



# Energy Retail Markets

## An International Review



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# Introduction

In April 2017, as part of the review into Victoria's electricity and gas retail markets, engaged KPMG to:

- Advise on options implemented in other jurisdictions that could lead to better outcomes for consumers, and the extent to which those options could apply in Victoria; and

**In undertaking our analysis we recognised that there are two cohorts of customers who will have very different experiences of markets, and typically reforms have benefited some customer groups more than others.**



## ACTIVE CUSTOMERS

- Willing to shop around for better deals on a regular basis.
- This could be because they want to find the cheapest price, or because they want to take advantage of particular products or services offered by retailers.



## PASSIVE CUSTOMERS

- Also known as “sticky” customers, they may have switched once or twice but typically do not review their energy plan on a regular basis.
- This could be due to a lack of information or time to make the choice, because it is hard to compare offers. Customers are unable to access alternative tariffs (e.g. because they cannot access or do not feel comfortable using the Internet), or there is distrust of the market, and transaction costs of switching exist.

# What tools do we have in the toolkit to improve outcomes for customers?

## Demand Side Measure

Customer Empowerment

Non-Price Tariff Regulation

## Protecting Passive Customers

Targeted Protections

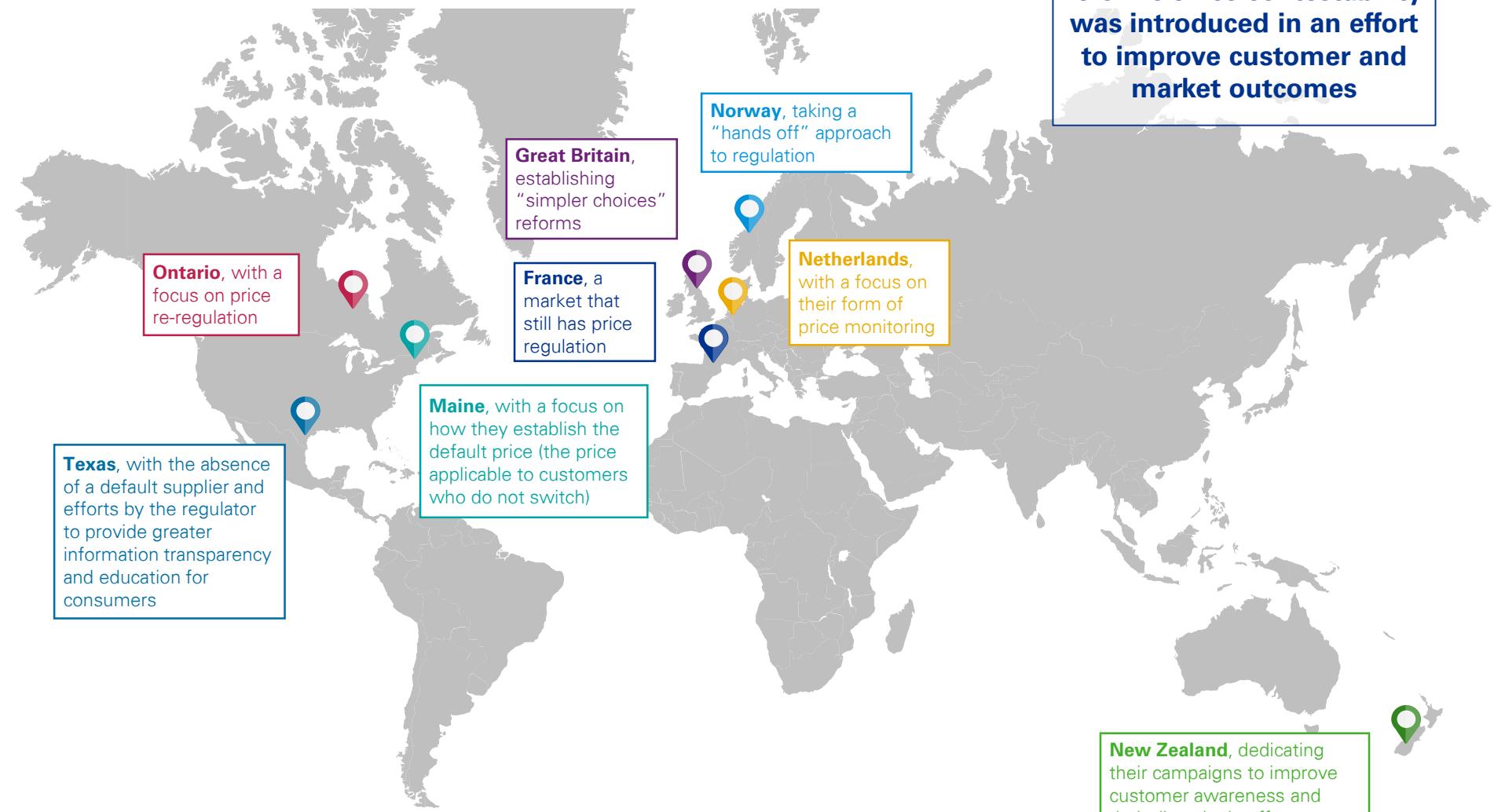
Collective Bargaining

## Supply Side Measures

Price Regulation

Price Monitoring

# What is going on globally?



# Lessons learned from other countries

## Lower Activity Levels

- Jurisdictions that have **more prescriptive regulations** on retailers typically have **lower levels of price dispersion and lower retail margins**, but also lower diversity in offers and lower levels of activity.
- These markets are **less likely to exhibit characteristics of an innovative market**, and are therefore less well-placed to provide future benefits to customers.



## Customer Support

- Jurisdictions that focus on **supporting customers to shop around** through information campaigns, access to data, transparency and reduced switching times, typically have **higher levels of price dispersion and higher margins**, but also greater levels of diversity.
- These markets are **more likely to be flexible and responsive to new developments** that could provide value to customers.



## Competitive Markets

- Different customer segments are affected in different ways by competition.
- The **Government has a role to play in weighing the necessary trade-offs** between customer outcomes.
- However, it is also important to consider the **risks** associated with any actual, or threatened, **government intervention**.



# Deep Dive: Passive Customers



- Many jurisdictions have retained a regulated default tariff to protect customers, at least until competition develops in the market.
  - Three jurisdictions have adopted a unique approach we termed "**collective bargaining**", or a single buyer.
  - In this approach, the regulator is responsible for sourcing electricity or gas from the competitive market rather than estimating the costs incurred by the retailer.
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- **Collective bargaining** allows all customers to **benefit from a competitive price for electricity**, without having to shop around.
  - While **passive customers benefit**, the downside to this approach is that customers are unlikely to have much access to choice in their energy service and, **retailers are unlikely to have an incentive to develop new products** and services that could be facilitated by new technologies.
  - **Collective bargaining approach** do not have to be mandatory and arranged by the regulator e.g. One Big Switch.

# Deep Dive: Vulnerable Customers



- **Vulnerable customers may not benefit from the competitive market** to the same extent as other customers, either because they are not as engaged, or because they have restricted options.
- Programs directed at vulnerable customer need to be **well advertised to the people they are intended to support**.

Important lessons from international experience are that:

- The **availability of benefits for vulnerable customers is not sufficient** to ensure there will be substantial uptake of those benefits. Other mechanisms will be needed to **ensure vulnerable customers take up any benefits** – for example, obligations on retailers to provide information to relevant customers (e.g. Poland).
- If outcomes for vulnerable customers from the retail energy market are a priority, this could require a **review of the impact on these customers on policies and practices** in virtually every area of the competitive market framework (e.g. Great Britain).

# Key issues that need to be considered in assessing outcomes for customers.

## Awareness

An intense advertising campaign accompanied by improvements in the use of price comparison websites would increase awareness and interest.

Customer empowerment programs to help those customer groups which have been less likely in the past to participate in the competitive market.

## Diversity

Opportunities for new products and services. Policies designed to empower customers will assist them in understanding different products, which provide a basis for greater uptake and further diversity in product offerings, like in New Zealand and the Netherlands.

## Activity

The impact on activity in the market will depend on the purpose for which the regulation is designed. Where regulation of non-price elements of tariffs may be designed to encourage increased activity in the market, there's a risk that this will not be successful, as the Great Britain experience demonstrates.

## Experience

Customer empowerment policies like those in place in New Zealand offer the potential to improve customer experience.

NB: It is important to note that price has a strong influence on experience.

## Retail Margins

Evidence from the UK suggests that price comparison websites can put downward pressure on prices.

## Market Evolution

Measures which improve customer knowledge and participation prove incentives to relations to develop products which meet the needs of different customer groups, in order to attract and retain customers.





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