Retail Competition and Customer Choice: Australian Experience

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Acknowledgement of Country

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Agenda

1. Context – structure of the energy market
2. Licensing of retailers
3. Consumer protections and supporting consumers experiencing vulnerability
4. Effective competition
5. Role of the Victorian Default Offer
1. Context – structure of the energy market

- Vertical separation of distribution and retail (and generation)
- Energy retailers own and operate generation assets, or contract with the wholesale market
- Mix of privatized and government-owned energy retailers competing in the market – since 2002.
2. Licensing of retailers

- Energy retailers must be licensed by the commission to sell energy to customers
  - application required
  - public consultation
  - commission decision

- 57 electricity retail licenses, 30 gas retail licenses (not all to residential customers)

- Processes for retailer failure – Retailer of Last Resort Framework
  - transfer of customers to a local retailer
3. Consumer protections and supporting consumers experiencing vulnerability

- **Supporting consumers experiencing vulnerability** – payment support for customers in energy debt, family violence protections

- **Clear and fair contracts** – price increases limited to once a year, discounting practices regulated, a regulated price for electricity

- **Transparency** – ‘best offer’ messages, government comparison website, rules on advertising practices and providing advice to customers
3. Effective competition in the retail market

• Competition in the market that delivers positive long-term outcomes for Victorian consumers
• Recognises that competition is a means to an end rather than an end in itself.

• Key concerns emerging since 2016-17:
  – Peak disconnection of energy customers by retailers to manage energy debt
  – High standing offer prices set by retailers (varying significantly across the market)
  – Unclear discounting practices, leading to high costs to customers if discount conditions are not met
  – ‘Bait and switch’ tactics to attract new customers
3. Effective competition in the retail market

Major market reforms required since 2016-17

- **2016-17**: New powers to protect consumers
- **2017-18**: Payment difficulty framework
- **2018-19**: Increase in debt threshold for disconnections
- **2019-20**: Best offer messages, clear advice rules, fact sheets
- **2020-21**: Limited price increases, regulated discounting
- **2021-22**: Pandemic protections, help for Utility Relief Grants
- **2021-22**: New enforcement powers and framework
5. Role of the Victorian Default Offer

Two types of energy offers available in the market:

• Market offers:
  – Prices set by retailers

• Standing offers (regulated contract terms and conditions):
  – For gas – prices set by retailers, but must be gazetted and limits to price increases
  – For electricity – the Victorian Default Offer – a regulated price set by the commission
5. Role of the Victorian Default Offer

- A simple and trusted electricity price set by the regulator
- A price protection, particularly given a history of very high standing offer prices previously set by retailers
- Accessible to households and small business customers (<40MWh per year)
- Electricity retailers must make the offer available to customers who request it
- A default offer when moving house (but have not entered into a contract), or when a fixed-term contract ends
- Applicable as a maximum price for customers in embedded networks (such as some apartments)
5. Role of the Victorian Default offer

• Annual consultation process
• Commission applies a ‘cost stack’ approach:
  – estimates and analysis updated based on most recent information
  – data from retailers using information gathering powers
Questions and discussion