



**“Fairer prices, better products and empowered consumers –
a consumer agenda for energy sector reform”**

**Presentation to ‘Energy at home: Current issues for consumers’
Matt Levey – Head of Campaigns, CHOICE
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Introduction

I want to thank the Consumer Advocacy Panel and the Energy Retailers Association of Australia for supporting this conference.

(Also Tony Westmore from ACOSS and my colleague Katrina Lee for all their work putting this together)

My name is Matt Levey, and I am the Head of Campaigns at CHOICE.

For those who don’t know, CHOICE is a social-enterprise, completely self-funded and independent.

Since 1959, we have existed to unlock the power of consumers.

CHOICE is perhaps best known for providing trusted information to consumers, which we do through our magazine and website, speaking to our 200,000 members.

We are also very much a campaigning organisation, and we seek to do that by trying to achieve change in those markets where we see detriment to consumers.

The title of this session is: ‘What’s happening and why?’

There is any number of perspectives you can bring to this question, and Paul Simshauser has just given us a very engaging analysis of the key drivers of energy prices.

Making sense of this question from a consumer perspective invites another question, and that is: ‘what should be happening, and why isn’t it?’

I think if you apply this perspective to the energy sector, there are three key areas where Australian consumers have the right to expect much more, and those are:

1. Fairer prices
2. Better products; and
3. Empowered consumers.

These are the areas where CHOICE will focus our campaigning to reform the energy sector so that it works better for consumers.

And I want to spend the rest of this presentation identifying why we think these are priorities for achieving change.

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Fairer prices

We are seeing an intense focus on electricity prices because they have risen, on average, by about one-third over the last three years, and are forecast to continue rising into the future.

Recent research from the Clean Energy Council showed that at a time when cost-of-living is the mantra of the political debate, energy prices top the list of consumer concerns. The purpose of today's conference is to put these issues into context.

Last week's release of the Australian Bureau of Statistics' Household Expenditure Survey told a fascinating story about cost-of-living, including energy costs.

These figures showed that household fuel and power accounted for 2.6 per cent of household spending in 2009-10, the same as in 2003-04 and the same as in 1988-89.¹

Of course there are other stories here that sit below the headline, for example those lower-income households that pay proportionally more for their energy, and I know that other speakers such as Tony Westmore from ACOSS will touch on this.

Over time, consumers have increased their energy use, have found more appliances to purchase and plug in – many I'm sure based on advice from CHOICE.

They've built bigger homes to heat, cool and light, and are doing so increasingly at peak times.

I think all these facts provide some sharpness to today's discussion.

We're looking at why Australian electricity prices that have for a long time been quite low have increased sharply in a relatively short space of time, and why that trend appears set to continue.

So looking at this from CHOICE's perspective, our main concern is not 'have prices gone up', but is it fair?

We would say a fair price is one that more reasonably reflects the costs of generation and supply.

Those reasonable costs will include requirements for security and reliability, for innovation that benefits consumers, and for meeting environmental objectives, including reducing carbon emissions.

But what a fair price should not reflect, for example, are the costs of servicing demand that could be cost-effectively avoided.

This is a significant issue, with the \$39 billion price tag of expanding and replacing our energy network infrastructure the main driver of recent and forecast increases in energy costs around Australia.

I'm sure others will speak about this in more detail, but we would suggest that consumers have limited awareness of the drivers and complexity that sits behind the power point.



A recent speech from Chairman of the Australian Energy Regulator, Andrew Reeves, suggested that our regulators themselves struggle with the “copious amount of detail and substantial engineering justification” in their “careful forensic examination of the myriad of detailed workings” presented in energy network revenue proposals.

When one of our top energy regulators describes this sort of complexity, it is no wonder consumers might feel a little disengaged from what’s happening in the electricity sector.

We welcome the fact that the AER has publicly stated that it intends to put in a rule change proposal to the Australian Energy Market Commission which will focus public attention on these rules.

But this ought to be the beginning, not the end, of the process.

On the one hand, the stated intention of Governments around Australia is to reduce cost of living for consumers.

On the other hand, energy consumers are confronted with an essential service where the entire value chain seems geared to achieve the opposite outcome:

- From generators which seem strongly incentivised to sell peakier energy at higher prices;
- Through to transmission and distribution networks who, as many have observed, are provided with incentives to build more and more poles and wires rather than reduce demand;
- To retailers, whose essential business model involves selling more energy to more customers.

This is of course to some extent simplified, and it’s not suggesting these entities are doing anything other than what they are set up – and in fact regulated – to do.

But what’s also simplified is that as a consumer, you pretty much have contact with the retailer whose logo is on your bill.

What you don’t see is the vast infrastructure that sits behind it, and in many ways is stacked towards increasing the size of that bill.

CHOICE believes this is an area in need of reform, and it is one of the reasons we support the introduction of a National Energy Savings Initiative, designed to cost-effectively drive reductions in energy demand.

Related to this, we want to see a market in which third parties can better assist consumers to reduce demand, creating more genuine competition instead of more complexity.

When there is evidence that that each dollar spent by electricity networks aimed at reducing demand saves more than two dollars that would have gone to network infrastructure costs, this has to be a priority for policy makers.²

² See the Australian Alliance to Save Energy, *Report of the 2010 Survey of Electricity Demand Management in Australia* <http://www.a2se.org.au/activities/research>



These are parts of a bigger puzzle, and I know it's something that others will discuss in more detail.

For example, the AEMC who will be speaking later are currently conducting an inquiry into the power of choice which looks into how to achieve an economic balance between supply and demand.

What I want to turn to is the suggestion that electricity is a relatively low-engagement product, and what this means for creating better products.

Better products

One thing consumer groups can become better at, including CHOICE, is taking our experiences of other markets and trying to get ahead of the game for consumers.

For example, we have spent a lot of time campaigning for consumer reforms to the banking sector, a market that for a long time has been characterised by:

- Poorly understood fees and charges, many of which seem disproportionate;
- A lack of transparency in comparing products;
- Questionable marketing practices; and
- Inertia, with consumers often experiencing barriers to easy switching.

Similarly in telecommunications, consumer advocates have experience of issues such as:

- Technologies that have sometimes moved faster than consumers' capacity to engage with them; and
- Incredibly poor customer service.

Some of these experiences can give us insight as to what's happening to energy consumers, and why.

One of the main reform projects for Australia's energy market has been the introduction of retail competition.

And this presents obvious challenges in transitioning what has long been a very basic product into a market where consumers are increasingly being asked to make meaningful choices.

In most cases, this is a choice between the same electrons coming from the same generators, through the same poles and wires to the same meter – with a different name on the bill.

It's worth having a look at exactly what it is that electricity consumers are being asked to choose between when it comes to assessing the best plan for their circumstances.

In a recent report conducted for St Vincent de Paul on NSW Energy prices from July 2009 to July 2011, none of the electricity and gas market offers had published rates (not including discounts) that were lower than the regulated offers.

In fact, one retailer had rates higher than the regulated offers.



If you look at the options available in NSW, a consumer needs to consider various fees, discounts, credits and even in some cases, magazine subscriptions, to decide which deal is best for them.

This includes weighing up features like:

- [quote] "6% discount off your electricity usage charges plus \$25 annual credit apportioned across your bills" compared to "3% discount when you pay your bills by the due date"
- In other examples, it's pay on time discounts and late fees;
- Fixed contracts and early contract termination fees; and
- Moving home fees and account establishment fees.

And then there's the fine print.

In one plan considered by St Vincent de Paul's research, if you didn't pay your bill on time every month for a year, then you didn't get the discount offered and in fact, you would have been better off staying on the regulated tariff.

The obvious question is how to wade through these factors and compare apples with apples.

That's not including the bonus round, where even if a customer thinks they have chosen the right apple, the retailer can then change their tariffs.

We believe there are some important questions here about what constitutes genuine competition in the energy sector to benefit consumers.

If we look to the example of banking reform, much of the Federal Government's current agenda is premised on the idea that making consumers mobile agents, able to move more freely between easily comparable products, will drive competition on both price and customer service.

It is worth reflecting on whether the energy sector, at least as it currently operates, has the same dynamics.

If we leave aside renewable and distributed energy options, there is in fact no capacity for consumers to exercise choice until the final point in the value chain, and even here it's not clear the extent to which that choice is meaningful or transparent.

Recent statistics indicated Victoria has the most competitive energy market in the world.³ Victoria had an annual customer switching rate of above 20 per cent for the past 5 years.

If we saw those sorts of figures in the banking sector, we would regard it as a pretty good indicator of mobility.

Two of CHOICE's biggest recent campaigns in banking have been our Compare, Ditch and Switch website, and our Big Bank Switch, both designed to shake up competition by getting consumers moving.

³ http://www.eraa.com.au/db_uploads/Switching_release_and_report_100510.pdf



In referring to the banking sector however, there is an outright ban on door-to-door sales of financial products and services and there is also a ban on door-to-door selling of consumer credit.⁴

In the energy sector, sitting behind these statistics is the fact that a huge amount of energy switching driven by what some may call reasonably proactive marketing.

In late June this year, I received a knock on my door in the early evening from a gentleman carrying a clipboard and wearing a lanyard with his photograph on it.

He said he was from, quote, "the electricity provider for my area", and he had come to talk to me about the July 1 price rise in NSW. He asked if he could see a copy of my previous bill to check my situation.

I consider myself a reasonably switched-on consumer, but it did take me a few moments to be sure this wasn't a Barry O'Farrell good will initiative.

It was in fact an attempt to sell me a new electricity deal.

I think it does indicate that we cannot necessarily expect consumers to understand electricity offers that are being sold to them in this way.

In fact, the Energy and Water Ombudsman Victoria has stated that a quite common assertion by salespeople is "your supplier won't change".

There's a grain of truth in the fact that a change of retailer does not mean a change of distributor but it is unlikely that most consumers will understand this game of semantics.

The Ombudsman has also previously stated that where a customer agrees to receive information and provide personal details to enable that to happen, it is not uncommon for that information to be used to put in a request for transfer.

From the salesperson's perspective, if the sale is not closed at that point, it is a lost sale.

You have to wonder how many people just gave the salesperson their contact details to get them off their doorstep.

And if the only way to achieve large-scale switching is through cold-calling or door-knocking, maybe that says something about the need for better products rather than more aggressive marketing.

Empowered consumers

I want to finish by turning to what CHOICE believes is an important aim in any market, and that is to create more empowered consumers.

One of the key consumer challenges in the energy market is the rollout of new technologies, for example smart grids and smart meters, and the customer applications these give rise to, such as time of use pricing.

⁴ <http://www.aemc.gov.au/Media/docs/Consumer%20Action%20Law%20Centre-90e0f0cf-52bf-4bf3-802e-5ce18e6def38-0.pdf> See page 8.



As in other markets, like telecommunications, technological advances have the potential to revolutionise energy sector business models, increase efficiency and create benefits for consumers.

They also have the potential to be really annoying.

We have already seen enough evidence of this in Australia in the roll-out of smart meters and time-of-use tariffs.

And I'm talking about deployment here, rather than necessarily the technologies themselves.

In energy consumption, there has long been a disconnect between the point of consumption and the point of payment, for example with quarterly bills.

And while new technologies can close this gap, they can also exacerbate it, such as when you combine peak pricing with low consumer awareness.

Bill shock, a phenomenon common in the telco industry, is now hitting the energy sector and will affect a greater number of consumers if we don't use consumer education, and more importantly, consumer benefits, to guide the roll-out of new technology.

The alternative is that an industry-centred approach to new technologies further alienates consumers from a product with which they already have seemingly low engagement.

We are moving very quickly towards unprecedented granular information around consumer energy use, along with remote applications to reduce demand.

The UK Government recently announced a trial called MyData, which is about giving consumers access to their own purchasing information to empower rather than overload them.

There are as many opportunities here to get it right as there are to get it wrong.

For example, I may not want to be told how much energy I am using 24 times a day, let alone be asked to respond manually to rapid increases in demand.

- But being told once a week how much I have spent;
- Or once a month the personalised steps I could take to reduce my bills;
- Or how I compare with others in my suburb;
- Or electing to have the compressor in my airconditioner cycled off at the peak of a summer's day;
- Or being able to navigate every energy offer in the market based on my actual consumption profile from the previous 12 months;

These things would help create a better energy sector for consumers.

Conclusion:



For CHOICE, the best thing about empowered consumers is that they demand better products.

And when that demand gives rise to genuine competition, this helps drive fairer prices.

When we look at what's happening in the energy sector, and why, it's clear we are still some way from these ideals.

I would suggest that what we are seeing is rapidly increasing prices on a product that has for a long time been low-engagement.

The result is a lot of consumer concern without much meaningful choice.

What we need to see are properly aligned incentives along the supply chain.

We need consumers have to enough visibility of their energy use to transparently compare products, without being bombarded by complexity.

And we need a market that values reduced demand, and fairer prices, as much as it does bigger networks and higher bills.

When there's evidence that demand reduction can save \$2 for every \$1 invested, that's the sort of thing we should be buying a lot more of.

I know these issues will be explored by many other speakers today, and I look forward to their presentations.

Thanks. [ENDS]