



St Vincent de Paul Society, Victoria: Response to the consultation paper to the Independent Review of the Electricity and Gas Retail Markets in Victoria

March 2018

The St Vincent de Paul Society (Vinnies) welcomes the opportunity to respond to the Government's consultation paper and interim response to the independent review of the electricity and gas markets in Victoria (Review).

The Vinnies believe the best way to deliver optimal outcomes for energy consumers is to empower them to seek the products and services that they desire. Where the market is unable to achieve this, or where a particular group needs additional support, the issues should be addressed by government and support provided (either directly or via the social services sector).

The current energy consumer protection framework has to a large extent derived from the continuous refinement of the energy retail code and, most recently, the review of the hardship programs. This approach is continued with the Government's acceptance of recommendations 3 – 11 from the independent review.

These recommendations appear to be designed to empower consumers through enhancing their decision-making and ultimately drive the type of market changes that consumers seek and are consistent with national reforms being undertaken. The Vinnies support these recommendations. In our view, this approach supports energy consumers in the "traditional" energy market as well as enhancing consumers' ability to make effective decisions for "behind the meter" purchases, such as solar and batteries. It also supports the development of new products and services from other market participants, such as peer to peer trading and micro grids.

The consultation paper rightly highlights many challenges and risks that come with some recommendations made by the Review and in particular those associated with recommendations 1 and 2. In relation to recommendations 1 and 2, we have grave concerns in relation to the introduction of a Basic Service Offer (BSO) and the removal/replacement of the standing offers.

In our view, there is a lack of clarity around what policy outcomes these recommendations are trying to achieve. It remains unclear what the purpose of the BSO actually is. Is the BSO a reference price? Is it a social tariff? Or is it a market floor price? This lack of clarity around the specific purpose of the BSO, and its relationship to standing offer charges, creates a number of new challenges. It also raises challenges in regard to the relationship between

the BSO and other parts of the customer protection framework. This makes it difficult to understand the overall impact and ultimate efficacy for consumer outcomes.

BSO and Victorian Government policy objectives

The Vinnies are unclear about how recommendations 1 and 2 relate to other Victorian Government policies and programs such as the energy concessions, energy efficiency measures, the mandated flexible (time of use) tariff, the opt-out arrangement for demand tariffs (as well as other network tariffs), green schemes such as Victorian Energy Efficiency Target (VEET) and the regulated feed in tariff (including the 2.5 cent social and environmental benefits levy on non-solar households and the fair solar policy).

For example, if we assume that the current policy setting would continue and thus allow solar households to be eligible for the BSO, we could end up with a situation where solar households on a BSO would need to be subsidised by non-solar households (on a BSO or not). The implication being that the BSO (or other market offers) would have to increase as the uptake of solar, or other devices such as batteries, increases.

To avoid such an outcome, the Government would need to review the following policies and procedures if deciding to proceed with the BSO:

- The Fair Solar policy;
- The 2.5 cent environmental and social benefits levy;
- The regulated feed in tariff; and
- The eligibility of the BSO to various customer groups (such as solar customers, market offer customers)

BSO and jurisdictional policy impacts

Similar to the potential impacts of the BSO on Victorian Government policies the BSO also has the ability to impact on energy retail markets, and consumers, in other jurisdictions. This is of importance to the Vinnies as we are a national organisation and are focused on impacts on all consumers in the national energy market.

We believe the BSO may have future implications for

- The Renewable Energy Target (RET);
- The National Energy Guarantee (NEG); and
- The costs to energy consumers in other jurisdictions due to price setting processes in Victoria.

The BSO may also impact on the financing of the RET (as well as other programs) as the price point in Victoria will change and market participants' ability to finance these obligations will also change.

We believe that the Victorian Government should explore these issues further, prior committing to a BSO.

BSO and market transformation.

The energy market is currently undergoing rapid transformation. New and emerging technologies and approaches are developing, and households are increasingly making “behind the meter” investments.

This transformation is facilitated by State Government policies and other financial supports as well as market participants through their development of new platforms such as peer to peer trading and micro/mini grids.

These developments are to a large extent driven by consumer expectations and deliver real and meaningful benefits not only to those participating directly but also to the community more broadly. Potential community benefits include lower network costs, better wholesale market outcomes and lower emissions.

As the BSO will change the price point and hence the return that households and others would get on their energy investments, we believe the BSO, as proposed, could significantly impact on these (and future) market developments. There is hence a risk that the BSO (if designed in a particular way) can undermine the rate and pace of energy market transformation.

Furthermore, we are unclear about the BSO and its application, or otherwise, to embedded networks and other exempt arrangements within the market. This is of particular importance as the potentially impacted facilities are where the most vulnerable reside (i.e. caravan parks and nursing homes). The BSO may even possibly incentivise the establishment of these type of network arrangements as companies seek to avoid being covered by the BSO.

BSO and obligation to offer

It is currently only the Financially Responsible Market Participant (FRMP) that has an obligation to offer. In practice, this is the retailer the customer is currently with, the last retailer at the address for a move out/move in, or, if it is a new connection, one of the three incumbents. In this case the application of the BSO would only be available to the retailers' current customers.

The Vinnies believe that this will result in two outcomes. Firstly, it would result in reduced churn to other retailers, as consumers will gravitate to the BSO offer for the retailer they are with. This could effectively lock in the current retail market shares and have a cementing effect on the incumbents' current position.

Secondly, it would result in more redlining or segmentation of customers in acquisition. Retailers are more likely to only seek to compete on high value customers with a good cash/credit position within the market and leave behind customers deemed to be of low or no worth.

BSO and price setting

We also believe that determining the BSO price will be a highly complicated process which in itself creates further risks and challenges. For example, as each retailer has a different cost structure for electricity, gas and solar customers, there would need to be a number of unique BSOs for each retailer. Furthermore, as there are multiple electricity and gas pricing zones across Victoria, the BSOs would also need to reflect the specifics for each zone. In addition, the BSOs would need to reflect the underlying Network Use of System Charges (NUOS) and gas distribution charges within each of the electricity networks/gas pricing zones.

The creation of a single, state-wide BSO by ignoring these differences in underlying cost structures, could create winners and losers amongst retailers as well as making customers in certain distribution areas/networks more attractive than others. In short it would have the ability to significantly distort the market, impacting upon not consumers as well as market participants.

BSO and investments

As mentioned above, the introduction of a BSO has the ability to significantly change the return that consumers and others would get on any investment they have made in the past and also shape the return on future investments. This has potential impacts on future consumer activity as well as institutional investors and their willingness to invest in programs such as the Victorian Renewable Energy Target (VRET), peer to peer trading and other innovations.

BSO and other challenges

Listed below are a number of other potential challenges proceeding with a BSO may cause. We would be able to follow up on this list in more detail if required/warranted.

- New market entrants BSO pricing and licensing.
- Retailer of last resort (ROLR) events - impact of BSO on retailer of last resort and how BSO applies in a ROLR event or market acquisition event.
- Appeals processes for the price setting of the BSO(s).
- AMEO interventions such as the Reliability and Emergency Revert Trader (RERT) and other events which add significant cost to market participants and are unknown (but costs are worn by all retailers).
- Gazettal process and timing with network determinations.
- Wholesale markets and predicting future prices.
- Costing of the BSO - it is called a basic service offer but it could be seen as the full service offer as it must price in all the regulatory cost associated with delivering the full retail code and other obligations (which do not all apply to market offers)
- BSO pricing adjustments and timing - will these be monthly, quarterly, annual or other?
- Interaction between the gas and electricity market and the interaction of a gas BSO and impact on electricity BSO

Alternatives to the BSO - building on the current framework

As the Consultation Paper also seeks to explore other options to the BSO, we have included two options that we think have merit. First, the “green button” which we think is a must in any future energy market and the second, less preferred option, is a basic service obligation to mitigate the impacts on energy price dispersion within the market.

Preferred option: A “green button” platform

Given the state of the energy market and the significant investment that has been required of Victorian households for the mandated roll-out of smart meters, we believe that Government investment and development (in partnership with industry) of a “green button” arrangement is an attractive alternative to a BSO.¹

Development of a “green button” would leverage the smart meter platform and make switching simple. In a “green button” environment, a customer would be able to share their smart meter data and current tariff type with the Victorian energy comparison website which in return would display retail offers reflecting the customer’s usage data. Such platforms are being developed in other countries to address consumer issues in relation to market complexity and switching. See <http://www.greenbuttondata.org> . <http://green-button.github.io/learn/>

The Vinnies believes this would place Victorian energy consumers at the forefront of the emerging energy market. It would also provide a platform for those that are assisting the disengaged in the energy market, such as the households the Vinnies and other social service agencies provide assistance to. A “green button” platform would provide members and volunteers with access to a simple tool to undertake price comparison and guide households to better energy contracts.

A potential option: A “Basic Service Obligation” (a focus on dispersion)

A “basic service obligation” would place a requirement on retailers to not discount market offers (already based on standing offer rates) by any more than a cap, say 25% (made up number for explanatory purposes only). In considering the percentage range, this should be consistent with ACCC in ruling on fees and charges in other areas where the regulator determines what is a fair and reasonable benefit for a pay on time discount (e.g. 5%), the benefit of direct debit payments (e.g. 2%), electronic billing (e.g. 3%) impact of fair solar policy, mandated 2.5 cent social environmental benefits and monthly billing versus quarterly billing etc.

¹ As the government would be aware, Victorian energy consumers were mandated to invest approximately \$2.3 billion dollars in the roll out of smart meters. These meters were designed to give Victorians and the energy industry a platform that would underpin an energy transformation. This has been reaffirmed by the government with its decision not to introduce meter contestability in Victoria as a way to protect Victorian household investment.

These benefits to the retailers would be calculated and totalled up placing a maximum dispersion band around offers. It would allow retailers to offer a non-discounted market offer at the best rate without any conditionality (such as currently offered by Momentum Energy and others). In other words, it would simply set a band for retail competition to operate within.

This would allow the competitive pressures in the retail market set the frontier price, That is retailers to set efficient prices for their retail offers. At the same time, the detrimental impacts of dispersion are limited to a fair and reasonable amount. There will always be consumers that are disengaged from the market and this arrangement would limit the “penalty” paid for being disengaged in a market that provides an essential service.

Other potential benefits from a “Basic Service Obligation” arrangement include:

- It limits regulatory intervention as the market (retailers) continue to set the price. This, in turn, makes the regulator’s task more straight forward as it will only assess the benefit of the various contract conditions retailers offer.
- As there is a limit to the dispersion for offers discounting of the standing offer the application of the State Government programs 17 % concession not only provide support for eligible households it would also lift their paid price towards the best market price protecting them if disengaged.

In regards to concerns about retailing costs in this scenario theoretically retailing costs would be contained within a price band, as such certain activities such as marking and other advertising activities would act as a drag on the retailer portfolio as they can only allocate costs within a defined price band.

We would like to stress that there are likely to be unintended consequences attached to this arrangement also and a careful examination of these would be required prior to any adoption.

Thank-you again for the opportunity to comment on the Victorian Government’s interim response to the Independent Review of the Electricity and Gas Retail Markets. If you wish to discuss any of the issues raised in more detail, please do not hesitate to contact Gavin Dufty, Manager Policy and Research, St Vincent de Paul Society Victoria, 0439357129, gavind@svdp-vic.org.au