morrison, Treasurer, pursuant to subsection 95H(1) of the *Competition and Consumer Act 2010*, hereby require the Australian Competition and Consumer Commission (ACCC) to hold an inquiry into prices, profits and margins in relation to the supply of electricity in the National Electricity Market.

Matters to be monitored and taken into consideration in the inquiry include but are not limited to:

- i. electricity prices faced by customers in the National Energy Market including both the level and the spread of price offers, analysing how wholesale prices are influencing retail prices and whether any wholesale cost savings are being passed through to retail customers;
- ii. wholesale market prices including the contributing factors to these such as input costs, bidding behaviour and any other relevant factors;
- iii. the profits being made by electricity generators and retailers and the factors that have contributed to these;
- iv. contract market liquidity, including assessing whether vertically integrated electricity suppliers are restricting competition and new entry; and
- v. the effects of policy changes in the National Electricity Market, including those resulting from recommendations made by the ACCC in its Retail Electricity Pricing Inquiry report of July 2018.

Where appropriate, the inquiry will make recommendations to government(s) to take any proportional and targeted action considered necessary to remedy any failure by market participant(s) (or the market as a whole) to deliver competitive and efficient electricity prices for customers.

The ACCC should make use of publicly available information, including that published by the Australian Energy Regulator, the Australian Energy Market Commission or the Australian Energy Market Operator, where appropriate.

This is not to be an inquiry into supply by any particular person or persons, or by a State or Territory Authority.

The inquiry is to commence today. The inquiry is to provide its first report to me by 31 March 2019 and no less frequently than every six months thereafter. The first report should focus on setting out the analytical framework for monitoring and provide information about expectations of market outcomes and market participant behaviour. The inquiry should also provide information to the market as appropriate. The inquiry is to conclude and provide its final report by 31 August 2025.

DATED THIS 20th DAY OF August 2018


SCOTT MORRISON
Treasurer

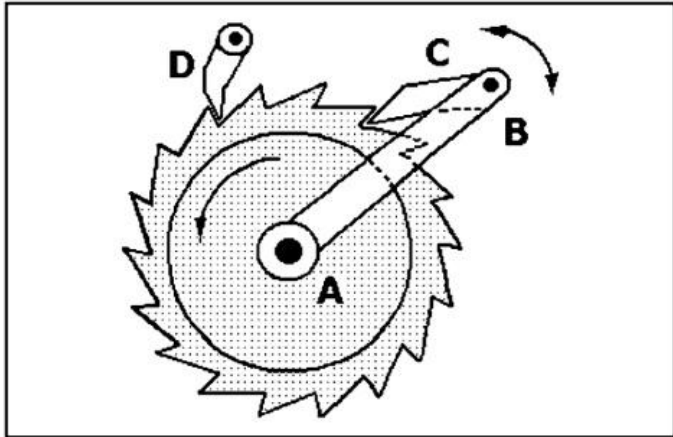


ACCC monitoring of electricity supply in the National Electricity Market

Discussion paper

21 November 2018

Review and ratchet



- Retailers to commit to the principles of a glide-path to re-establish the safety-net and provide a reasonable price for people who don't/can't switch.
- AER to use ACCC Price Monitoring and market info (EME + Tariff Tracker) to set and review every six months using market info.

Moving prices back to more normal levels

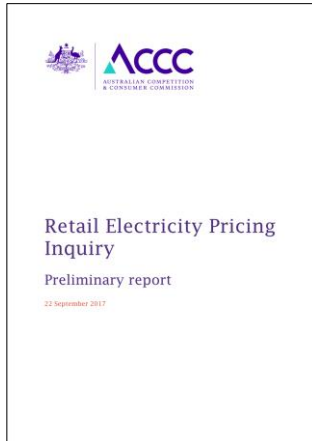
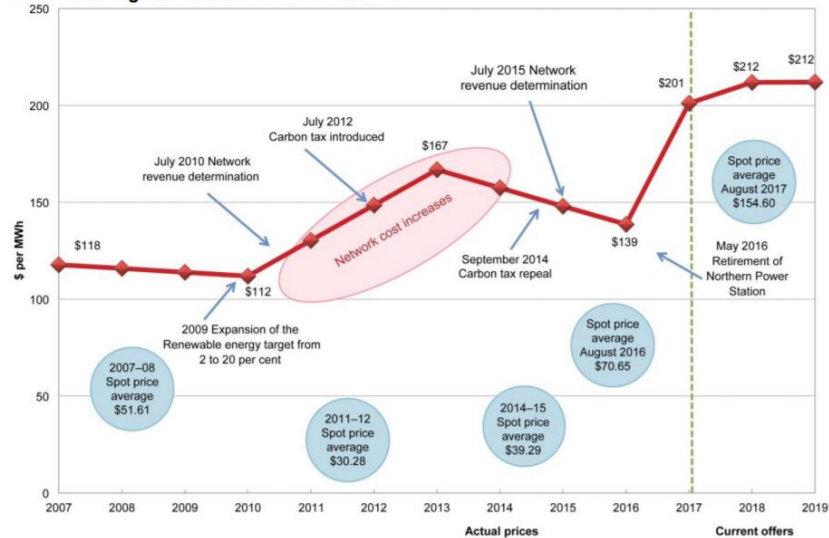
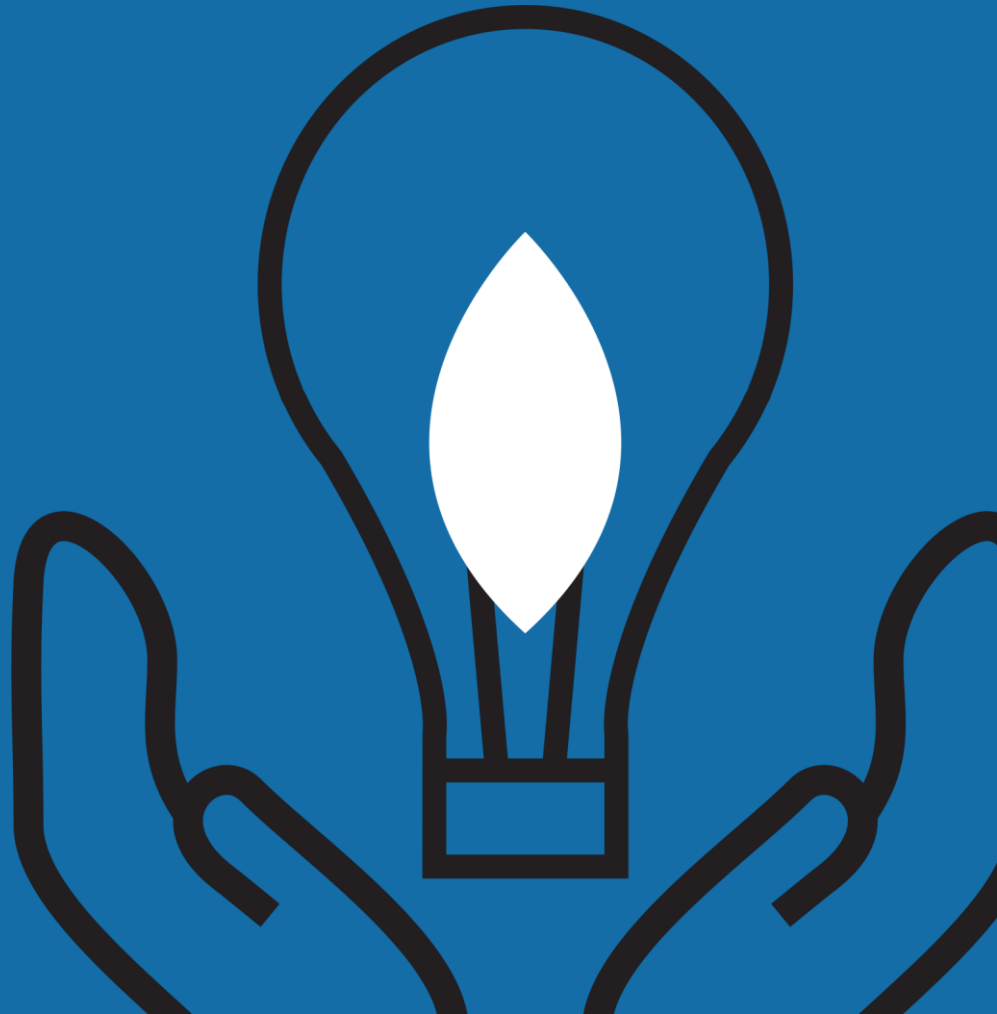


Figure 1.7: Timeline of price drivers and average total cost of electricity for three medium manufacturing businesses in South Australia

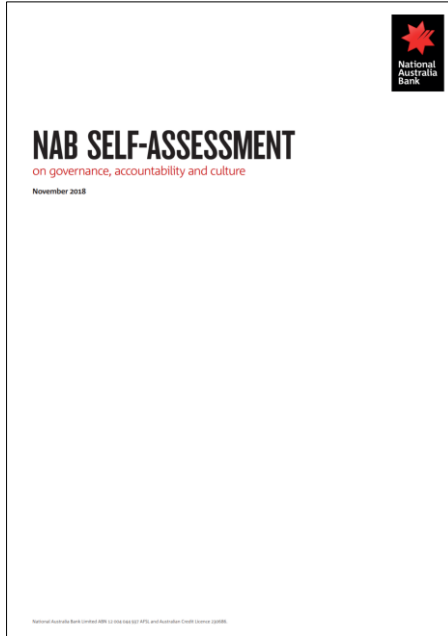


Source: ACCC analysis based on price information from three de-identified manufacturers in South Australia and AEMO, Information Hub: average price tables (viewed on 8 September 2017). Average weighted monthly spot prices August 2016 and 2017 from the Department of Environment and Energy¹⁰

6. Pivot to consumers



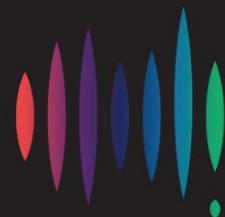
Success will turn on outcomes



“We accept that we will be assessed on the changes we make and the actions we take to put customers first. We know that trust is the foundation for a sustainable business. We understand that we will rebuild trust only by demonstrating that we exist to serve customers.”

Of course, the ability to provide a good return to our shareholders is essential. We cannot operate without reliable access to risk capital. But profitability should not be confused with purpose. We have articulated our purpose in these terms: ‘back the bold who move Australia forward’. Our purpose emphasises the role we play in backing families, businesses, communities and, more broadly, national economic and social development.”

(Excerpt from Foreword)



**ENERGY
CONSUMERS
AUSTRALIA**