



ACT Energised Consumers Project Partners' submission to ICRC Retail Electricity Price Investigation 2020-24 Draft Report, February 2020

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The views expressed in this document do not necessarily reflect the views of Energy Consumers Australia nor the ACT Government.

To: ICRC Retail Electricity Price Investigation 2020-24
Draft Report, February 2020
Submissions

Independent Competition and Regulatory Commission
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The ACT Council of Social Service (ACTCOSS), Care Financial Counselling Service, and Better Renting welcome the opportunity to make a submission in response to the Independent Competition and Regulatory Commission's (ICRC's) Retail Electricity Price Investigation 2020-24 Draft Report. Our organisations work in partnership through the Energised Consumers Project funded by Energy Consumers Australia. This project supports ACT low-income household, non-government organisation and small business consumers to participate in decision making on energy issues to achieve better consumer outcomes in terms of affordable, reliable, safe, and clean energy as an essential service.

Introduction

ACTCOSS, Care, and Better Renting welcome the ICRC's Retail Electricity Price Investigation 2020-24 Draft Report. The ICRC's draft decision indicates that ACT consumers will benefit from a reduction in electricity prices. It recommends much-needed measures to improve the transparency and comparability of electricity offers and increase the responsibility and accountability of retailers. We thank the ICRC for the efforts it has taken to engage with consumer groups and financial counsellors, and to survey consumers to inform its draft decision.

We have developed our submission based on the following principles and policy objectives:

- Energy is an essential service – it is not a discretionary purchase
- The promised benefits of privatisation and market competition in energy services have not been realised
- Retailers should not make excessive margins off the provision of essential energy services
- All households must have access to energy at a fair price
- It should be easy for consumers to determine the best energy offer for their circumstances.

We believe that the ICRC's price regulation has been beneficial to low-income and vulnerable consumers in the ACT, and that it has made an important contribution to keeping ACT residential electricity prices lower than in other jurisdictions.

We welcome the ICRC's draft decision which provides for an average nominal decrease of 6.75% in ActewAGL's basket of regulated tariffs, pending the Australian Energy Regulator's (AER's) determination on network costs in May 2020.

We strongly support the two draft recommendations in the draft decision:

1. A reference bill amount should be developed to provide ACT consumers with a common point of comparison for assessing electricity offers. The reference bill should be based on existing regulated standing offer prices
2. The ACT Government should consider imposing a new regulatory obligation on retailers to regularly notify their customers whether they are on the best offer and how much can be saved by switching, taking account of the customers' circumstances.

We recommend that these two recommendations be developed further, drawing on the Victorian Default Offer (VDO) and new customer entitlements in the retail energy market developed by the Essential Services Commission (ESC) in Victoria.

We recommend that the ICRC's recommendations in its final decision include that:

1. In addition to a reference bill amount, the ACT Government consider introducing a Basic Service Offer (BSO) for ACT electricity consumers in line with the VDO, whereby the ICRC would determine what is a fair price for electricity, and all electricity retailers would be required to offer the BSO to everyone
2. In addition to the 'best offer notification', the development of a new regulatory obligation should also require retailers to provide:
 - a. Clear advice entitlement
 - b. Bill change notices
 - c. Information about how the customer can access the Australian Government's *Energy Made Easy* comparator website on all bills.

Retail Electricity Pricing 2020-24

The introduction of competition into the electricity market has not provided consumers with the intended benefit of more affordable energy. Instead, consumers have experienced increased complexity and significant price increases. The draft decision highlights the value to ACT energy consumers – especially low-income and vulnerable consumers – of ongoing regulation of electricity prices by the ICRC as it at least limits retailers' ability to inflate standing offer rates.

The draft decision estimates a 6.75% reduction in the average price of ActewAGL's basket of regulated tariffs in 2020-21, with welcome reductions for ACT energy consumers. The estimated annual bill change is \$113 for the average household and \$436 for non-residential customers (including not-for-profit organisations and small businesses).

The draft decision indicates that ACT consumers will get some relief after a decade of significant electricity price increases. Based on Consumer Price Index (CPI) figures, electricity prices in Canberra have increased by 25.1% over the past five years and increased by 0.4% in the past 12 months.

Late last year the national expert energy policy adviser, the Australian Energy Market Commission (AEMC), estimated that electricity bills will fall by 7% in the ACT over the next three years due in part to increases in renewable energy generation.¹ The ICRC's draft report notes that a key driver of lower wholesale electricity prices is the growth of renewable energy generation, and it has acknowledged that the ACT Government's 100% renewable electricity target contributed to this.² These are welcome signs that mitigating climate change and improvements in energy affordability can be linked as part of a just transition to zero net greenhouse gas emissions in the ACT by 2045.

We welcome the ICRC's draft decision to introduce an upper-bound side constraint whereby 'an increase in any individual charge for a regulated standing offer tariff must not exceed 2.0 percentage points above the regulated weighted average price change'.³ This restriction is welcome in providing price stability for consumers, avoiding sharp increases in favour of allowing any cost-reflective tariff increases to be spread over a number of years. This measure will go some way to protecting consumers from unfair price increases.

We encourage the ICRC to include the approval of fees and charges under the regulatory framework. Relatively high fees and charges have potential to impact significantly on vulnerable consumers in the ACT.

We welcome the ICRC's consideration of equity and fairness in relation to the smearing of smart meter costs. The ICRC notes the potential adverse effects of cross-subsidisation on low-income and vulnerable customers. This issue may be worth further investigation during the 2020-24 regulatory period. One concern is that a growing number of low-income and vulnerable customers may now be required to have a smart meter where their analogue meter is replaced due to a fault or where they have newly-built accommodation as a result of the public housing renewal program. Smearing of smart meter costs could potentially be equitable and fair where a growing number of low-income households are required to have smart meters and are faced with significantly higher electricity costs as a result.

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- 1 AEMC, *Residential electricity price trends 2019 – Final report*, AEMC, Sydney, 9 December 2019, p. 9, viewed at, <<https://www.aemc.gov.au/sites/default/files/2019-12/2019%20Residential%20Electricity%20Price%20Trends%20final%20report%20FINAL.pdf>>.
 - 2 ICRC, *Public forum: Retail electricity price investigation*, Transcript of proceedings, 5 March 2020, ICRC, Canberra, 2020, p. 14, viewed at, <https://www.icrc.act.gov.au/__data/assets/pdf_file/0004/1501591/PUBLIC-HEARING-ICRC-20200305_EpiqFinal.pdf>.
 - 3 ICRC, *Retail electricity price investigation 2020-24 – Draft report*, Report 2 of 2020, ICRC, Canberra, February 2020, viewed at, <https://www.icrc.act.gov.au/__data/assets/pdf_file/0007/1474756/Electricity-Draft-report_pdf.pdf>.

Transparency and comparability of electricity offers in the ACT

Extensive investigations into the retail electricity market nationally and in Victoria have identified and attempted to address the loss of consumer trust and confidence in the retail electricity market.^{4,5,6} Trust and confidence have been eroded by increasing electricity prices and greater complexity in retail offers. These investigations have raised critical questions about how the retail electricity market can deliver this essential service at a fair price to everyone who needs it. They have shown how complexity in comparing market offers has acted as a significant barrier to active consumer engagement and, as a result, a barrier to better consumer outcomes in terms of affordability.

For most people, comparing electricity offers is difficult and confusing. The ICRC's draft decision identifies a clear need to support consumers to be able to determine what electricity offer will work best for them. The ICRC's *YourSay* community panel survey findings align with the results of consumer surveys undertaken by Care Financial Counselling Service over six months as part of the Energy Voucher Support scheme. Combined, these surveys have found that: people lack confidence that they are on the best offer; most do not know what electricity plan or tariff they are on; most find it difficult to compare electricity plans; and most are not aware of the Australian Government's *Energy Made Easy* website tool to compare electricity offers.

Demand tariffs in particular require the consumer to be very engaged. The ICRC's draft decision draws attention to a concerning lack of understanding among consumers in relation to demand tariffs. This issue is worthy of further exploration, particularly in terms of the suitability of demand tariffs for low-income and vulnerable households.

Only a small proportion of consumers actively engage to find their best deal. Some consumers face entrenched engagement barriers, including limited English literacy, digital exclusion, and difficult life circumstances. Energy justice requires that low-income and vulnerable consumers have ready access to electricity at a fair price – they should not be forced to shop around for an essential service. To achieve energy justice, we see value in a Basic Service Offer along the lines of the VDO, providing 'a simple, trusted and reasonably

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- 4 ACCC, *Restoring electricity affordability and Australia's competitive advantage*, Retail Electricity Pricing Inquiry – Final Report, ACCC, Canberra, 2018, viewed at, < https://www.accc.gov.au/system/files/Retail%20Electricity%20Pricing%20Inquiry%E2%80%94Final%20Report%20June%202018_0.pdf>.
 - 5 J Thwaites, P Faulkner & T Mulder, *Independent Review into the Electricity and Gas Markets in Victoria*, Department of Environment, Land, Water and Planning, Melbourne, 2017, viewed at, < https://www.energy.vic.gov.au/__data/assets/pdf_file/0030/79266/Retail-Energy-Review-Final-Report.pdf>.
 - 6 ESC, *Building trust through new customer entitlements in the retail energy market – Final decision*, ESC, Melbourne, 2018, viewed at, < <https://www.esc.vic.gov.au/electricity-and-gas/inquiries-studies-and-reviews/electricity-and-gas-retail-markets-review-implementation-2018/new-standards-energy-bills-and-marketing-2018#tabs-container2>>.

priced electricity option that safeguards consumers unable or unwilling to engage in the electricity retail market'.⁷

We strongly support the ICRC's draft decision recommendations to improve the transparency and comparability of retail electricity offers in the ACT. Providing a common point of comparison for assessing electricity offers, raising awareness of the *Energy Made Easy* comparison site, and requiring retailers to regularly notify their customers whether they are on the best offer based on their circumstances will put more power in electricity consumers hands. Importantly, it also places more responsibility and accountability on retailers.

We recommend developing the ICRC's draft decision recommendations further, incorporating the following.

A Basic Service Offer for ACT electricity customers

We recommend that the ACT Government consider the development of a Basic Service Offer in the ACT. We recommend the VDO as a possible model for the ACT, whereby the ICRC would determine what is a fair price for energy, and all energy companies would be required to offer the Basic Service Offer to everyone. We would also welcome consideration of development of a 'social tariff' for low-income households that would ensure these households had access to electricity at an affordable price in relation to their level of income.

In recommending this, we acknowledge the ICRC's view that:

... some of the issues identified in deregulated markets in other jurisdictions that provided the motivation for the DMO and VDO may not be as prevalent in the ACT. In particular, the ongoing price regulation in the ACT has meant that retailers have had less ability to increase standing offer rates compared to those in other jurisdictions. It has also meant that retailers in the ACT have been unable to use inflated standing offer rates as a reference point for discounting, which contributed to consumer confusion in other jurisdictions. This is evidenced by the fact that electricity prices in the ACT are among the lowest in Australia.⁸

We value the impact that regulation has had in the ACT compared to other jurisdictions. But, despite this positive impact, ACT consumers have still experienced significant increases in electricity prices and faced significant barriers to engaging with the market to access the best deal based on their circumstances.

The introduction of a best offer notification and other new customer entitlements would provide a nudge for consumers to engage and would make finding their best offer easier.

7 ESC, *Victorian Default Offer*, website, viewed at, <<https://www.esc.vic.gov.au/electricity-and-gas/prices-tariffs-and-benchmarks/victorian-default-offer>>.

8 ICRC 2020, op. cit., p74.

Ultimately, there remains a need for a safeguard for consumers – especially those who are on low incomes or otherwise vulnerable – who experience barriers to engaging in the electricity retail market to ensure that they have access to electricity as an essential service at a fair price.

Alignment with Victorian customer entitlements in the retail energy market

As far as is practicable, we recommend developing new customer entitlements in line with measures in place in Victoria as outlined in the ESC's final decision on building trust through new customer entitlements in the retail energy market.⁹ We believe that this would provide consumers with more agency while also providing electricity retailers with consistency – as most, if not all, ACT electricity retailers operate in Victoria. In addition to translating the Victorian measures to the ACT setting, we see value in learning from the experience of Victorian consumers, retailers, and the regulator to inform the development and implementation of similar measures here.

This would include:

- Best offer notification
- Clear advice entitlement
- Bill change notice
- All customer bills must include information about how the customer can access the Australian Government's *Energy Made Easy* comparator website.

Best offer notification

We support basing this on the approach outlined in the ESC's final decision on building trust through new customer entitlements in the retail energy market.¹⁰

We recommend requiring retailers to display the best offer entitlement on email bill notifications and online accounts, as well as on the electricity bill itself (pdf or hard copy). Electricity bills sent by email may allow the customer to click-to-pay without opening the bill itself – doing so reflects a level of consumer disengagement. Displaying the best offer notification prominently in electricity bill email messages and on customers' online accounts would improve the chances that disengaged customers will receive the intended nudge.

Clear advice entitlement

We see a clear advice entitlement as a critical companion to the best offer notification. This measure goes beyond transparency towards the ESC's approach of 'responsibility based regulation' – 'requiring retailers to take responsibility for helping customers navigate their

9 ESC, *Building trust through new customer entitlements in the retail energy market – Final decision*, ESC, Melbourne, 2018, viewed at, <<https://www.esc.vic.gov.au/electricity-and-gas/inquiries-studies-and-reviews/electricity-and-gas-retail-markets-review-implementation-2018/new-standards-energy-bills-and-marketing-2018#tabs-container2>>.

10 *ibid.*

way to the retailer's most suitable energy plan'.¹¹ We welcome retailers' own efforts to take this responsibility through *The Energy Charter*.¹² The clear advice entitlement would:

... ensure [customers] are made aware of, at the point of entering a contract, the dollar cost implications of all terms and conditions that influence the costs they will face over the term of the contract, and of any other offers the retailer believes may be more suitable for the customer.¹³

This provides a much-needed check, particularly for people at risk of financial stress. It also creates an incentive for retailers to reduce the complexity of their offers.

Bill change notices

We see bill change notices as a necessary reform in improving transparency and comparability, and building consumers' trust and confidence. It is essential that consumers are advised of price and/or benefit changes so they can make an informed decision. This can help avoid or reduce the number of consumers who unknowingly default onto poor value offers and effectively pay a 'loyalty tax' – sticking with their retailer for years but ending up on the most expensive offers.

We also see value in using bill change notices to prompt people to advise or to update their concession eligibility when facing the removal of a concession discount. Through the Energy Voucher Program, Care Financial Counselling Service has identified a significant number of consumers who were not receiving their concession entitlements, and subsequently supported them to get their entitlements backdated.

Energy Made Easy information on bills

We recommend that the ICRC's final decision recommends requiring retailers to regularly notify their customers that they can visit the Australian Government's *Energy Made Easy* website to check whether better offers are available from other retailers. While 70% of respondents to the ICRC customer survey said a comparison website would help, only 17% had used *Energy Made Easy* to compare electricity plans. Care's survey of Energy Support Voucher recipients between July-December 2019 found that 397 out of 453 responders (88%) did not know about the *Energy Made Easy* website. Including information about *Energy Made Easy* on bills would help raise consumer awareness of this website as a tool to find the best offer for their circumstances.

11 *ibid*, p. 2.

12 *The Energy Charter*, First Edition, January 2019, viewed at, <https://www.theenergycharter.com.au/wp-content/uploads/2019/04/TheCharter_20190328.pdf>.

13 ESC, 2018, *op. cit.*, p. 9.

Further development of the ICRC recommendations

We are keen to engage with the ICRC, the ACT Government, and electricity retailers on the development of the ICRC's recommendations.

A key implementation issue that will need to be addressed is monitoring and compliance.

While we see the adoption – or adaptation – of the Victorian measures as making introduction of new customer entitlements quicker and easier, we appreciate this may not be feasible by 1 July 2020, especially within the current context of COVID-19. We would be comfortable with a timeframe for implementation from 1 July 2021.

In responding to the ICRC's draft decision, we have benefited significantly from dialogue with Victorian consumer advocates based on their engagement with the ESC and Victorian Government on the VDO and new customer entitlements. We see benefit in further engaging with our Victorian counterparts as we flesh out the detail of the ICRC's draft recommendations.

Where possible, we recommend that attention also be paid to addressing poverty premiums faced by low-income households, including pay-on-time and conditional discounts. Due to their circumstances, low-income households may be locked out of lower-priced offers, or they may face additional costs if conditions are not met. This issue could be partly addressed through the clear advice entitlement and bill change notices.

If you would like to discuss any of the issues raised in this submission, please don't hesitate to contact Geoff Buchanan, Senior Policy Officer, ACTCOSS on 02 6202 7222 or geoff.buchanan@actcoss.org.au.