

Consultation Paper

Response to the Bipartisan Independent Review of
the Electricity and Gas Retail Markets in Victoria

March 2018

© The State of Victoria Department of Environment, Land, Water and Planning 2018



This work is licensed under a Creative Commons Attribution 4.0 International licence. You are free to re-use the work under that licence, on the condition that you credit the State of Victoria as author. The licence does not apply to any images, photographs or branding, including the Victorian Coat of Arms, the Victorian Government logo and the

Department of Environment, Land, Water and Planning (DELWP) logo. To view a copy of this licence, visit <http://creativecommons.org/licenses/by/4.0/>

Disclaimer

This publication may be of assistance to you but the State of Victoria and its employees do not guarantee that the publication is without flaw of any kind or is wholly appropriate for your particular purposes and therefore disclaims all liability for any error, loss or other consequence which may arise from you relying on any information in this publication.

Accessibility

If you would like to receive this publication in an alternative format, please telephone the DELWP Customer Service Centre on 136 186, email customer.service@delwp.vic.gov.au or via the National Relay Service on 133 677 www.relayservice.com.au. This document is also available on the internet at www.delwp.vic.gov.au.

Contents

1. Background	2
2. Consultation and guiding principles	4
3. Introduction of Basic Service Offer and abolition of Standing Offers (Recommendations 1 and 2)	4
3.1 Review recommendations	4
3.2 Interim Government response	5
3.3 Discussion - design and scope of a regulated Basic Service Offer	6
3.4 Discussion – Alternatives to a regulated Basic Service Offer	8
3.5 Discussion - Reserve power to regulate prices	8
4. Marketing information and contract periods, practices and variations (Recommendations 3 and 4)	9
4.1 Review recommendations	9
4.2 Interim Government response	9
4.3 Discussion.....	10
5. Other recommendations	10
5.1 Interim Government response	10
5.2 Discussion.....	11
6. ACCC Electricity Supply and Prices Inquiry	12

1. Background

In November 2016, the Andrews Labor Government initiated an independent bipartisan review of Victoria's gas and electricity retail markets. Victoria has had a fully contestable retail energy market since 2002 and full price deregulation since 2009 on the basis that competition, supported by robust customer protections, would lead to more efficient prices, improved customer service and innovation. The Review was commissioned in response to ongoing concerns about nation-wide increasing energy costs and that Victorian consumers were not benefiting from the introduction of competition.

The independent panel, comprising Professor John Thwaites, Mr Terry Mulder and Ms Patricia Faulkner AO, delivered its final report, *Independent Review of the Electricity and Gas Retail Markets in Victoria* (the Review), to the Victorian Government on 13 August 2017. A copy of the report can be found at www.energy.vic.gov.au/about-energy/policy-and-strategy.

The Review found that the competitive energy retail market in Victoria is not delivering outcomes in the best interests of residential and small business consumers.¹ Victorian consumers are experiencing significant increases in average energy retail prices. As the provision of energy is essential for the daily lives of Victorian households and businesses, changes to its affordability can have profound consequences, particularly for vulnerable Victorians.

The Review made 11 broad recommendations. The recommendations cover a range of themes including introducing a form of price regulation aimed at delivering 'no frills', affordable energy through a 'Basic Service Offer' (BSO), improving transparency in energy retailer marketing, strengthening consumer protections, assisting vulnerable customers, enhancing the powers of the Essential Services Commission (ESC) to monitor and collect retailer cost and market related data, and ensuring that consumers can access the best possible tariffs for their circumstances.

The Government has recently released its interim response to the Review recommendations. A copy of this response is available at www.energy.vic.gov.au/about-energy/policy-and-strategy.

The response notes that the Government is already progressing nine of the 29 detailed Review recommendations. These include the ESC implementing the findings of its review into improving outcomes for hardship customers, and the Government supporting the pilot of a not-for-profit brokerage service for concession cardholders.

In addition, the Government will take the following immediate steps on the following key Review recommendations.

- **The Government will undertake further analysis on the application and scope of the Basic Service Offer and abolishing standing offers or appropriate alternatives and their effect on Victoria's energy sector** (Recommendations 1 and 2). This recognises immediate measures adopted by major retailers supplying over 90 per cent of Victoria's standing offer customers as of 1 January 2018 and gives the opportunity for the industry to clearly demonstrate that the market is working in the best interests of consumers. The Government will consult further with stakeholders regarding the design of a Basic Service Offer and any alternatives to a Basic Service Offer prior to its final decision.
- **The Government supports the remaining Review recommendations and will consult further with stakeholders regarding their implementation.**
- **Retailers will be required to make prices comparable by standardising information (including through a comparison rate) and to market prices using a standardised approach.** The Government will request the ESC, Victoria's energy sector regulator, to commence a review of its regulatory codes and implement the Review recommendations aimed at improving energy retailer marketing practices, including the marketing of energy retail offers in a standardised format that incorporates annual energy costs for standardised customer usage profiles. These initiatives should commence from 1 July 2019 (Recommendations 3A to 3H).

¹ 'Residential and small business consumers' are consumers with annual consumption of less than 40 megawatt hours for electricity and 1,000 gigajoules for gas.

CONSULTATION PAPER

- **The Government will commission the ESC to monitor and report on the competitiveness of the energy retail market.** The Government will commission the ESC to monitor and report on the competitiveness and efficiency of the Victorian energy retail market (Recommendation 8A) by 31 December 2019. In giving effect to this recommendation the ESC will also be asked to develop a methodology for a 'reference BSO price' for electricity and gas offers for residential and small business customers.
- **The Government will request the ESC to review its regulatory codes, including the Energy Retail Code, to ensure a focus on customer outcomes** (Recommendation 9A). The review will account for new business models of service provision. This broader review will follow the ESC's work on giving effect to Recommendations 3A to 3H and will be completed by 31 December 2019.

A final response to the Review will be released in mid-2018, drawing on the outcomes of the further consultation and the work of the ESC.

Review Recommendation	Government Position	Government Action
1 & 2 Basic Service Offer and abolish standing offers	Under consideration	The Government will consult with stakeholders regarding the design of a BSO and BSO alternatives and will make a decision later in 2018 In the meantime, Government expects retailers to demonstrate their understanding that electricity and gas are essential services, and to reflect this in their pricing and practices
3 Marketing information on prices to be easily comparable	Support	The Government will require the ESC to complete a review of relevant codes by 1 October 2018 to give effect to Recommendation 3G from 1 July 2019 The Government will require the ESC to complete a review of relevant codes by 30 January 2019 to give effect to Recommendations 3A to 3F and 3H from 1 July 2019
4 Contract periods, practices and variations to be clear and fair	Support	The Government will consult with stakeholders regarding implementation of these recommendations, with a final response to be delivered mid-2018
5 Promoting access to smart meter data to assist customers to manage bills and increase energy efficiency	Support	The Government is already progressing Recommendation 5
6 Protecting low income and vulnerable customers	Support	The Government provides in-principle support to Recommendation 6
7 Brokerage and collective bargaining on behalf of low income and vulnerable customers	Support	The Government is already progressing a pilot of a not-for-profit brokerage service to be rolled-out from mid-2018
8 Monitoring the market	Support	The Government will immediately commission the ESC to monitor and report on the competitiveness and efficiency of the Victorian energy retail market
9 An energy market code based around the consumer	Support	The Government will request the ESC to complete a review of its regulatory codes and guidelines having regard to developing a principles-based consumer-focused framework that accounts for new business models of service provision by 31 December 2019
10 Full coverage of new energy services	Support	The Government has already committed to extending the powers of EWOV
11 Energy Market Structure	Support	The Government will continue to work through the COAG Energy Council to ensure that national markets continue to deliver in the long-term interests of consumers

2. Consultation and guiding principles

The purpose of this consultation paper is to seek stakeholder feedback on the specific Review recommendations relating to:

- the introduction of a BSO (Recommendation 1) and abolition of standing offers (Recommendation 2) – see section 3; and
- market contract period, practices and variations (Recommendation 4) – see section 4.

Feedback on other Review recommendations as discussed in section 5 is also welcomed.

In responding to the issues raised in this paper, stakeholders are asked to consider the guiding principles established by the Review in formulating its recommendations. These are that:

- energy is an essential service that underpins our health and wellbeing and our social and economic participation;
- competition is a means to deliver benefits to consumers but not an end in itself;
- the retail energy market should deliver benefits to all consumers, not just those who are capable, interested and able to navigate its complexity;
- an effective market should reduce the costs consumers pay;
- consumers should be able to control their energy costs through managing their energy use;
- passive customers should not be blamed for not navigating the retail energy market;
- vulnerable and at-risk consumers must have access to affordable energy and should not cross-subsidise other consumers; and
- transparency is fundamental to an effective retail energy market.

Submissions to this consultation paper are due by 2 pm on 30 Friday March 2018. Written responses can be sent electronically to EnergyMarket.Review@delwp.vic.gov.au.

DELWP also proposes to hold further stakeholder forums to discuss the Review recommendations and this consultation paper, prior to the closing date for submissions. Further details regarding these forums will be emailed to stakeholders shortly.

We will treat submissions received in response to this consultation paper as public documents and submissions will be placed on the DELWP website. If you believe that there are aspects of your submission that are confidential or commercially sensitive, you should mark those sections 'IN CONFIDENCE'. In such instances, formal requests for confidentiality will be honoured; however, submissions may be made available publicly under the *Freedom of Information Act 1982 (Vic)*. Any requests for public access to a submission will be determined in accordance with the Act.

DELWP is committed to protecting personal information provided by you in accordance with the principles of the Victorian privacy laws. For more information, read DELWP's Information Privacy Policy available at: http://www2.delwp.vic.gov.au/_data/assets/pdf_file/0019/5464/DELWP-Privacy-Policy.pdf

3. Introduction of Basic Service Offer and abolition of Standing Offers (Recommendations 1 and 2)

3.1 Review recommendations

Based on the information and analysis obtained for the Review, it considered that there is a fundamental market failure in Victoria's energy retail sector. It concluded that various constraints make it unlikely the deregulated energy retail market will deliver the intended long-term benefits to consumers because:

- Energy is an essential service so consumers cannot constrain the market by exiting.
- The current market encourages retailers to add costs, including marketing and customer acquisition and retention costs, to their business which are of little or no benefit to consumers.

CONSULTATION PAPER

- The three Tier 1 retailers have significant market advantages over their competitors, yet charge their customers towards the top of the price range.
- Energy is difficult for customers to value. As a result, many customers remain with the same retailer, even when lower priced offers are available.
- Innovation in the energy retail sector is generally limited to marketing, incentives and pricing.

Hence the Review concluded that intervention is warranted to ensure the market delivers efficient outcomes, including better price outcomes, for consumers. Significantly, the Review recommended that government introduce a form of price regulation, requiring energy retailers to make a 'Basic Service Offer', available to their customers.

The BSO would be a 'no frills' offer, intended to provide a clear price signal to the market about the reasonable price of energy for a 'no frills' service that would allow consumers to compare the BSO with the value of other offers in the market. The BSO would also provide an option for customers who 'just want affordable energy without the fuss'.

Key features of the BSO, as proposed by the Review, are:

- All retailers would be required to provide a BSO.
- The BSO price would be not greater than a regulated price.
- The regulated price profile would be determined by the ESC. It would:
 - be based on annual usage of energy;
 - be based on the efficient costs to run a retail business;
 - include an allowance for a maximum retail profit margin; and
 - not include customer acquisition and retention costs or headroom².
- A retailer would determine the tariff type used in its BSO, provided its price stays below the regulated price profile for all usage levels.
- The BSO would be:
 - unconditional; and
 - include an obligation to supply.

Retailers would continue to be able to make other (non-price regulated) offers to energy consumers. It is not intended that the BSO set a floor price (the cheapest possible price available to all). An efficient retailer may be able to find cost savings that enable it to offer a product to the market that is cheaper than the BSO. Alternatively, a retailer may offer a product to the market that is more expensive than the BSO but which provides innovation or services valued by the customer.

The Review also recommended that 'standing offers' be revoked. The Review concluded standing offers have become increasingly irrelevant since retail prices were deregulated in 2009. Furthermore, standing offers may have contributed to some of the existing issues in the market as they are used as a basis for discounting, which creates an incentive to increase the price of standing offers. The Review considered the BSO would reduce the need to maintain standing offers and that retaining standing offers and introducing a BSO may cause confusion in the market.

The Review did acknowledge, however, that standing offers play an important role as the current 'default' energy supply contract applying, for example, where a customer moves into new premises and does not choose an energy retailer or in the event of a retailer default. The Review recommended that, in abolishing the standing offer, consideration should be given to establishing a more appropriate default offer.

3.2 Interim Government response

In its interim response to the Review, the Government announced that it would undertake further analysis regarding the scope and application of the BSO and its effect on Victoria's energy sector.

² 'Headroom' is defined by in the Review's final report as "an allowance that is often added to regulated retail energy prices so that regulated retail prices do not act as a barrier to new entry for new retailers".

CONSULTATION PAPER

As part of the implementation of Recommendation 8A (that the ESC monitor and report on the competitiveness and efficiency of the Victorian energy retail market), the Government will commission the ESC to develop, in consultation with stakeholders, a methodology for a 'reference BSO price' for electricity and gas offers for residential and small business customers. As intended by the Review, the pricing methodology for a 'no frills' energy product to customers would include an allowance for a maximum retail profit margin but would not include customer acquisition and retention costs or 'headroom'. The pricing methodology would inform the ESC's consideration of the efficiency of the market and the Government's consideration of the recommendation for a BSO.

Through its consultation process, DELWP is seeking stakeholder comments regarding:

- how to best implement a regulated BSO or its alternatives;
- whether there are alternative mechanisms to address the concerns of the Review, including to ensure customers have access to a basic retail energy product at a reasonable price and clear information about the reasonable price of energy; and
- any amendments to energy regulatory frameworks which should be established to support the introduction of a regulated BSO or its alternatives in an expedited manner if required.

3.3 Discussion - design and scope of a regulated Basic Service Offer

Responses received by DELWP to the Review's final report have focused on Recommendations 1 and 2. Those in support of a regulated BSO say that it will deliver more affordable energy to Victorian households, particularly to those unable to navigate the market, and will provide a benchmark price that allows customers to assess the value of other market offers.

In addition, it has been suggested that a regulated BSO will:

- avoid the bill shock that occurs when customers do not meet the conditions attached to a retailer's conditional discounts;
- avoid 'tricky practices' which undermine customer trust in energy retailers and the retail energy market more broadly; and
- better drive competition through greater efficiency and innovation by energy retailers.

Concerns around the possible introduction of a regulated BSO have focused on:

- the effect of a regulated BSO on the availability of innovative products and services in Victoria's energy retail sector;
- the effect of a regulated BSO on the retail energy sector and wholesale markets; and
- any unintended effects of the regulated BSO on customers and their engagement in the energy market.

If a regulated BSO were to be implemented, there are considerations around how to scope and design the BSO and the regulated price. This analysis should inform the likely effect of a regulated BSO on Victoria's energy sector and energy consumers.

As noted by the Review, it was intended that the regulated BSO would be an affordable energy supply offer available to consumers who do not wish to further engage with the energy market and who seek 'no frills' energy supply. Customers who do wish to engage in the market should be able to compare the regulated BSO with the value of other offers in the market, using it as a 'benchmark' to assess other products offered by energy retailers. The price of these other 'market' offers would remain unregulated. It was intended that retailers would continue to be able to compete on price, based on efficiency and innovation, and would continue to provide additional services for which customers are willing to pay.

'Scope' of a regulated BSO

Expanding on the recommendations of the Review for the purposes of this consultation, DELWP proposes the following design parameters or 'scope' for the regulated BSO if it were to be implemented:

CONSULTATION PAPER

- Similar to standing offers, all licensed retailers would be required to have a BSO price that is available to residential customers, and a BSO price that is available to small business customers,³ for each distribution zone. There would be a BSO for gas and another for electricity services.
- Like standing offers, the BSO price made available by a retailer would be required to be published on the retailer's website, on customer bills and be made available on Victorian Energy Compare (VEC), the Government's price comparator tool.
- The service supplied under a BSO would be the supply of electricity or gas only (this means the BSO would not incorporate green or other products).
- The terms and conditions of the BSO offer would be determined by the ESC and be consistent across all retailers. These terms and conditions would be based on the existing standard terms and conditions for retailers' standing offers.
- A BSO contract would be 'deemed' to apply in the same circumstances as currently apply for standing offer contracts, particularly for former franchise customers, where a customer moves into premises and commences to take supply without entering into another contract with an energy retailer, as well as on the occurrence of a 'retailer of last resort event'. In other words, in abolishing the standing offer, the appropriate 'default offer' referenced by the Review would be the BSO.

'Setting' a regulated price for the BSO

Adopting the BSO scope above, setting the regulated BSO would involve:

- The ESC would set the maximum regulated price profile (maximum annual customer cost) according to customers' annual consumption levels.
- The regulated price profile would be set separately for residential and small business customers for each distribution zone. Different price profiles would apply to gas and electricity.
- The same regulated price profile would apply to all retailers' BSOs.
- In determining the maximum regulated price profile, the ESC would be required to consider specific principles, including:
 - the efficient costs to run a retail business;
 - an allowance for regulatory compliance costs;
 - an allowance for an appropriate retail profit margin; and
 - the exclusion of customer acquisition and retention costs and headroom.
- The maximum regulated price would be set annually. The ESC may, however, vary the price within that period in 'special circumstances' such as a Global Financial Crisis-type event or a significant change to the market.
- The ESC would base the maximum regulated price profile on a 'flat tariff'.
- However, retailers would be free to structure their BSO tariffs as they see fit, provided the annual cost to the customer remains at or below the regulated price profile set by the ESC for any given consumption level.

Questions for consideration

Given the above discussion, stakeholders are asked to comment on the following:

1. Are there any specific considerations the Government should be aware of if standing offer contracts were to be replaced with a regulated BSO?
2. Would the services and service standards associated with a regulated BSO be the same as those existing under the standing offer terms and conditions?

³ 'Residential and small business consumers' are consumers with annual consumption of less than 40 megawatt hours for electricity and 1,000 gigajoules for gas.

CONSULTATION PAPER

3. Would a BSO based on a 'flat tariff' apply to general usage only or should it incorporate controlled load and/or solar tariffs (as is the case for standing offers)? What are the benefits and challenges associated with different approaches?
4. What other principles should the ESC consider in setting the BSO maximum regulated price profile? Should these principles differ between a BSO for electricity and a BSO for gas, residential and small business customers?
5. Are there alternatives for setting the BSO maximum regulated price profile? For example, should the ESC 'simply' set a BSO tariff or a specific tariff structure that must be applied by retailers?
6. What are the likely effects of a regulated BSO, as described above, on the energy markets (electricity and gas wholesale, distribution and retail markets, and residential and small business customers)?
7. Are there any alternative design options for price regulation (to those outlined above) that would achieve the Review's intended outcomes?
8. How should the potential benefits and effects of a regulated BSO be assessed following implementation?
9. How should a regulated BSO be incorporated into Victoria's energy sector regulatory framework?

3.4 Discussion – Alternatives to a regulated Basic Service Offer

DELWP also invites stakeholders to make submissions on alternatives to a regulated BSO, that could be put in place either by government or by industry.

In making these submissions, stakeholders are asked to consider the findings of the Review, as described in section 3.1 above, and that any alternative should aim to achieve similar outcomes to a regulated BSO i.e.:

- provision of a clear price signal to the market about the reasonable price of energy that would allow consumers to compare the value of other offers in the market; and
- allowing customers to access an affordable, no fuss, energy supply alternative.

Stakeholders are also asked to:

- describe any alternative proposal in detail;
- explain how the alternative would affect other recommendations of the Review; and
- comment on the likely effects of the alternative on energy markets and customers.

Questions for consideration

10. Are there alternatives to introducing a regulated BSO and revoking standing offers?
 - a. How would these alternatives achieve the objective and principles set by the Review?
 - b. How would these alternatives affect other Review recommendations?
 - c. What would be the likely effect of these alternatives on Victoria's energy sector and energy consumers?
 - d. Would these alternative approaches cause any distortions or inequities between different groups of customers?

3.5 Discussion - Reserve power to regulate prices

Currently, under the Electricity and Gas Industry Acts, the Governor in Council⁴ may regulate or set standing offer tariffs but only if, under a COAG Energy Council directed retail competition review, the Australian Energy Market Commission (AEMC) concludes that competition in the market for electricity is not effective. Under these circumstances, the Government may recommend that price controls on prices for retail

⁴ More specifically, it is the Governor in Council that may, by Order published in the Government Gazette, regulate tariffs. The 'reserve pricing power' set out in the section 13 of the *Electricity Industry Act 2000* and section 21 of the *Gas Industry Act 2001* is quite broad and may be specifically tailored to only include some of the customers, retailers, location of sale of electricity or gas, and may be applicable for only a certain period of time.

CONSULTATION PAPER

electricity be reintroduced. This ‘reserve pricing power’ was established by government in conjunction with the introduction of retail competition in Victoria, but has never been used. While the AEMC undertakes regular reviews of the effectiveness of competition in Victoria and other jurisdictions, the Review found that while the AEMC may have concluded that Victoria has effective competition, it is not necessarily delivering benefits for all consumers.

In the absence of a BSO, this ‘trigger’ for the re-regulation of standing offer prices could be amended to be based on market conditions monitored by the ESC.

For example, adopting the regime that currently applies under the *Port Management Act 1995*, the ESC could be granted power to:

- report to government on a regular basis regarding whether there is any pricing activity in that market that demonstrates significant and sustained divergence between the standing offer prices in the retail energy market and a benchmark set by the ESC; and
- recommend to government whether standing offer prices should be re-regulated, and if so on what basis.

This ‘reserve pricing power’ could be tailored to allow regulated prices to apply to:

- all retailer standing offer prices;
- some customer groups only;
- some retailers standing offer prices only (for example, if an individual retailer’s standing offer prices are above the BSO price established by the ESC in a significant and sustained manner and this cannot be reasonably explained); or
- a specific retailer product, e.g. a ‘Basic Service Offer’.

Questions for consideration

11. Are there any specific considerations of which the Government should be aware of if the reserve power to regulate prices was strengthened? What should be the trigger for regulation and when or under what circumstances should the regulated price requirement end?

4. Marketing information and contract periods, practices and variations (Recommendations 3 and 4)

4.1 Review recommendations

The Review found that some retailer practices should be improved, including the marketing of offers based on discounts, the lack of understandable and comparable information on marketing materials and energy bills, and the current ability of retailers to change energy prices with little or no notice.

Recommendation 3 proposes changes to the information provided by energy companies to customers, including marketing material and bills. These recommendations respond to the Review findings that energy retailer marketing practices, including the use of discounts, make it difficult for energy consumers to make informed decisions.

Importantly, the Review recommends that retailers be required to market their offers in dollar terms, rather than as percentages or unanchored discounts, that marketing of prices should appear in a standardised format and that a ‘comparison rate’ that enables display of the actual annual cost for 3 or 4 standardised customer usage profiles be developed by the ESC.

Recommendation 4 responds to concerns that customers on ‘market’ offers are paying higher prices for energy than they should because of opaque and varying processes at the end of benefits period, and due to contract and behavioural barriers to consumer engagement with the market. The recommendations include that retailers commit to fix any prices they are offering for a market contract for a minimum of 12 months.

4.2 Interim Government response

The Government’s interim response to the Review acknowledged the work already underway to progress Recommendations 3I (*that the Government’s consumer engagement program continues to focus on*

CONSULTATION PAPER

improving awareness of the competitive energy market) and 3J (*that Government continue to promote the use of Victorian Energy Compare and smart meter data*).

The Government will also request the ESC to review the Energy Retail Code so as to give effect to Recommendations 3A to 3H (*marketing information on prices to be easily comparable*). The ESC will be required to consult with Government and stakeholders and complete its review including relevant code changes for Recommendation 3G by 1 October 2018 and to complete and publish the review, including relevant Code changes for Recommendations 3A to 3F and 3H by 30 January 2019. Unless otherwise determined by Government, changes made by the ESC to the Code relating to marketing and billing information (Recommendations 3A to 3H including 3G) will be effective from 1 July 2019.

As foreshadowed in the interim response, through this consultation paper DELWP is seeking submissions from stakeholders regarding the implementation of Recommendations 4A to 4E.

4.3 Discussion

Recommendations 4A to 4E focus on market contract periods, practices and variations as follows:

Recommendation 4A: *Require retailers to commit to fix any prices they are offering for a minimum of 12 months. During this period, the market contract prices cannot change. Retailers may request an exemption from the ESC to address unforeseen changes in the network costs.*

Recommendation 4B: *Require retailers to clearly disclose to customers the length of time any offered prices will be available without change.*

Recommendation 4C: *Require retailers to roll customers onto the nearest matching, generally available offer at the end of a contract or benefit period, unless the customer opts for another offer.*

Recommendation 4D: *Any conditional discount or other benefit offered for paying on-time or on-line billing should be evergreen. Customers should not lose the discount or other benefit when the contract ends.*

Recommendation 4E: *Costs incurred by customers for failing to meet offer conditions are to be capped and not be higher than the reasonable cost to the retailer.*

Responses to the Review's final report have generally been supportive of these recommendations but DELWP acknowledges that issues may need to be addressed in their implementation.

Questions for consideration

12. What is the most appropriate approach to implementing Recommendations 4A to 4E?
13. How can these recommendations be implemented in a timely manner?

5. Other recommendations

5.1 Interim Government response

The Government's interim response to the Review noted that nine of the 29 detailed recommendations are already being progressed in full or in part. These recommendations are:

Recommendation 3I: *The Victorian Government's consumer engagement program to continue to focus on improving consumer awareness of the competitive market.*

Recommendation 3J: *The Victorian Government's program to continue and promote the Victorian Energy Compare website and use of smart meter data.*

Recommendation 5A: *Promoting access to smart meter data to assist customers to manage bills and increase energy efficiency.*

Recommendation 6A: *The Victorian Government to provide assistance to vulnerable and disadvantaged consumers to help raise their awareness and understanding of the energy market and with managing their bills.*

Recommendation 6B: *The Victorian Government to support programs that help low income and vulnerable households reduce their energy consumption.*

CONSULTATION PAPER

Recommendation 6D: *The Victorian Government review the administration of the Utility Relief Grants Scheme to ensure it is serving customers who are most in need,*

Recommendation 6E: *The ESC to implement the outcomes of its review into improving outcomes for hardship customers.*

Recommendation 7A: *The Victorian Government support the pilot of a not-for-profit brokerage service for concession cardholders.*

Recommendation 10A: *Expand the powers of the Energy Water Ombudsman Victoria (EWOV) to cover emerging energy businesses, products and services.*

5.2 Discussion

While acknowledging the work already underway, DELWP seeks submissions from stakeholders on what more government can do to support these recommendations, particularly:

- How can government better support the use of smart meter data?
- How can government better support concession cardholders and low income and vulnerable householders?

Energy Data Hub

The Government has commenced work on Recommendation 5A, allocating \$1.9 million to undertake a concept study to define and develop the proposed Energy Data Hub solution, which would create a centralised, digital platform to access consumer energy data.

The vision for the Energy Data Hub is to facilitate a marketplace of products and services that utilise real-time and historical energy data. The Energy Data Hub would provide two levels of data integration ability:

- anonymous, aggregated data, which is intended for greater network visibility and analysis; and
- personal energy data for consumers to access and share with their approved and authorised third parties via service applications.

The concept study will define the Energy Data Hub's operational model, address barriers (such as privacy, security and regulatory implications) and develop a clear path to market for implementation.

Protecting low income and vulnerable customers (Recommendations 6 and 7)

The Government gives in-principle support to the recommendations to investigate the energy support scheme for concession cardholders (Recommendation 6C) and review the administration of the Utility Relief Grants Scheme (Recommendation 6D) to assess if these schemes can be improved for concession cardholders. The Government has commenced a review of the Utility Relief Grants Scheme and aims to complete this review by mid-2018. The implementation of other recommendations will inform consideration of any future review of energy support schemes for concession holders.

The Government will shortly commission an Energy Brokerage Service pilot (Recommendation 7A) to be run by an independent not-for-profit organisation over the next two years. This service aims to reach 10,000 vulnerable customers and help them find energy offers that best suit their needs.

The Review's proposal for a group purchasing or single buyer scheme aimed at negotiating better deals for concession cardholders is also under consideration (Recommendation 7B), to be informed by the outcomes of the Energy Brokerage Service pilot.

There are various ways in which a single buyer scheme might be designed. Some overseas jurisdictions, such as Italy, use a single buyer to procure electricity for captive customers whereas in other jurisdictions, a single buyer entity is responsible for sourcing electricity to all customers.

CONSULTATION PAPER

Group purchasing schemes can also be designed in a number of ways. Private aggregators could be selected to negotiate discounted offers for groups of customers through collective bargaining. Alternatively, a single buyer or group-purchasing scheme could use a tender process to auction the right to supply energy to vulnerable customers as default supplier. A similar approach was used for the Seniors Card program in Victoria and has been proposed by the South Australian Government for low-income households that currently receive energy concessions.

Questions for consideration

14. What are the barriers to consumers and authorised third parties' ability to easily access smart meter data?
15. What further assistance and support programs should government consider in responding to the recommendations?
16. Are there specific recommendations or initiatives that should be prioritised due to the benefits they could elicit for low-income and vulnerable consumers?
17. Are there specific groups of consumers that should be considered in addition to low-income, vulnerable and concession card consumers?
18. Are there specific single buyer or group purchasing models that would provide beneficial outcomes for vulnerable customers or concession cardholders?
19. Are there any specific issues or concerns with particular group purchasing or single buyer models for vulnerable customers or concession cardholders?

6. ACCC Electricity Supply and Prices Inquiry

The Australian Competition and Consumer Commission (ACCC) is currently undertaking its *Electricity Supply and Prices Inquiry* which is examining, amongst other things, the key cost components of electricity retail pricing and how they have changed over time, the extent and impact of vertical integration, any impediments to consumer choice including transaction costs, a lack of transparent information, or other factors, and the profitability of electricity retailers through time and the extent to which profits are, or are expected to be, commensurate with risk. The ACCC is exercising its statutory powers under the *Competition and Consumer Act 2010* (Cth) to obtain detailed information from retailers operating in National Electricity Market (NEM) jurisdictions.

In October 2017, the ACCC released a preliminary report, which finds that network costs have been a primary driver for electricity price increases in NEM jurisdictions. It found that the overall retail component in Victoria of a residential customer bill in 2015-16 was 28 percent (compared with the finding of 30 per cent by the Review based on a sample of bills collected between December 2016 and April 2017) – which was the highest of any NEM jurisdiction. The ACCC also found that Victorian residential customer bills have on average similar retail margins (in dollar terms) to other states.

The ACCC has made key observations confirming certain findings of the Review including:

- while Victoria has had retail competition for the longest period and the lowest level of market concentration, the retail costs account for almost 20 per cent of the average bill, suggesting competition has not had a significant effect in curtailing retailer costs in the state;
- customer acquisition costs are higher in Victoria than in other states;
- practices of retailer discounting are particularly problematic in that there is no consistent reference point for customers and the use of inconsistent terminology makes it difficult for customers to understand offers in the market; and
- the burden of higher electricity prices disproportionately effects those segments of society least able to afford it.

The ACCC preliminary report also highlighted that vulnerable consumers living in some types of housing face disadvantages in electricity bills including the inability (due to cost and practicality) to invest in technology such as solar PV and battery storage which would ease cost pressures and that certain vulnerable consumer segments may be less likely to engage with the market and take advantage of market offers.

CONSULTATION PAPER

The ACCC is considering, amongst other things, whether retailers should be required to offer a lower priced tariff with no conditional discounts to vulnerable consumers, options to improve vulnerable consumers' access to appropriate products and services, and how best to encourage the introduction of switching services taking advantage of increased access to data.

The ACCC is expected to provide its final report by 30 June 2018.

Questions for consideration

20. Are there any retail market regulation issues arising from the ACCC preliminary report that the Victorian Government should consider as part of its response?

This page is intentionally blank

