



Tasmanian Council of Social Service Inc.

Submission to ACCC inquiry into retail electricity supply and pricing

June 2017



**INTEGRITY
COMPASSION
INFLUENCE**

About TasCOSS

TasCOSS is the peak body for the community services sector in Tasmania. Our membership includes individuals and organisations active in the provision of community services to low income, vulnerable and disadvantaged Tasmanians. TasCOSS represents the interests of its members and their clients to government, regulators, the media and the public. Through our advocacy and policy development, we draw attention to the causes of poverty and disadvantage, and promote the adoption of effective solutions to address these issues.

Please direct any enquiries about this submission to:

Kym Goodes

CEO

Ph. 03 62310755

Email: Kym@tascoss.org.au

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The views expressed in this document do not necessarily reflect the views of Energy Consumers Australia.

Introduction

As the peak body for the Tasmanian community services sector and advocate for the low-income, disadvantaged and vulnerable Tasmanians that the sector supports, TasCOSS has a keen and longstanding interest in energy policy. Electricity affordability is a critical issue for growing numbers of low-income and vulnerable Tasmanian households. TasCOSS welcomes the opportunity to respond to the *ACCC Inquiry into Retail Electricity Supply and Pricing Issues Paper*. We focus on **Issue 3 Customers and their interaction with the market**.

Our submission begins with an overview, then focusses on specific points raised in the *Issues Paper*.

Overview and background

Electricity is an essential service in Australia and is vital for community, family and individual health and wellbeing. As an essential service, electricity needs to be available to all who need it, at a price they can afford, in an environment where their rights are respected and protected. When people cannot access the electricity they need, for essentials like cooking, cleaning, heating, study, and access to online government services, they suffer directly in areas such as physical and mental health, social inclusion and may suffer financial penalties for late payment of bills, for example. Electricity bills are the most often cited source of financial hardship in Tasmania, even though there is a system of concessions and support to assist people.

Tasmania, like each jurisdiction in the NEM, has its own distinct features. TasCOSS hopes that the ACCC inquiry will yield disaggregated information and analysis appropriate to each jurisdiction and retail environment. The diversity within the NEM means that an aggregated analysis of retail competition may not be applicable to any particular jurisdiction.

Tasmania's population is small and dispersed. The climate is cold, so peak energy use occurs in winter. Winter bills are often twice as high as summer bills. Incomes are low in Tasmania, approximately \$100 per week lower than the national average.¹ Reliance on concessions to manage electricity affordability is significant. Approximately one-third of Tasmanian households receive an electricity concession, and Tasmanians use more energy per household than do people in other states. The AER compares electricity bills across Australia, concluding that:

Electricity bills for low income households tend to be highest in Tasmania, where electricity is the predominant source of fuel and where a cool climate generates significant heating needs. Tasmanian households use more electricity— an average 6500 kilowatt hours (kWh) per year— than used by those on the mainland—3700–5600 kW.²

Only one electricity retailer serves residential customers in Tasmania, Aurora Energy. Because of this monopoly environment, the Office of the Tasmanian Economic Regulator (OTTER) is responsible for oversight of Aurora's pricing, in particular, the retail margin. Tasmania's low and decentralised

¹ According to the 2016 Census figures, the median total personal income in Tasmania is \$89 lower per week than the comparable income in Australia.

http://www.censusdata.abs.gov.au/census_services/getproduct/census/2016/communityprofile/036?opendocument

² AER *State of the Energy Market* May 2017.

population and low incomes may in part explain why no competitor retailers have chosen to enter the market for retail household electricity.

Retail costs in Tasmania are relatively low, and the network component of the bill stack is relatively high.³ There are inherent limits to how far the network costs can be reduced, because of Tasmania's dispersed population and topography. An introduction of competition would mean that the retail component of the bill would likely increase to accommodate such things as Customer Acquisition and Retention Costs, which are not included at present. Retail competition in Tasmania seems unlikely at present, but if it were to happen, it seems probable that people would end up paying more for the electricity they need.

The benefits of competition?

Throughout Tasmania and Australia, many households struggle to maintain electricity supply and stay connected. Strategies to manage high electricity costs include opting to go without food or energy, cooking less, rationing, limiting or eliminating the use of heaters, and deferring payments or incurring debts elsewhere. Many people live in fear of disconnection, suffer the health impacts of financial stress and pay a heavy price for their compromised living environments, for example, by going without adequate heating and suffering ill health as a result.⁴ These are costs to the community as well as to the individuals who suffer directly.

The ACCC *Issues Paper* states that

The ability of customers to make informed choices about the contracts they are entering into and the options available to them is essential to a functioning and competitive retail electricity market. In order for the competition benefits outlined above to be achieved, customers must be able to engage with the market to understand offers and choose the service that best suits their needs.⁵ (p 12).

This customer focus is important, but TasCOSS would also emphasise the obligation on electricity providers to deliver appropriate and affordable services to all households. No amount of choice will eliminate the significant asymmetry of power, resources, information and technical understanding between people who use electricity in their daily lives and those who provide their essential energy needs. Because they are entrusted with delivering an essential service and public good, energy providers have a high level of responsibility to ensure that the people they serve are enabled to make decisions in line with their own interests, values and preferences.

³ St Vincent de Paul Society and Alviss Consulting *The NEM – A hazy retail maze. Observations from the Vinnies' Tariff-Tracking Project* Melbourne, 2016, p18.

⁴ <http://warmzones.co.uk/nea-highlights-the-huge-financial-health-costs-of-people-suffering-in-cold-and-damp-homes/>
Accessed 20 June 2017

⁵ ACCC 2017 *Electricity supply and prices inquiry Issues Paper*, p 12.

In our view, for all households, especially those including vulnerable consumers, a proliferation of opaque choices where none delivers affordability or meets needs does not benefit people. People need clarity about the costs they are incurring on a particular offer, and whether and why they might be better off on another offer. Currently, this information is almost impossible to find, and is virtually inaccessible to anyone who does not know the right questions to ask.

Likewise, appropriate safeguards and safety net provisions are necessary elements of any system that delivers essential services to households. Since people need to use electricity, paying for it is a non-discretionary expense. Only some households may be able to reduce or re-schedule their use in order to reduce some of the cost, through incentives designed to reduce peak demand. Many households have inflexible schedules because of school-age children or non-negotiable working hours. For this reason, pricing structures that effectively penalize households who lack flexibility risk imposing further detriment on people who may already be disadvantaged.

Competition is not an end in itself, nor is it necessarily good for consumers. Increased competition is worthwhile only if it benefits people and their communities. The main expected benefit of competition will be that the cost of electricity is lower, given that there is no choice about the quality of the electricity delivered to households. Unlike air travel, there are no first class, business class and economy options.

Reviews of competition in Victoria's electricity market⁶ do not show a clear or significant financial benefit to consumers of electricity, although the level of competition is much higher than in Tasmania. This invites the question – would greater retail competition in Tasmania deliver any benefits to consumers? There seems no compelling case to say that anything would improve. In fact, the experience of consumers in other jurisdictions suggests otherwise. The retail price component of the bill stack is higher in every other jurisdiction, sometimes more than twice as high than in Tasmania.⁷ In competitive markets on the mainland, the price increases due on July 1 2017 are significantly greater than in Tasmania, where State Government intervention has capped the electricity price increase for Tasmanian households at 2% for the year commencing July 1 2017. The wholesale, networks and retail parts of Tasmania's electricity supply chain are all monopolies owned by the State Government.

Issue 9 How customers' ability to make informed choices about electricity can be improved.

All customers, but in particular vulnerable customers, are typically at a disadvantage when dealing with electricity retailers. As noted above, focusing only on customers and their choices tends to obscure the significant asymmetry of information and power between people who use electricity in their households and the company or companies that provide electricity to them. The issue could be reframed as 'how electricity providers can improve people's access to and experience of affordable, appropriate energy services.'

⁶ Grattan Institute 2017, *Price shock: is the retail electricity market failing consumers?*

⁷ *Hazy Retail Maze* p 18.

Electricity providers need to provide information that people can understand and use to make their best choices.

Consumers need to be well informed about the likely costs of different electricity offers, whether they are choosing between providers or tariffs. Not everyone will have access to or skills to use options like online price comparison instruments, so the onus is on providers to ensure that all customers have the information they need. This means clear, plain English explanations of the charges, establishment of a uniform framework to compare offers, clarity about how different patterns of use can affect the final cost, advice about the likely results of the different options for their own or similar households, and access to assistance such as interpreting services where this is needed.

Electricity providers need to provide timely advice and clearly explain the customer's options when an offer expires or changes.

The lack of clarity about energy offers has long been recognized as one reason that people do not 'shop around' for electricity deals.⁸ It would help people if they could choose to have their energy tariffs default to a basic and cheap 'no-frills' tariff, so that inaction at the end of a 'honeymoon' offer would not lead to a person's financial detriment.

Electricity providers need to provide a good default option, especially for people who are entitled to concessions.

It is important that people can easily choose how much they want to engage with their retailer, and those who do not have the time, inclination, capacity or interest in this area can access a 'best interest' or 'cheapest deal' option for a period of time. For example, at the expiry of a 'honeymoon deal', prices often revert to higher offers, but in the establishment of that 'honeymoon deal' there could be an option to choose to go to the cheapest offer.⁹ In particular, it is important that people who are entitled to a concession have clear pathways to choose the 'best deal' so that benefit of the concession to which they are entitled is not negated by an inappropriate or excessive tariff. Customer agency could be preserved if they could choose to set their default at the cheapest one for their energy use. At present, the default will be an offer that is in the retailer's interest, but will not necessarily serve the interests of the person paying the bill.

Electricity providers need to communicate proactively with people about the real effects of choosing different offerings and plans.

People generally do not have the desire, time nor expertise to navigate the "hazy retail maze" of the NEM.¹⁰ Presenting 'choices' in this complex environment does not exhaust the retailer's responsibility. Retailers have the knowledge and capacity to identify the best options for people and households. Robust protections for consumers, and penalties/incentives for retailers to enact a reasonable standard of best practice are required to ensure good communication and outcomes for the community.

⁸ *Price shock* p 3.

⁹ Tasmanians are not currently exposed to offers designed to incentivize switching retailers, but they could be introduced by competitor retailers.

¹⁰ St Vincent de Paul Society and Alviss Consulting *The NEM – A hazy retail maze. Observations from the Vinnies' Tariff-Tracking Project* Melbourne, 2016.

Conclusion

For many people, choices about energy are confusing and burdensome, rather than beneficial and empowering. Choice may lead to negative outcomes, and even catastrophe when people don't get it right. The consequences of making a 'wrong choice' about energy include financial detriment and disconnection, which leaves households without essentials such as money for food or heating/cooling. An environment that promotes 'choices' can leave consumers vulnerable to retailers who present a deal that is attractive on the surface or in the short term, but ultimately leaves the consumer paying more for the energy they need.

Competition also has costs, for example, businesses will pass on the costs of advertising, marketing, and attracting and retaining customers. In a small state such as Tasmania, amplifying these activities would mean increasing costs to consumers, and it is not clear what, if any off-setting benefits would be generated.

If a competitive retail market fails to benefit people and communities, and fails to deliver affordable energy in a fair and reasonable context that enables people to participate in the ways that suit them, then it is not consumers who need to change their behaviour or improve their decision-making. Rather, the retail electricity sector needs to take seriously the responsibility it bears for providing an essential service to all people who need it.