



**St Vincent de Paul Society**  
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**AUSTRALIAN ENERGY MARKET  
COMMISSION REVIEW OF THE  
EFFECTIVENESS OF  
COMPETITION IN GAS AND  
ELECTRICITY RETAIL MARKETS**

**Submission from the  
St Vincent de Paul Society**

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The St Vincent de Paul Society Victoria Inc. (SVDP) welcomes the opportunity to comment on the Draft - Review of the Effectiveness of Competition in the gas and electricity retail markets.

Detailed below are various issues that we believe the Australian Energy Market Commission (AEMC) has failed to adequately investigate and address in its draft determination. This failure undermines the ability of the AEMC to claim that there is effective competition and undermines its ability to provide informed recommendations to the Victorian Government.

Firstly the St Vincent de Paul Society is concerned that a number of the issues that we raised in our initial submission were not dealt with in the draft paper. These issues include the multi faceted role of the standing offer, in particular its role, function and impact that it has in acting as a price to beat, which serves to discipline the market, inform consumers in making sound judgements and of the roll that the standing offer has in acting as a Retailer of Last Resort (RoLR).

We are also concerned at the omission of the draft review to effectively explore and critique the current market failures within the Victorian energy market are a significant oversight. In undertaking such an evaluation it could be argued that close to two thirds of the Victorian market is experiencing some form of market failure. For example in its draft review the AEMC cites that consumer surveys show that 60% of Victorian regulated energy consumers have switched to a market offer, conversely 40% have not. That is, over one third of the market either did not seek, were not offered or decided not to switch to a market contract; a significant number by anyone's measure given the market has been open to competition for five years.

Furthermore of the 60% that have taken market offers 70% of domestic and 60% of commercial customers said contracts had met expectation. Or conversely, 30% of domestic and 40% of commercial customers that took up market offers indicated that these contracts did not meet their expectation.

When this expectation failure rate (between 18% - 24% of the total market) is considered in conjunction with those that have not actively participated in the market (40%) an overall market performance measure can be ascertained. Such a market performance measure indicates that over 50% (58-64%) of customers in the Victorian energy market believe it has either failed their expectations or they are not actively participating.

The AEMC's draft review, we believe, has also failed to ascertain the nature of the issues that may be affecting this group. Such an analysis could reveal where potential or actual market failure exists. A key issue in ensuring all households regardless of income or location have access to affordable and appropriate energy contracts.

The AEMC review also fails to measure the level of sophistication of customer behaviour for example the quality of decision making, an indicator of market maturity. When such an analysis was undertaken in the UK, it was found that 20% of those who switched with the specific goal of seeking a lower price, in fact, had switched to a contract that resulted in higher prices. A similar analysis should be undertaken here.

Furthermore, the AEMC evaluation of consumer behaviour and the market generally has failed to ascertain the elements of the market that has stimulated both consumer choice and market participant offerings. That is, what framework best stimulates market offers and consumer choice. Consumer representatives have long argued that the Government's regulatory framework, which prescribes certain terms and conditions within a market contract and the provision of State assessed safety net prices, significantly promotes competition. These elements of the Victorian market are critical these prices act as a reference point that facilitates informed choice for consumers and stimulates market activity through allowing both new market entrants and incumbents to make offers in reference to a benchmark price. A quick check of all the companies web sites show that the vast majority, if not all, of market offers are in comparison to this price. Yet again the AEMC has failed to adequately investigate the role of the standing offers in promoting competition.

The AEMC review is also flawed in adopting a "point in time" approach to evaluate what is both a very dynamic energy market and the broader changes in the community such as ageing of the population. The AEMC data collection and information gathering stage was undertaken during mid 2007; as such it is a snapshot of the market during this specific period of time. A period of time where the full impact of volatility in the wholesale energy market was yet to be experienced, a period of time that has yet to see the impact of a carbon trading regime and a period of time prior to the introduction of smart meters. All these factors will significantly change the nature of the Victorian energy market and hence the nature of competition.

This issue has particular implication for the group that have been identified as possibly not getting the benefits of competition, which include:

- Regional customers
- Rural customers
- Low volume customers
- Customers in rental accommodation
- Customer with credit risk and
- Financially vulnerable customers.

It could be argued that as Victorian lifecycles and lifestyles change that all will at some point in time be subject to market failure, as such there is need for both universal and robust protections to cater for these transitions. A move away from universal protections would necessarily see the need for potentially a minimum of 6 protection regimes designed for each customer class that may exclude from the market. This in itself gives rise to the potential for a complex and unnecessary regulatory regime that may distort or undermine competition as the market develops overtime.

With regard to the customer with credit risk and financially vulnerable, it was disappointing that the AEMC did not mention the important role the energy retail code plays in providing a fair and reasonable framework for the financial transactions to occur between customer and company. It is this framework that we believe provides basic protections for all households when and if they experience financial hardship though provision of minimum expectations regarding billing and collection cycles, optional payment arrangements, delivery of concessions and the provision of information on bills. This not only limits the ability of retailers to exploit their market position in prioritising

bill payment above other services and as such is a critical part of the overall customer protection framework. Furthermore it underpins and ensures that the “hardship programmes” are effectively targeted.

The AEMC in its review makes reference of the hardship programmes however it fails to acknowledge that this is an additional obligation only offered to those with significant financial hardship issues and is not available to all households. As such it is not a programme that has been designed nor that can be used to address broader market failure as the commission implies.

Finally the St Vincent de Paul Society wishes to comment on the process of release of the draft report. We are extremely concerned and disappointed that in taking the time to make a submission to the review that the AEMC did not provide us with the courtesy of providing a copy of the draft determination at the time when other organisations were provided a copy, in particular media outlets. We expect that the AEMC would review its public release protocols and ensure that all parties that make submissions are provided with an electric copy of reports that result from reviews. Failure to follow such a process only serves to undermine the independence of the AEMC and could be interrupted as a strategy to exclude or limit debate on these important matters.

To conclude the St Vincent de Paul Society is disappointed and concerned that many of issues that we raised were not adequately addressed in this the draft review. This includes:

- An evaluation of the role of the standing offers or price to beat in promoting competition and informing consumer choice
- The analysis of the effectiveness of competition by the various distribution networks,
- A discussion and analysis of the multifaceted nature of the standing offer (such as the RoLR provisions),
- An evaluation of the actual outcomes of the decision making of consumers in the competitive market (were customers actually getting what they believed they were offered)
- Acknowledgment of the failings of the snapshot in time methodology used as a tool to make appropriate recommendations relevant to the market at a future point in time
- Identification of future charges to the market that may significantly change competitive pressures, such as the mandated interval meter roll out and the introduction of carbon trading.
- The potential for an increased and more complex regulatory framework for various groups that have been deemed to be excluded from the market