



# Question and Answers

## Final Government Response – Retail Market Review

### What is the Government's final response to the Retail Market Review?

The Government's final response supports all of the Review recommendations.

Recommendations 3 to 11 will be implemented in full (noting that many of these are well under way). Government's response to recommendations 1 and 2 is to require electricity retailers to offer a fair price for electricity – to be called the Victorian Default Offer (VDO) – to replace costly standing offers.

The reform package aims to make energy markets simpler and fairer, improving access to affordable energy for all Victorians.

### How does the final response differ from the interim response?

The Government released an interim response to the Review in March 2018. The interim response gave strong support to the recommendations, while noting some needed further consideration and consultation.

The Government has now conducted extensive further consultation and has announced its final response. The final response announces that the Government supports all recommendations – including recommendations 1 and 2, by requiring all Victorian electricity retailers to offer the VDO and replace standing offers.

### What is the Victorian Default Offer (VDO)?

The VDO is a fair price for energy that all Victorian electricity retailers will be required to offer to all residential and small business customers. The VDO will replace costly standing offers.

### How does the VDO differ from the 'Basic Service Offer' recommended by the Review?

A Basic Service Offer, as proposed by the Review, was proposed as a basic, 'no frills' unconditional offer, available if requested by a customer. Unlike the Basic Service Offer recommended by the Review, the VDO will include a modest allowance for customer acquisition and retention costs (CARC).

Following the release of the Review's final report, the ACCC conducted a retail electricity pricing inquiry. There was a high degree of alignment between the recommendations of the ACCC relating to retail electricity markets, and those of the Review. In particular, both reviews came to the same conclusion that the promised benefits from competition have not yet been realised, and that consumers are paying more for the same service. Importantly, both reviews recommended abolishing standing offers and replacing them with a price set by an independent regulator.

Following the release of the ACCC's report, the Victorian Government re-engaged the independent Review Panel to assess the differences between the ACCC's proposed approach to price regulation with that recommended by the Review. The Panel found that the only substantive difference between the Basic Service Offer and the regulated offer proposed by the ACCC was whether a regulated retail energy price should include an allowance for CARC.

The Panel conducted an assessment and determined that whether or not such an allowance is recovered would not make a large difference to the regulated price. Given this, the Panel's view was that the inclusion of a reasonable allowance for CARC is an acceptable compromise that will still deliver meaningful benefits for electricity consumers in Victoria.

# Final Government Response – Retail Market Review

## Why is the VDO being introduced and how will it benefit consumers?

The introduction of a default offer was recommended by both the Victorian Review and the ACCC review. Both reviews found that deregulated electricity markets have not delivered the promised benefits to consumers and that strong intervention is required.

The objectives of the VDO are to:

- provide a simple, trusted and reasonably priced electricity option for consumers unable or unwilling to engage in the retail electricity market; and
- provide a clear price signal to the market for consumers engaging in the market to transparently evaluate the value of other retail market offers.

## When will the VDO be in place?

The Government will legislate for the VDO to be implemented from 1 July 2019.

## How does the VDO interact with the Commonwealth Government's recent announcements on electricity price regulation?

Victoria's position is that energy pricing matters should be left to the States. This is consistent with the inter-governmental agreement entered into between all States, Territories and the Commonwealth providing that retail energy pricing is a matter for States and Territories.

## What is the government's response to recommendation 4 – clearer contracting practices?

The final government response supports this recommendation, and the Government will direct the Essential Services Commission to review the Energy Retail Code to give effect to these recommendations.

## How has the Government progressed the remaining Review recommendations (which were supported in the interim response)?

The Government supports and has progressed the other recommendations of the review, including by:

- raising community awareness of the Victorian Energy Compare website through its \$50 Power Saving Bonus program, which encourages Victorian households to seek out a better electricity deal on the independent government website;
- supporting vulnerable families by increasing the cap on payments under the Utility Relief Grant Scheme from \$500 to \$650 and by commissioning an Energy Brokerage Service pilot program to help these families find more suitable energy offers; and
- directing the Essential Services Commission to:
  - transform energy retailer marketing practices with regulatory changes to put consumers in charge;
  - become a stronger market watchdog which will alert government when the market is not working in consumers' best interest; and
  - account for new business models of service provision.

## What did the Victorian Review find?

In November 2016, the Victorian Government announced an independent bipartisan review of Victoria's electricity and gas retail markets, to examine the operation of the Victorian electricity and gas retail markets and provide options to improve outcomes for consumers. The Review Panel, comprising Professor John Thwaites, Terry Mulder and Patricia Faulkner AO, provided its report in August 2017.

The Review found that, despite more than 15 years of competition, Victoria's electricity and gas retail markets have not delivered the promised benefits to consumers, that Victorian householders are paying more than they should



# Final Government Response – Retail Market Review

for electricity, and that the retail charge component – the part of a customer's electricity bill that covers the cost of billing and marketing – is a major factor in increasing electricity costs. The Review concluded that strong intervention is required to ensure better outcomes for consumers. In total, the Panel made 11 broad recommendations designed to place consumers back on a level playing field.

## What did the ACCC review find?

On 27 March 2017 the Commonwealth Treasurer directed the ACCC to hold an inquiry into the supply of retail electricity and the competitiveness of retail electricity prices. The ACCC provided its final report in July 2018.

The ACCC made similar findings that the deregulated energy market has to date failed to deliver the promised benefits to consumers and that strong intervention is required to remedy these failures. The ACCC made a suite of recommendations, including (similarly to the Victorian Review) to abolish standing offers and implement a new 'Default Offer'.