Putting Customers First

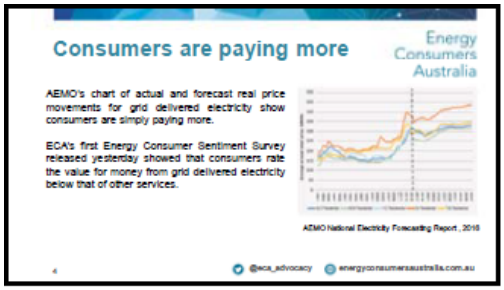
There is no business or sector that doesn't commence a presentation or strategy with some variant of "customer-centricity" or "putting customers first". But it doesn't always show up in practice.

Putting customers first is the core principle of Energy Consumers Australia.

After a lot of practice, the phrase - *promoting the long term interests of consumers with respect to price, quality, safety, reliability and security of supply of energy services* - rolls off the tongue.

Promoting the long-term interests of consumers is the cornerstone of the advocacy that we are required to both enable and provide. In our advocacy, for residential and small business customers, we put this

more simply as - *Consumers pay no more than they need to for the service characteristics they are prepared to pay for.*



But this isn't what is being delivered- consumers are paying more.

The real retail price for electricity has been increasing; and it is forecast to continue to increase.

Consumers' perceptions of value for money tell us that the increase in price hasn't been accompanied by a commensurate increase in value.

ECA's first Energy Consumers Sentiment Survey was released yesterday. It revealed that consumers of electricity services are very satisfied with reliability and customer service.

But they rate the **value for money** of electricity below that of mobile phones, the internet, insurance and banking.

That overall prices are high is sometimes sheeted home to consumers. For example, one of the four recommendations included in the AEMC's most recent Retail Competition Review reads:

> *Jurisdictions coordinate the development of NEM-wide awareness and engagement programs to make it easier for customers to access the best options for their circumstances and improve customer confidence in the energy markets.*

It isn't only Australia where this view is prevalent. In commenting on the UK Competition and Markets Authority review of electricity economist Dieter Helm observed:

> *The CMA spent roughly 80 years and spent £5 million, identified that the bulk of customers (around 70%) were being charged around £1.4 billion in excess of the "competitive" price, and concluded that it was mostly their own fault for not switching.*

The problem with the retail electricity market is there is nothing to compete on- other than price.

Economic theory tells us that in a competitive market for an undifferentiated product all providers should charge the same price. This is the fundamental conclusion on which the preference for competition over monopoly is premised.

But a structure of standing and market offers distinguished by a "discount" doesn't give that outcome.

Worse, there are factors that keep taking customers from market offers back to standing offers.

When the fixed term ends you cycle back to the standing offer. When you move house – which happens for about 12% of households in a year – you probably just quickly decide to connect and think about the best offer later.

But we are here to talk about transitioning to clean energy, not the existing energy networks.

ECA is currently finalising a review of consumer experience with solar and storage readiness. The full study won't be released until September. However, I do want to share some early findings.

Firstly consumers are mostly satisfied with the sales and installation process that accompanied their solar decision.

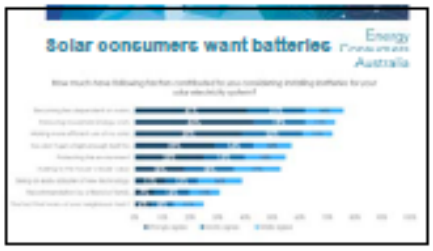
However, most customers are unaware of whether their solar system is actually performing as intended. And independent assessments show PV systems generally generate less energy than the purchaser expected.

Nearly three quarters of our survey respondents have heard of batteries and half of those have thought of installing them.

69% of people with solar PV are interested in adding batteries.

Modelling battery economics is difficult, especially when we try to model technology developments and future grid prices. However, it is clear that for most households a battery purchased over the next few years won't pay for itself.

Given these economics, what is motivating the high level of interest in storage?



The factor most agreed to by consumers for considering batteries was **becoming less dependent on mains electricity**. The next three most agreed to are about the economic analysis – reducing energy bills or responding to lower Feed in Tariffs.

Protecting the environment is a significant factor, but not dominant.

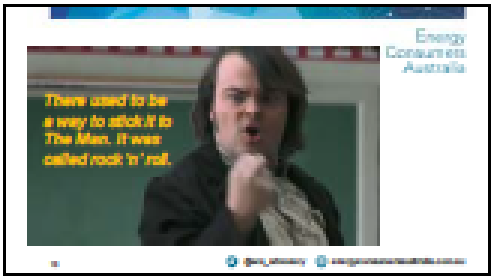
When we ask the same question about solar, grid independence is second; behind reducing bills but ahead of Feed in Tariffs or bonus schemes.

What explains this desire to be less grid dependent?

I can think of three possible interpretations.

The first would be a survivalist approach – a lack of faith in the ongoing reliability and security of the grid.

A second could be as a defence against further increases in electricity prices – a motivation not to reduce current bills, but future bills.



The third owes a little to Dewey Finn, Jack Black's character in *The School of Rock*. Dewey tells his young class:

> *There used to be a way to stick it to The Man. It was called rock 'n' roll.*

Maybe in the energy sector the way to "stick it to The Man" is called installing solar panels and batteries!

But this isn't a sustainable basis for the future of electricity supply. We need to get beyond treating home generation as an alternative to the grid.

We need to stop having two energy markets; a failing market for grid delivered electricity and a separate market for household generation and storage.

Ultimately they are both serving the same need – electricity. In the immortal words of the Spice Girls we need “the night that two become one.”

I should add that one market means one **national market**.

In saying this I note the comments of the Minister for the Environment and Energy Josh Frydenberg on Lateline last night. After commenting on recent experiences in Tasmania and South Australia he said:

> *Those two cases were a wakeup call for us. That is why I've called together the state and the territory Energy ministers in Canberra on 19th August as part of the COAG Energy Council to decide on how we can **improve the coordination and cooperation** between states, territories and the Federal Government.*

In having this conversation, the Ministers need to focus on national coordination and cooperation in the whole new energy servicesmarket, not just the services historically covered by the NEM.

There are three propositions that I think need to guide the development of the new energy services market.

The first is that a clean energy future doesn't necessarily equate to a widespread deployment of distributed energy resources. DER has made a contribution already, and possibly has more to contribute. But so does grid delivered energy from clean sources and large scale storage.

The second is that demand side changes also have more of a role to play. This includes demand management which matches consumption to generation availability; and it includes energy efficiency in housing, appliances and lifestyle.

The third is providing confidence for consumers.

What we usually call "consumer protection" regulations provide confidence to consumers to participate in a market – they are an assurance that the consumer can make choices. Currently there are differences between the grid and home-made energy markets in terms of consumer protection regulation.

To make one market there needs to be consistency; especially consistency on information obligations, on redress mechanisms and on access to concession schemes.

A core enabler of each of these is data – both historic data for planning and immediate data for choices.

Optimal location can be solved either by a central planner or by allowing a market to work or a bit of both). The difference between the two is how the data is managed and whether the only reliance is price signals.

For demand management to be effective someone has to be able to relate consumption decisions to system wide benefits. Two sets of data need to be brought together for decision making.

Finally, for consumers to be confident in their choices they need useable data on their consumption and informed expectations of the energy market into the future.

As we put consumers first in the energy market there is one principle that must be kept front of mind.

Households and businesses don’t “consume energy” – they live their lives and run their businesses in ways that require energy.

Putting consumers first requires a conversation framed around what they do; not how we want them to behave as actors in our economic models.

ENDS