

# Ensuring fair energy pricing

- The Government needs to ensure consumers can activate competition

## Energy prices are rising

The price of energy is rising. From 1 January 2008, electricity prices in Victoria rose by an average of 12-17%, largely due to the extended drought. In regional areas, increases have been even larger. There are a number of energy market reforms that are going to put continued pressure on prices, including the proposed rollout of advanced meters as well as the imposition of a price on carbon. It has been estimated that a carbon price will add up to \$500 per annum on a consumers' utility bills.<sup>1</sup>

<sup>1</sup> ACF, ACOSS and CHOICE, *Energy & Equity: Preparing households for climate change: efficiency, equity, immediacy*, April 2008, p 10. This will of course vary based upon a household's location and fuel consumption.

## Increased reliance on competition – the need for mandated publication of energy offers

The Australian Energy Market Commission (AEMC) has recommended that the Victorian Government cease its role in regulating energy prices as it asserts that competition is now effective in this market and will protect consumers from unfair pricing. While competition can and should protect consumers, effective competition relies upon consumers being able to make informed choices. The Government is proposing to proceed with price deregulation without ensuring consumers can effectively shop around and compare offers.

In energy markets, consumers need access to accurate information to effectively compare the price and non-price aspects of alternative offers. The AEMC itself has acknowledged this, stating that *'pre-conditions necessary for customers to be able to effectively exercise choice in the market include ... easily obtainable and comparable information about retailers and their supply offers.'*<sup>2</sup>

However, in its advice to the Victorian Government, the AEMC advised against requiring retailers to publish market contracts (either on their website or elsewhere). Instead, retailers would only be required to publish one 'standing' offer.<sup>3</sup> If this model proceeded, consumers would only have access to information about a market offer when they were direct marketed by a retailer – they would not be able to compare that offer with others available in the market. This contrasts with the approach taken in other jurisdictions such as the UK and Netherlands. Those jurisdictions have put in place tools to assist consumers to compare prices.

<sup>2</sup> AEMC, *Review of the effectiveness of competition in gas and electricity retail markets – Issues paper*, page 19.

<sup>3</sup> As a standing offer is an offer that is required to be available to every consumer, it is very unlikely that this would be the retailer's best offer. Alternative market offers or contracts would provide consumers with better deals than a standing offer. Indeed, consumers can currently obtain better deals by choosing a market offer over a standing offer.

## Effective competition means fair consumer outcomes

A failure to mandate the publication of energy market offers would see the Victorian Government acting in direct contradiction to recent recommendations for consumer policy from the Productivity Commission. In the Productivity Commission's recent *Review of Australia's Consumer Policy Framework*, it recommended that Australian Governments should adopt a common overarching objective for consumer policy:

*'to improve consumer wellbeing by fostering effective competition and enabling the confident participation of consumers in markets in which both consumers and suppliers trade fairly and in good faith.'*<sup>4</sup>

This objective balances the interests of both consumers and traders. The Productivity Commission also stated that

*'the consumer policy framework should efficiently and effectively aim to ensure that consumers are sufficiently well-informed to benefit from, and stimulate effective competition.'*<sup>5</sup>

If the AEMC recommendation is adopted, consumers will not have access to information to effectively compare deals in the market place, and will therefore be prevented from stimulating effective competition. In order to meet this standard, the Victorian Government should:

- Require retailers to publish all market offers including details of price and key terms and conditions;
- Ensure offers are comparable, by mandating disclosure of certain features and requiring consistent terminology.

<sup>4</sup> Productivity Commission, *Review of Australia's Consumer Policy Framework – Final Report Volume 1*, p 63.

<sup>5</sup> Ibid.

## Other protections necessary to ensure competition works for consumers

The following protections are also needed to ensure consumers have access to affordable energy.

### Pricing principles – affordable energy for non-discretionary usage

Low-income consumers should be protected from further increases in energy prices in relation to non-discretionary use. If price rises resulting from a rollout of smart meters or a carbon price result in a flat increase to the cost of energy, then low-income consumer would be penalised (as they spend proportionally more of their income on energy<sup>6</sup>). This penalty is exacerbated by the fact that low-income/low-consumption consumers are not the consumers who need to be receiving signals to reduce their usage.<sup>7</sup> This would not require any additional government funding, and could be achieved through governments and regulators developing tariff principles and/or regulating tariff structures for residential consumers. It would have the added benefit of specifically targeting the levels of consumption that are intended to be curtailed.

### Ongoing market monitoring

The regulator must be responsible for ongoing monitoring of the state of competition in the market. The Government must be ready to act and intervene in the market, if competition is not performing to bring about effective outcomes for consumers. They can only do this if there is independent, ongoing and public monitoring by the regulator, the Essential Services Commission.

### Enforcement of consumer protections

Regulators, including the market regulator the Essential Services Commission but also the fair trading regulator, Consumer Affairs Victoria, must take an active and complementary role in enforcing compliance with regulatory obligations. Since the introduction of competition in the Victorian energy market, we have developed a robust regulatory framework that protects consumers. But for the regulatory framework to be effective, we need continued and strong enforcement of compliance by our regulators.

## Education and awareness campaign

De-regulation of pricing is a major reform to the Victorian energy market. Consumers need to be made aware of their rights and obligations in a de-regulated environment.

This should include the following messages:

- That consumers can choose their supplier;
- That consumers have rights under the consumer protection framework;
- That consumers can get a better deal in the competitive market;
- That consumers can shop around (and not rely on obtaining all their information from a door-to-door salesperson); and
- That can consumers can say no to a marketer, should they wish to do so.



Supported by:



<sup>6</sup> ABS Household Expenditure Survey, retail expenditure items, 2003 -2004.

<sup>7</sup> Research demonstrates that concession households use 15 per cent less electricity than non-concession households: Roy Morgan Research, Victorian Utility Consumption Survey 2001 – Final Report, June 2002, p. 4