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The Panel

Victorian Government Review

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To The Panel,

### **Submission to the Panel for the Review of Electricity and Gas Retail Markets in Victoria**

#### **Background**

Powershop Australia Pty Ltd (**Powershop**) provides the following submission to the Panel conducting the Review of Electricity and Gas Retail Markets in Victoria on behalf of the Victorian Government.

Powershop operates an electricity retailing business with over 90,000 customers in the National Electricity Market, in Victoria, New South Wales and Queensland. Powershop is based in Melbourne and its ultimate parent entity Meridian Energy Limited, is an exclusively renewable generator, and has one of the Australasia's largest renewable-only generation portfolios. In Australia, the Meridian Energy Australia Group owns the Mt Mercer Wind Farm (a 131MW generation facility near Ballarat, Victoria) and Mt Millar Wind Farm (a 70MW generation facility in South Australia), and assists with the operation of the Hepburn Wind Farm (in Daylesford, Victoria).

It is the view of Powershop that retail competition has been somewhat effective in Victoria, with many good examples of innovation, customer service improvements and lower prices as a result of competition. Powershop has delivered a number of innovations to the market, including:

- the first phone app giving customers information on electricity usage and cost;
- the first retailer to deliver carbon neutral products to the market;
- the first at scale demonstration of peer to peer solar trading.

However, at large, unfortunately many customers have not realised the benefits being delivered as a result of retail competition. The reasons are further explored below.

#### **Submission**

**9. Why do prices remain so dispersed in Victorian electricity and gas markets? Does price dispersion indicate that some consumers are not obtaining the price benefits of competition? Why or why not?**

Competitive barriers exist in the retail market due to the prevalence of "defined benefit period" offers from most, but importantly not all, retailers. The use of defined benefit period offers enable retailers to rely on customer apathy or confusion in switching retailers at the end of the defined benefit period when at the 'loyalty cliff'. The business model of these retailers relies on charging a loyalty tax to customers who fail to switch and utilising the proceeds of this loyalty tax to subsidise their apparently competitive market offers. These offers are in fact less valuable to customers over the average period that the customer remains with these retailers. This



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confusion makes it difficult for competitors, who do not base their business models on a defined benefit period, to appear competitive even where their offers are substantially more advantageous over the average tenure of a customer. Analysis conducted by Powershop in 2016, indicates that these practises lead to loyal consumers in the mainland NEM states, paying an annual loyalty tax of around \$1billion, compared to customers benefiting from true competition.

### 16. Are there any features of Victoria's retail electricity and gas markets that restrain competition from delivering benefits to consumers?

Dual fuel retailers with a dominant gas position can sell electricity cheaply and make additional retail margin on gas. These retailers manipulate customer confusion over their rights to select single fuels – and at times force customers on to uncompetitive electricity contracts to enable customers to access to gas. In addition, these retailers rely on the inability of customers to compare dual fuel offers against individual product offers from multiple retailers. This issue is aggravated by aggregators, brokers and comparator services that make additional commission from bundling electricity and gas products, leading to an increase in dual fuel sales rather than single fuel. Historically, barriers to entry in establishing a gas business meant that most new retailers commenced with electricity only offerings, and the behaviour by the larger retailers in shifting margin from electricity to gas is an additional barrier to fair competition in the retail market.

### 13. What are the key drivers of active consumer participation in retail energy markets? What barriers prevent consumers, or certain groups of consumers (including vulnerable consumers), from engaging in the market and/or selecting a product that best meets their needs?

Many customers do not realise they are paying the loyalty tax referred to above in our response to Question 9. This is because different retailers describe the defined benefit period differently, and more importantly the mechanism to communicate to customers that their defined benefit period has come to an end, and what this means for the customer is not uniform. Further, in many cases, in the view of Powershop, the communications provided by many retailers to customers in this regard are often unclear and confusing.

In respect of embedded network customers, the regulatory and technical complexity involved in dealing with these customers has reduced competition for this large, growing customer segment.

### 7. Which costs have been introduced or significantly increased as a result of the introduction of retail competition? How much cost has retail competition added to the electricity and gas supply chains?

All of the confusion in the market place noted above makes it more difficult for new, innovative retailers to acquire customers, thereby increasing the cost of acquisition and reducing funds available to be passed through as lower prices for customers.



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21. What potential policy options and measures exist to address any issues with the operation of retail electricity and gas markets? Please explain how these policy options and measures would improve outcomes for consumers and identify any potential risks arising from these options and measures.

Powershop recommends that the Panel look at the definition of defined benefit periods and the means by which these, and in particular the impacts on and actions required by customers at the end of these periods, are communicated to customers. There are a number of ways this issue could be improved, and the loyalty tax reduced, and Powershop would be happy to discuss these with the Panel.

Powershop recommends that the Panel look at the Victorian Energy Compare website (<https://compare.switchon.vic.gov.au/>) and investigate the ways in which the value of offers that do not charge the loyalty tax could be more accurately quantified. Powershop would be happy to discuss this further with the Panel.

Yours sincerely,

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Chief Executive Officer  
Powershop Australia Pty Ltd & Meridian Energy Australia