

**Prepared remarks – “Putting consumers and small business first in the transition to a cleaner economy”**

**Panel Session, Smart regulation for a 21<sup>st</sup> century energy system, Australian Clean Energy Summit, 2016**

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Thank you Chris for the kind introduction.

Thank you also to the Clean Energy Council for the opportunity to speak at this event.

**INTRODUCTION ECA**

Let me start by explaining Energy Consumers Australia.

ECA is an independent, national organization. It was established in 2015 as part of a broad package of energy market reforms developed in 2012 by COAG Energy Council (COAG EC).

Our formal objective is to promote the long term interests of consumers – particularly residential and small business consumers – by providing and enabling influential, collegiate, evidence based advocacy.

We also administer a grants program that supports research and consumer advocacy by other organisations.

I joined in May 2015 as ECA’s first CEO coming from the telecommunications and media sectors.

These are both industries that have and still are experiencing profound change driven by technology in the hands of consumers and competitive markets enabling choice and innovation.

I’d like to share an assessment of the state of the energy market based on our Consumer Sentiment research which we published for the first time today.

**INTEGRATING EMISSIONS REDUCTION AND ENERGY POLICY**

The context for my remarks today is that:

1. Energy Ministers agreed at COAG EC in July 2015 to integrate Energy and Emissions Reductions policy work, and
2. Australia has signed up to binding international agreements to reduce emissions, which will require significant commitment to cleaner electricity.

Our shared task is to respond to the challenge of this transition.

Through integrating policy settings to ensure that consumers pay no more than is necessary for the move to cleaner energy services.

And making sure that no-one is left without the energy services they need to be part of the mainstream economy and society in 21<sup>st</sup> century Australia.

## **ECA MANDATE**

As I said earlier, ECA approaches our task and questions of policy and regulation through a very specific mandate set out as a formal object in our company constitution:

*to promote the long term interest of energy consumers with respect to price, quality, reliability, safety and security of supply of energy services.*

Our “long term interest of consumers” or LTIC mandate.

This language comes directly from the objective of the Australian Energy Market Agreement and the three laws that give effect to it.

Seen through the lens of our mandate, the question for us is about **how** we make the transition required by the binding international commitment to de-carbonise with the long-term interests of consumers paramount.

## **THE START POINT FOR CONSUMERS IS IMPORTANT**

With such a major reform ahead, it is best to start where the consumers are.

Which is perhaps not where we, or they, would want them to be.

What do we see:

The emissions intensity of the electricity sector since 2008 is little changed <sup>1</sup> despite 1.5m rooftop solar installations.

The average consumer’s bill today is roughly double what it was, in real terms, eight years ago.<sup>2</sup>

The consumer experience has changed very little in return for the increased prices.

1. No noticeable improvement in the reliability of their service.

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<sup>1</sup> See latest CEDEX quarterly carbon emissions report  
<http://www.pittsh.com.au/latest-news/cedex/>

<sup>2</sup> See Figure 5.6, *State of the Energy Market 2015*, Australian Energy Regulator, <http://tinyurl.com/hsvcwu7>. According to the AEMC Retail Competition Review 2016, the median electricity bill for the representative electricity customer in each of the jurisdictions is as follows: QLD \$1434; NSW \$1308; SA \$1712; ACT \$1415; VIC \$1240  
[//www.aemc.gov.au/Markets-Reviews-Advice/2015-Residential-Electricity-Price-Trend](http://www.aemc.gov.au/Markets-Reviews-Advice/2015-Residential-Electricity-Price-Trend)

2. Over 80% of consumers nationally purchase their electricity or gas from one of the three big retailers.
3. “Products” are mainly differentiated by pricing discounts and payment options.
4. Increasing number of consumers now have smart meters but consumers are yet to reap the benefits.<sup>3</sup>
5. Consumers continue to be charged for electricity on a shared use basis masking cross-subsidies and in the long term adding to the size of the network needed to meet peak demand.
6. And consumers continue to fall through the gaps in a market that doesn’t have an effective safety net.

### **ECA’s MARKET RESEARCH**

Given the challenge ahead our number one priority in our first 12 months has been to talk to consumers and gather evidence about their lived experience.

Earlier this year, we conducted town-hall style consultations in 13 regional centers to identify the issues that were front-of-mind for energy consumers.

And in March/April this year, we conducted the first of what will be a regular six monthly survey of 2,500 residential and small business energy consumers across the nation. We published the results today for the first time.

We are making the survey data available to the sector to ensure that the consumers voice is where it needs to be. At the centre of decision making.

Traditional assessments of the health of the energy market tend to rely on indirect indicators of the state of *competition* – the framework – rather than direct indicators of *consumer outcomes*<sup>4</sup> – the lived experience.

We’ve been measuring how far we have come from government owned energy companies, not how far we have to go to meet consumer expectations set by comparative experiences in competitive service markets.

ECA’s Energy Consumer Sentiment Survey provides this deeper insight into the attitudes and activity of households and small businesses.

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<sup>3</sup> The Victorian Auditor General found in his September 2015 report, *Realising the benefits of smart meters*, that the net cost to consumers was likely to increase beyond the Government’s most recent (2011) estimate of \$319 million  
<http://www.audit.vic.gov.au/publications/20150916-Smart-Meters/20150916-Smart-Meters.pdf>

<sup>4</sup> For an entertaining take on this see Ron Ben-David’s paper, If the retail market is competitive then Lara Bingle is a Russian Cosmonaut <http://www.esc.vic.gov.au/wp-content/uploads/esc/fc/fc947897-7d4f-4772-97c9-959e3baad0db.pdf>

So what did we find?

The results of the first survey are consistent with what we heard at the regional consultations and indicate that energy markets are delivering a very mixed set of outcomes for consumers.

Consumers are, overall, relatively satisfied with their energy services – with between 60-70 per cent of consumers giving a score of 7 out of 10 depending on the jurisdiction.<sup>5</sup>

But they do not believe the market is either working in their interests now (20-39 per cent), or will in the future (14-29%).<sup>6</sup>

They do not believe their energy services represent value for money.

Just 52% of consumers in NSW gave their electricity company a score of 7 out of 10 or higher on value for money, while the figure was only 29% in Tasmania, noting that the survey took place at a particularly difficult time for Tasmanians.<sup>7</sup>

Now these results might not come as a huge surprise given the price curve consumers have faced for network services.

What may be surprising is that consumers feel they are getting better value for money from their mobile phone, internet, water, insurance and banking providers.

## **SMALL BUSINESS**

The other result that stood out was that however unhappy residential consumers are, small business – the engine room of the Australian economy – is unhappier.

Scores on satisfaction, including reliability,<sup>8</sup> customer service,<sup>9</sup> billing<sup>10</sup> and value for money<sup>11</sup> are lower across the board nationally for small business.

This dissatisfaction seems to be particularly acute in regional Australia.

In one of our community consultations an almond processor in South Australia told us that electricity is now 30 per cent of his input costs,

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<sup>5</sup> ECSS Question 23

<sup>6</sup> ECSS Question 49

<sup>7</sup> ECSS Question 7.

<sup>8</sup> ECSS Question 23.

<sup>9</sup> ECSS Question 51

<sup>10</sup> ECSS questions 8 (elec) and 17 (gas)

<sup>11</sup> ECSS questions 7(elec) and 16 (gas)

while we've also heard from some irrigators that their electricity bills have tripled in the last five years.<sup>12</sup>

This consumer context must be absolutely front-of-mind when we're thinking about the policy and regulatory settings for the transition to cleaner energy.

## **AEMO FORECAST**

It is what should cause us to pause and consider very carefully the latest AEMO forecasts.<sup>13</sup>

These show that there could be some price relief in the near term as reductions in *network costs* are passed through to consumers in the short to medium term.

However, there is uncertainty over this outlook given the challenges to the AER network revenue determinations and uncertainty around the passing through of lower network costs into retail prices.

More concerning is the long term trend. AEMO says consumers are likely to face a new round of price increases from 2020 if not sooner.

These price pressures reflect the closure of coal-fired power stations and other measures place upward pressure on wholesale electricity prices.

## **POWER PRICES**

Many consumers have faced double digit increases in retail prices from 1 July.

These increases and the issues that are playing out in the South Australian wholesale market right now – and the accompanying media and political hubbub – remind us of the sensitivity around power prices.<sup>14</sup>

The view is power prices are politically toxic to the point where politicians take action to prevent change where they suspect there will be losers.

And our survey says consumers are also concerned about industry, and are not confident it has their interests at heart.

We have to find the balance between **affordable** and **clean** with an eye to consumer concern about cost of living and impacts on input costs for small businesses including our trade exposed agri-businesses.

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<sup>12</sup> NSW Irrigators, submission to Senate Inquiry into Electricity Network Companies 2015 <http://www.nswic.org.au/pdf/Submissions/141121%20-%20Senate%20Inquiry%20into%20Network%20Business.pdf>

<sup>13</sup> See Figure 10, AEMO National Electricity Forecasting Report 2016, <http://www.aemo.com.au/Electricity/Planning/Forecasting/National-Electricity-Forecasting-Report>

<sup>14</sup> See ABC online news story on 15 June 2016 'AGL hikes SA electricity prices 10pc, blames power station closures <http://www.abc.net.au/news/2016-06-15/agl-customers-in-sa-electricity-prices-rise-by-10-per-cent/7513222>

## TECHNOLOGY

Many consumers are themselves directly investing in a cleaner energy system.

The Survey confirms what we heard at the community consultations, that consumers have a huge appetite for new technology, from energy efficient lighting right through to battery storage *to help manage their energy use*<sup>15</sup> and costs.

This is the key, in my view, to a sustainable and enduring plan for the transition.

Consumers **are** concerned about the environment, but the Survey indicates that principal driver for the explosion in solar PV and the interest in new technology, is to manage their consumption to gain *control* over their costs.<sup>16</sup>

This is the opening for policy makers and regulators searching for a way to manage the risk to the cost of living as we de-carbonise the economy.

The way we put consumers in the driving seat – and how we improve sentiment about value for money– is through a vibrant new market in energy services.

In a market where only about a third of the consumers who have considered switching in the last three years actually did so (in the face of considerable savings) – many say it was too hard to find the time or the information.

It is clear that consumers are looking, but want to go beyond existing retail offerings to technology - to give **them** the control.<sup>17</sup>

Our task is to create a market that delivers *control* in a way that maximizes the overall efficiency of the system.

We need innovation around information and choice.

We need integration of policy settings.

The Business Council of Australia gets it.

BCA CEO Jennifer Westacott said recently at the ANU's Crawford School of Public Policy:

*“In a sense consumers are becoming the regulators. If we don't understand the power of the consumer, business models will be blown out of the water.”*

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<sup>15</sup> ECSS Question 29

<sup>16</sup> ECSS Question 44

<sup>17</sup> ECSS questions 38-43

## ON THE CHALLENGE OF INNOVATION

There are some early examples of businesses driving innovation and delivering benefits for energy consumers.

1. In Victoria, United Energy is paying individual consumers – cash not a rebate – to reduce consumption during peak demand periods.
2. In Queensland, Energex provides customers with cash rewards for hot water systems and air-conditioners with load control to help manage peak loads.
3. New retailers like Powershop and Mojo are entering the market with novel business models, smart phone apps and feisty attitudes

Regulators and policy makers are moving too.

1. COAG Energy Council's current agenda includes gas supply, emerging technologies, reliability and system security, contemporary consumer protections.
2. The Australian Energy Market Commission's *Power of Choice* reforms for network tariff reform and metering contestability support innovation.
3. The Federal Government's 2015 *National Energy Productivity Plan* has the potential to provide a real focus and rallying point for market innovation.

But innovation seems to be niche, not core business for industry.

Although the explosion in rooftop solar PV and the prospect of affordable battery storage has given the energy sector a major shock, the response to date has been to adjust rather than recast business strategies.

Faced with a threat to their revenue, the instinct of the networks has been to further expand their asset investment into owning and operating grid-scale battery storage.

This strategy misses the opportunity to focus on providing the critical transportation and data coordination services needed for the energy services market to take flight.

And the retailers' focus remains on customer retention to preserve a route to market for generation.

To the extent that retailers have moved into new energy services they appear to be primarily lock-in strategies rather than market opening innovation.

Other sectors have faced changes of this magnitude. Telco, media, music, taxis, banking and not without pain.

As Richard Feasey, a very senior policy expert in the telco sector wrote (in *Telecommunications Policy* Sept 2014) on the impact of innovation from technology change in that sector:

*“The telecommunications industry has been deeply affected (by the Internet). It has lost control over many of the services which run over its networks. The post-war conventions of the industry have been turned upside down. It has struggled to adapt and in doing so has displayed the same symptoms – denial, anger, bargaining and finally acceptance – of anybody experiencing a profound loss.”*

## **ON THE CHALLENGE OF INTEGRATING POLICY**

Recent experiences in the wholesale market in South Australia provide insight into the challenges of an energy market in transition and have led many to call for the better integration of energy and emissions reduction policy.

ECA shares this view.

Some commentators have drawn hasty and unhelpful conclusions when what is really needed is careful consideration.

The Federal Government’s decision to merge the energy and environment portfolios under Minister Frydenberg is a welcome development with Victoria, ACT and Tasmania already taking such action.

The benefit in bringing energy and emissions reductions together is not just about aligning disparate energy efficiency and renewable deployment schemes.

It is an opportunity to do something much bigger - to drive an ambitious new *consumer-first* agenda.

Which means the starting point has to be a focus on the retail market.

What are the impediments to the development of a single “new energy services market”? We need to identify those impediments and remove them.

The new services must be delivered by innovators in competitive markets.

Networks will play a role in facilitating and promoting new energy services.

Networks will provide information and transport services - to consumers or their agents - to optimize the system wide value of new energy services.

So that in the end consumers pay no more than is necessary and no-one in Australia is left without the energy services they need.

## **Conclusion**

At the moment, there are more questions than answers on how to meet the goals of decarbonisation, consumers paying no more than they need to and no-one being left behind.

The answers will not be found at a single conference even a highly respected one such as this.



We need to keep trying to answer these questions together. Consumers working with industry, COAG Energy Council Ministers and the market bodies to navigate this course.

Thank you for the opportunity to contribute to the discussion today.