

Victorian Government Final Response to the Independent Review of the Electricity & Gas Retail Markets in Victoria



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Foreword

The Victorian Government's final response to the bipartisan *Independent Review of the Electricity & Gas Retail Markets in Victoria* will make Victoria's retail energy markets fair. We will protect consumers and make energy more affordable for Victorian families and small businesses.

Energy is an essential service. It is central to our wellbeing, and allows us to participate in social and economic life. Access to reliable, affordable energy is vital for all Victorians.

Victoria's electricity and gas retail markets must deliver lower energy bills. As Victoria makes

the transition to a clean and modern energy future, energy markets must put consumers first.

The Victorian Government thanks the panel, Professor John Thwaites, Ms Patricia Faulkner AO and Mr Terry Mulder, for their thorough and considered work.



The Hon. Daniel Andrews MP
Premier of Victoria



The Hon. Lily D'Ambrosio MP
Minister for Energy, Environment
and Climate Change

Introduction

In November 2016, the Victorian Government launched the bipartisan *Independent Review of the Electricity & Gas Retail Markets in Victoria* (the Review) because of concerns about rising energy bills.

Professor John Thwaites, Ms Patricia Faulkner AO and Mr Terry Mulder were appointed to conduct the Review.

The panel undertook extensive consultation, delivering its final report in August 2017. It found that Victorians are paying more than they should for energy, with retail charges a major factor in increasing energy bills.

The Review concluded strong intervention is required to ensure better outcomes for consumers. It made 11 main recommendations designed to make Victoria's retail energy markets fair.

On 11 March 2018, the Government released its Interim Response giving strong support to the recommendations, while noting that some needed further consideration and consultation.

The Government has now conducted extensive further consultation and is pleased to announce its final response.

The Government has heard loud and clear that the deregulated retail energy market is not working effectively. It is supporting all 11 of the Review's recommendations and will abolish costly standing offers and require energy retailers to offer a fair price for energy – called the Victorian Default Offer (VDO).

These reforms will make energy markets simpler and fairer, improving access to affordable energy for all Victorians.

Victorian Government Final Response to the

INDEPENDENT REVIEW OF THE ELECTRICITY & GAS RETAIL MARKETS IN VICTORIA

DELIVERING LOWER PRICES

Recommendation 1A

Require all retailers to provide a Basic Service Offer that is not greater than a regulated price, based on annual usage, to be determined by the Essential Services Commission.

- I. In implementing the regulated price, the review panel recommended:
 - The regulated price to be based on the efficient cost to run a retail business
 - The regulated price includes an allowance for a maximum retail profit margin
 - The regulated price must not include customer acquisition and retention costs or headroom.
- II. In implementing the Basic Service Offer, the review panel recommended:
 - The retailer to determine the tariff type used in the Basic Service Offer, provided it stays below the regulated price for all usage levels
 - The Basic Service Offer is unconditional
 - The Basic Service Offer includes an obligation to supply
 - Retailers may make any other offers available to consumers, including offers priced above their Basic Service Offer
 - The Basic Service Offer to be made available to customers within embedded networks and where there is a single gas retailer.

Recommendation 2A

Abolish the requirement for retailers to offer standing offer contracts.

Response Support

Energy is an essential service and consumers should expect to pay a fair price.

The Government's response to recommendations 1A and 2A is to require energy retailers to offer a fair price for energy – called the Victorian Default Offer (VDO) – and abolish costly standing offers.

These reforms will make energy markets simpler and fairer, improving access to affordable energy for all Victorians.

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

EMPOWERING CONSUMERS

Recommendations 3A to 3J

3A: Require retailers to market their offers in dollar terms, rather than as percentages or unanchored discounts.

3B: Where the retailer knows the actual usage profile for a specific customer, the marketing to that customer to be based on the estimated annual costs of the offer for that customer, and the \$ costs if conditions attached are not met.

3C: The Essential Services Commission to develop a small number of typical customer usage profiles (3–4) for use in standardised marketing material (for 2,000 kWh, 4,000 kWh, 6,000 kWh per year).

3D: Marketing of prices to appear in a standardised format and display the actual annual cost for the 3–4 standardised customer usage profiles. Annual energy costs for the standardised customer usage profiles to be the comparison rates in marketing materials.

3E: The Essential Services Commission to develop a standardised format for retailer information disclosure and marketing material.

3F: Require retailers to notify a customer of the best offer available by that retailer, and reference the Victorian Energy Compare website, in advance of any price or benefits change.

3G: Require retailers to include the following information on customer bills:

- How the customer can access the Victorian Energy Compare website
- How the customer can access the Basic Services Offer (see Recommendation 1)
- The retailer's best offer for that customer based on their usage patterns
- The total annual bill for that customer based on the customer's current offer and usage patterns.

3H: Require marketing material and bills to provide GST-inclusive pricing.

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

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

Response Support

The Government will transform retailer marketing practices to put consumers in charge.

Clear marketing and product information will mean that consumers can make real comparisons and informed decisions.

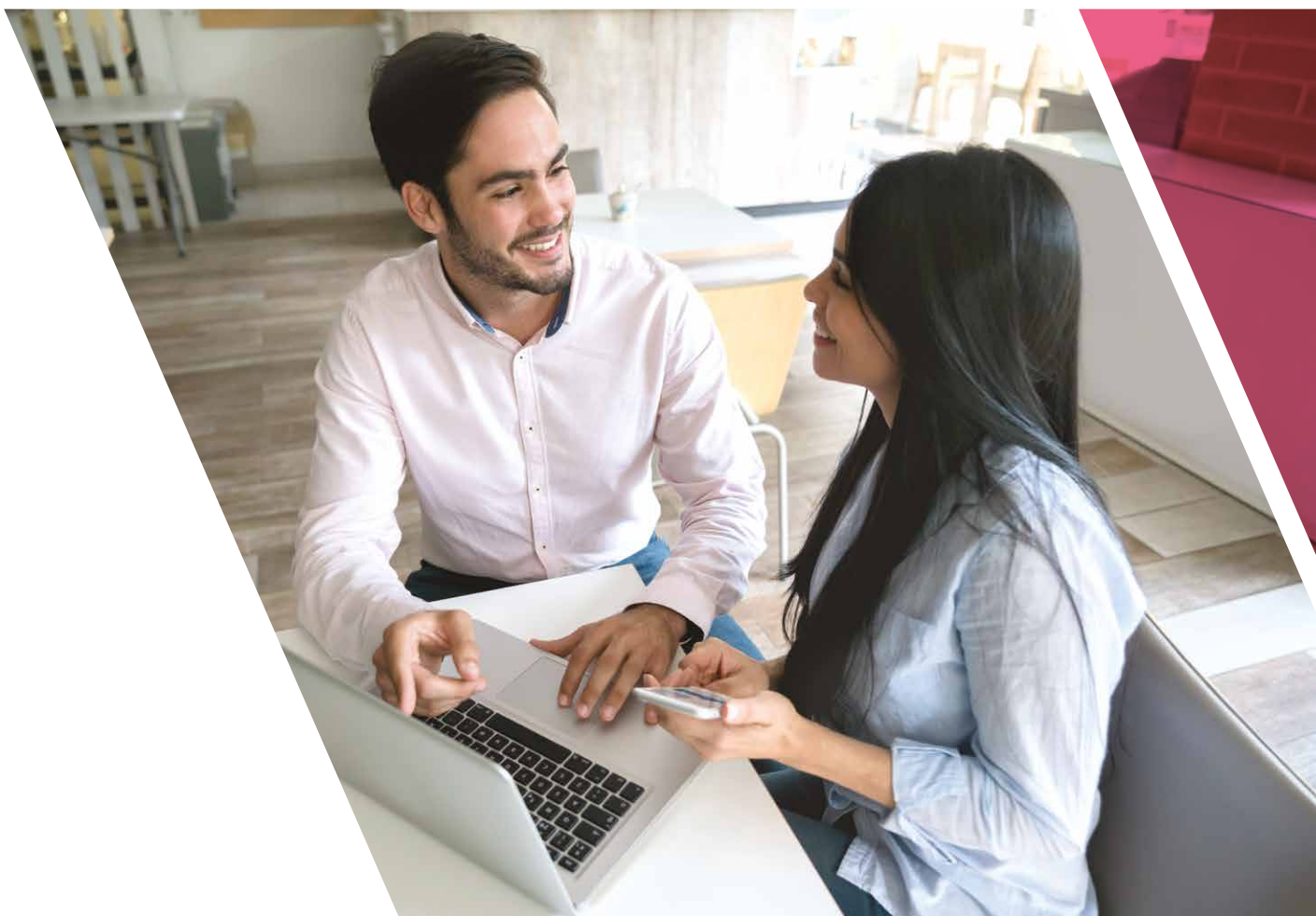
The Government will fully implement recommendations 3A to 3H through changes to the Energy Retail Code (the Code). In April 2018, the Government requested the Essential Services Commission make all necessary changes to the Code, to take effect 1 July 2019. This means that comparing energy offers will no longer be like comparing 'apples with oranges'.

On 7 September 2018, the ESC issued a draft determination requiring retailers to notify a customer of their best available offer and to include this information on their bills (recommendations 3F and 3G).

The Government is already raising consumer awareness of the energy market (recommendation 3I), through the campaign 'Take charge. Save on bills'. The campaign encourages consumers to compare and find a cheaper offer on the Victorian Energy Compare website, the only free independent energy comparison website in Victoria with all generally available offers.

The Government will work towards upgrading the website to a switching site, so that customers can select and switch to a new offer on the website (recommendation 3J). Switching energy providers will be easier, encouraging more consumers to seek out a better deal.

The Government will also encourage the use of smart meter data on the website, building on improvements in consumers' access to their data (see recommendation 5).



Victorian Energy Compare and the \$50 Power Saving Bonus

Launched by the Government in 2015, Victorian Energy Compare enables consumers to compare offers and reduce their energy bills.

Since its launch, the website has been visited by over 1.5 million Victorian consumers, with typical savings for users of \$330 on energy bills in the first year alone.

On 1 July 2018, the Government announced the \$48m Power Saving Bonus program, to encourage consumers to visit the Victorian Energy Compare website by providing a \$50 bonus. Since the program's launch, over 200,000 Victorians have received their \$50 bonus.

From 2019, the Government will work towards upgrading the Victorian Energy Compare website to a switching service, allowing users to sign-up to offers made available on the website via an online process.

\$50
Power Saving Bonus

To households seeking a better offer on Victorian Energy Compare

ENSURING CONTRACTS ARE CLEAR AND FAIR

Recommendations 4A to 4E

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 Essential Services Commission to address unforeseen changes in network costs.

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

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.

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.

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.

Response Support

The Government will make contract pricing arrangements clearer so that consumers are not stung by unexpected price rises.

Customers on market offers will no longer pay higher prices for energy simply because their retailer has not given them clear enough information about when their contract and benefits end.

The Government will direct the Essential Services Commission to review the Energy Retail Code to give effect to these recommendations.



UNLOCKING THE BENEFITS OF DATA

Recommendation 5

The Victorian Government should eliminate barriers to the use of smart meter data to encourage innovation from retailers, and energy efficiency and enable consumers to compare offers.

Response Support

Consumers will receive the full benefits of their smart meter data.

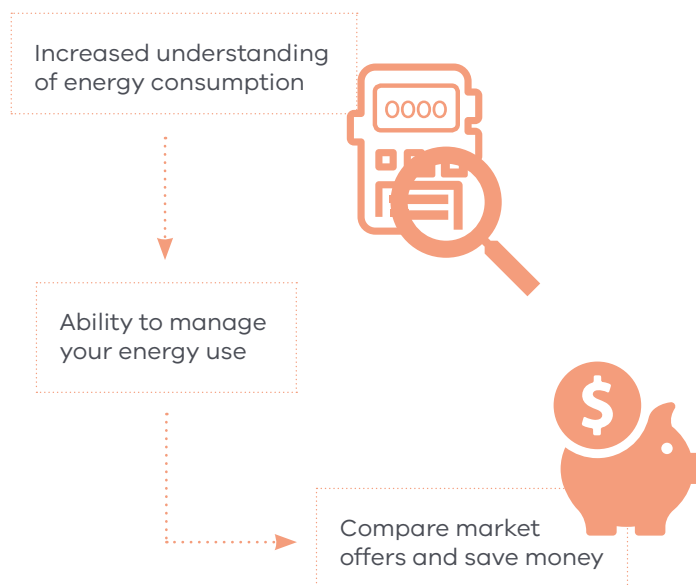
During the 2017-18 summer, the Government partnered with network operator, Jemena, to deliver the *Power Changers* demand management pilot. The pilot used smart meter data to provide personalised energy saving tips that helped participants to reduce their energy use and save money.

The Government will build on the knowledge gained through the pilot to develop a detailed road map that will maximise future benefits to consumers.

Government will work to develop an energy data platform for smart meter data – a consumer energy data hub. This will enable consumers to easily share their energy data with authorised third parties offering beneficial products and services to reduce energy costs.

The Victorian Government is also working with the Commonwealth Government to ensure that its Consumer Data Right reform for the energy sector is focused squarely on delivering consumer benefits.

There are many benefits to more accessible and secure data



SUPPORTING VULNERABLE CONSUMERS

Recommendations 6A to 6E

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.

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

6C: The Victorian Government to conduct an extensive investigation into the energy support scheme for concession card holders and adjust accordingly so consumers gain the best possible outcome from the competitive market.

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

6E: The Essential Services Commission to implement the outcomes of its review into improving outcomes for hardship customers.

Response Support

For vulnerable consumers, the Government is improving access to market information, making energy more affordable, and delivering robust consumer protections.

Low-income, vulnerable and disadvantaged households spend a much larger proportion of their disposable income paying electricity and gas bills, and are the first to experience budget stress when prices rise.

The Government has introduced a range of programs to empower vulnerable consumers to engage with the energy market and reduce their energy consumption (recommendations 6A and 6B).

This includes:

- the Energy Information Hub, a web platform for community sector organisations. The comprehensive information provided on the site will enhance community organisations' ability to assist vulnerable consumers find an appropriate energy offer;
- training for organisations that provide frontline energy support services;
- funding to support the Victorian Council of Social Services' energy-related advocacy;
- the Home Energy Assist program that has already started helping low income vulnerable and disadvantaged households reduce their energy consumption through energy efficiency measures. The program will reach 3,300 households by 2020;
- expanding the Victorian Energy Upgrades program to reach more Victorian households and businesses; and
- improving the energy performance of residential properties through the Victorian Residential Efficiency Scorecard.

The recommendations which aim to stabilise and/or reduce household energy costs will inform consideration of any future investigation into energy concessions (recommendation 6C).

The Government completed the Utility Relief Grant Scheme review in October 2018 (recommendation 6D).

The Government has increased the cap of the Utility Relief Grant from \$500 to \$650 as of July 2018.

From 1 January 2019, households experiencing payment difficulty will be able to draw on energy retailer assistance that is embedded in new minimum entitlements. Assistance will include flexible payment arrangements, as well as advice and practical assistance to manage energy costs. These minimum entitlements are set out in the Essential Services Commission's new and comprehensive framework for customers facing payment difficulty (recommendation 6E). The framework particularly aims to ensure that disconnection is a measure of last resort.



The comprehensive information provided on the Energy Information Hub will enhance community organisations' ability to assist vulnerable consumers find an appropriate energy offer



Better outcomes for customers facing hardship – the new Payment Difficulty Framework

In February 2015, the Government commissioned the Essential Services Commission to conduct an inquiry into best practice financial hardship programs of energy retailers.

The inquiry final report, released in March 2016, found that current regulation of retailers is not preventing customers from building up large debt and being disconnected, and that customers are not getting the targeted assistance they need.

To implement the recommendations, the Essential Services Commission made changes to the Energy Retail Code (the Code) in October 2017, to create a new payment difficulty framework to assist customers. The new framework will come into effect on 1 January 2019.

The new framework will provide customers facing payment difficulty with a set of minimum entitlements

to help them to take action to avoid or repay debts, and ensure that disconnection for non-payment of an energy bill is a measure of last resort. Retailers will work with customers to design the assistance arrangements that are most appropriate for them. Customers anticipating or facing payment difficulty should expect to:

- receive timely assistance from their retailer that responds flexibly to their individual circumstances;
- propose how they will repay any arrears in a sustainable way; and
- be protected by safeguards that prevent the customer from being disconnected unless the retailer has met all their obligations to the customer.

Customer entitlements will be enforceable. Under the disconnection safeguards, the retailer must keep records to prove that they have provided the customer with the right assistance, and have met their obligations under the Code.

SUPPORTING VULNERABLE CONSUMERS

Recommendation 7A

The Victorian Government support the pilot of a not-for-profit brokerage service for concession card holders.

Response Support

In April 2018 the Government announced an independent not-for-profit Energy Brokerage Service pilot to help vulnerable consumers switch to a more appropriate electricity and gas retail offer.

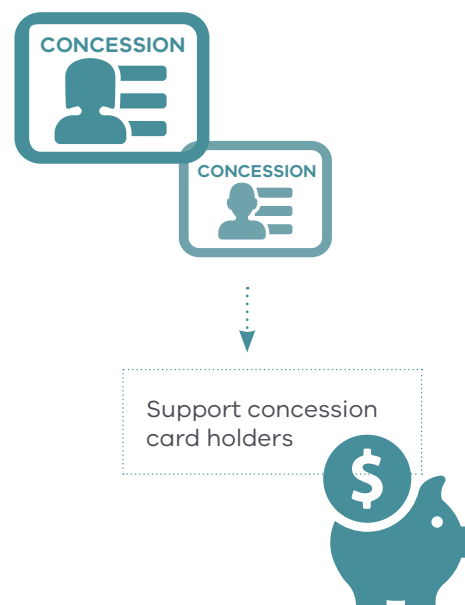
The Government has partnered with the Brotherhood of St Laurence to co-design, deliver and evaluate the pilot. The pilot will run from October 2018 until October 2019, and will reach 10,000 of Victoria's most vulnerable households. Future Government policy will be informed by the insights gained from the pilot.

Energy Brokerage Service Pilot

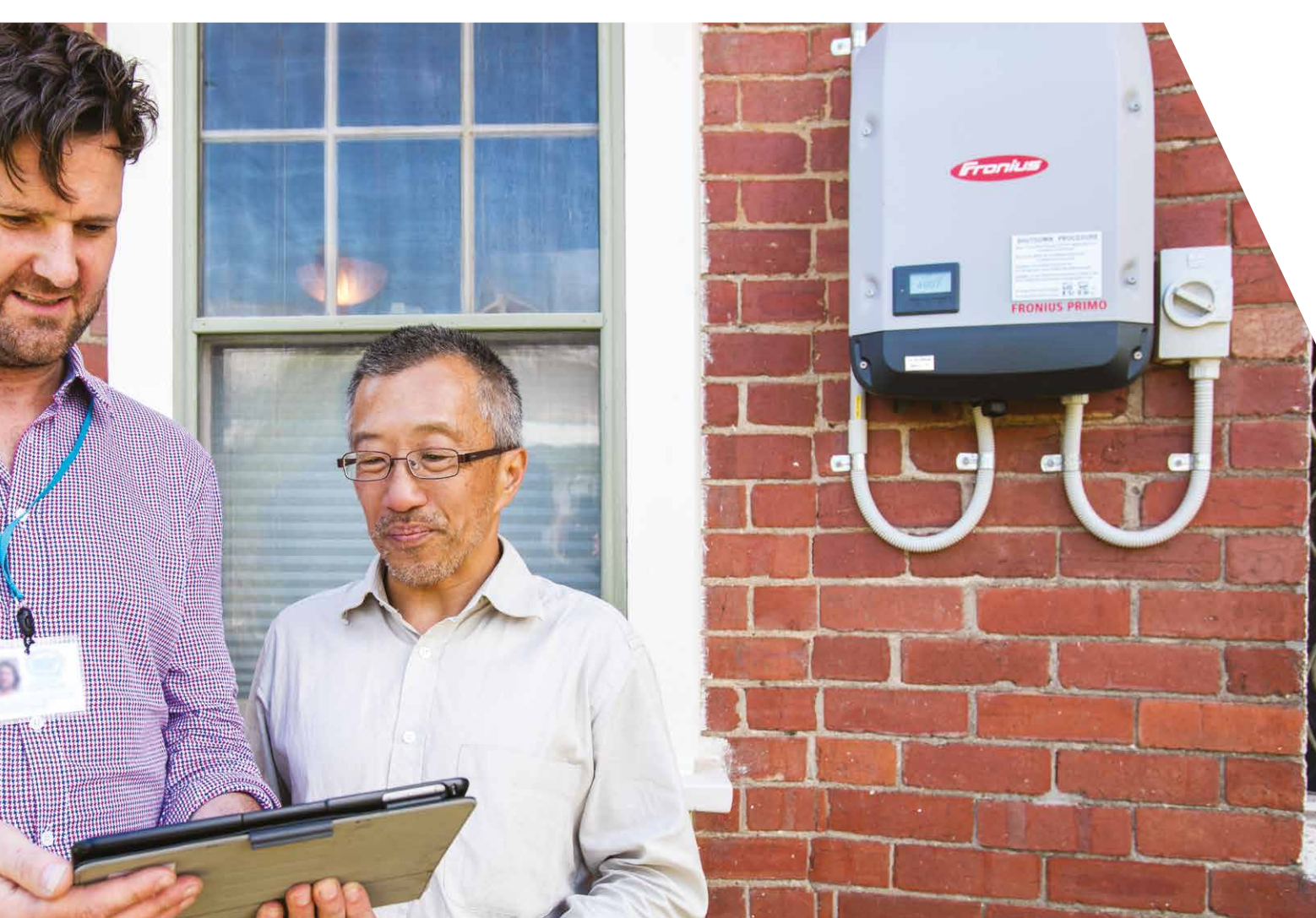
The Energy Brokerage Service pilot is a ground-breaking project, which will help some of Victoria's most vulnerable consumers change to a more appropriate energy offer that best suits their needs.

Project partner, Brotherhood of St Laurence, will reach 10,000 pilot participants to understand each participant's energy needs and usage patterns. They will assist participants, utilising the Victorian Energy Compare website to identify the most appropriate offer, and then assist them to switch to the new offer.

The pilot will provide a full brokerage service, which will include reviewing current offers in the market, contacting retailers and facilitating the switch to a new offer. Ensuring that participants receive a level of support that is appropriate to their needs will be critical to the pilot's success.



...will reach 10,000
pilot participants...



SUPPORTING VULNERABLE CONSUMERS

Recommendation 7B

The Victorian Government should consider ways to negotiate a better deal for concession card holders including a 'group purchasing' or single buyer scheme on their behalf.

Response Support

The Government will continue to consider the merits of group purchasing options.

The Government will assess the benefits to concession card holders of the independent energy brokerage service pilot to understand the value that group purchasing can add. South Australia's Concession Energy Discount Offer is an innovative way to help particular consumers manage their energy bills. There is further scope to identify and deliver targeted programs to support specific groups of consumers who are most in need of assistance.

STRONG MARKET SUPERVISION

Recommendation 8

Require the Essential Services Commission to monitor and report on the competitiveness and efficiency of the Victorian retail energy market. The Essential Services Commission should have the power to compel the provision of any information required to fulfil its functions including:

- information on costs and margins;
- information on customer numbers and types, the contracts they are on, the prices they are paying and whether they are meeting contract conditions;
- offers that are made including 'not generally available' offers; and
- costs and practices of brokerage services and comparator sites.

Response Support

The Government formally requested the Essential Services Commission to give effect to the recommendation in March 2018.

The Government requested the Essential Services Commission to develop a framework for assessing the market, and to complete and publish its first review by 31 December 2019.

CONSUMER-FOCUSED RETAIL RULES

Recommendation 9

Require the Essential Services Commission to review its regulatory codes to ensure they focus on customer outcomes and can account for new business models of service provision.

The Government will make sure existing and new regulation focuses on and promotes consumer outcomes

Response Support

The Government has requested the Essential Services Commission to review its codes and guidelines to establish a principles-based energy market code that places consumers front and centre.

The Government will make sure existing and new regulation focuses on and promotes consumer outcomes. The Government has directed that the code should account for new business models of service provision. The Essential Services Commission has been requested to conduct its review, identify and make relevant code changes by 31 December 2019.



ENERGY AND WATER OMBUDSMAN VICTORIA

Recommendation 10

Expand the powers of the Energy and Water Ombudsman Victoria to cover emerging energy businesses, products and services.

Response Support

The Energy and Water Ombudsman Victoria provides a free, independent and impartial dispute resolution service and is an essential and valuable component of Victoria's consumer protection regime.

The Review observes that gaps have emerged in the Ombudsman's jurisdiction as the energy market has developed.

The Government will make sure the Ombudsman has the appropriate powers to assist with complaints about new and emerging energy businesses, products and services. The Government has started this work by expanding the powers of the Ombudsman to cover customers in embedded electricity networks – the change took effect on 1 July 2018.

The Government will work with the Council of Australian Governments Energy Council and industry stakeholders to ensure the proposed industry code for 'behind the meter' products and services, such as the installation of solar panels, provides strong protections for Victorian consumers. If it deems these protections to be inadequate, the Government will extend the Ombudsman's jurisdictions to cover these products and services.

The Government will work with the Ombudsman to determine where its jurisdiction should be further expanded in the future, and the most efficient way for changes to be delivered.

...powers of the Energy Water Ombudsman Victoria will be expanded and clarified so that consumers know where to turn for resolution of complaints regarding new energy products and services

ENERGY MARKET STRUCTURE

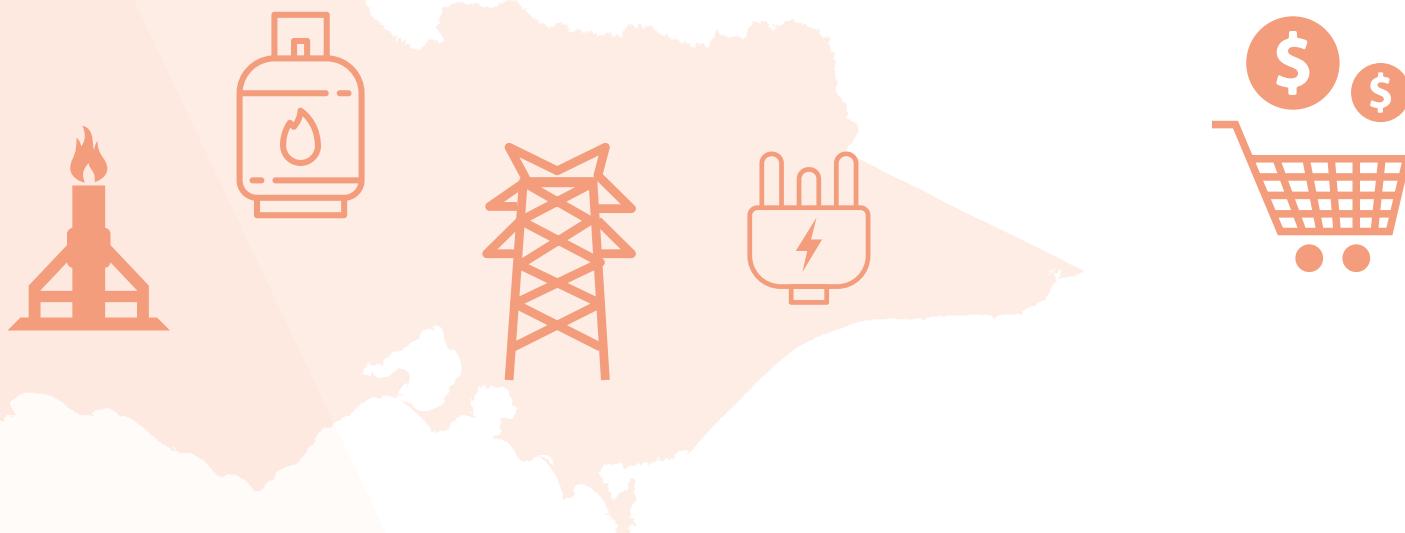
Recommendation 11

Request the Council of Australian Governments Energy Council to review the structure of the energy market, so that it is structured to deliver long-term interests of consumers.

Victorian Government advocacy for a national policy framework that puts customers first

A framework that
does not unfairly
increase costs to you

A framework that does not compromise
the implementation of Victorian emissions
reduction and renewable energy targets



Response Support

Victoria has been, and will continue to be, a leader in advocating for reforms to the national energy market that place Victorian households and businesses first.

In 2017 the Government successfully advocated through the Council of Australian Governments Energy Council to abolish Limited Merits Review which had allowed energy networks to dispute Australian Energy Regulator determinations and recover an additional \$3.3 billion in extra revenue, at the expense of consumers

The Government engaged closely with the 2017 *Independent Review into the Future Security of the National Electricity Market* and will require that any proposed national energy policies do not unfairly increase consumer costs or compromise the implementation of Victorian emissions reduction and renewable energy targets.

Government Investment

The Government has already responded to key parts of the Review.

\$21.7 million to increase the Utility Relief Grant cap



This will help thousands of households and families suffering unexpected hardship to pay their overdue energy bills

In the *Victorian Budget 2018/19* the Government committed

Give all Victorian households a \$50 bonus if they seek out a better electricity offer using the Government's independent comparison tool, Victorian Energy Compare

\$48 million to deliver the Power Saving Bonus



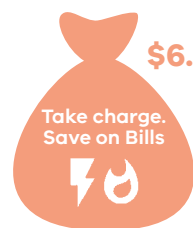


Improve energy literacy and awareness amongst vulnerable households



\$1.3m

Raise awareness of **Victorian Energy Compare** and the competitive market



\$6.5m

Take charge.
Save on Bills



\$1.0m

Run an **energy brokerage service** pilot in partnership with the Brotherhood of St Laurence. This pilot will assist up to 10,000 vulnerable households to find a cheaper, more suitable energy offer



\$1.1m

Deliver **more benefits from smart meters**, focusing on demand management measures to help consumers manage their consumption during peak periods

In the Victorian Budget 2017/18 the Government committed



\$1.9m

Fund an **energy data hub** concept study to develop a best-practice model for consumers and third-parties to realise the full potential of consumers' electricity data

