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Working for an Australia free of poverty

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Submission regarding Victorian Default Offer staff working paper

The Brotherhood of St Laurence welcomes this opportunity to comment on the Victorian Default Offer (VDO) staff working paper issued by the Essential Services Commission (ESC).

This submission outlines the Brotherhood's views on the VDO, and its appendix contains modelling of a regulated price, extracted from a forthcoming ACOSS–BSL report.[1] Our submission does not address some of the technical questions in the working paper, which require specialised expertise. It does raise some implementation issues not contemplated in the staff paper, and we urge the ESC and Victorian Government to consult more broadly with community groups on such issues.

The Brotherhood strongly supports the introduction of the Victorian Default Offer.

The VDO should help all consumers by offering a guaranteed fair price for electricity and gas. The effectiveness of the VDO will depend on its price (it needs to be a low-cost offer) and how people access it (it needs to be a default, easily accessible offer).

Many low-income and vulnerable Victorians suffer because they pay too much for energy

Many Victorians pay too much for the energy they need to live, particularly those who can least afford it. We know that certain groups pay more than the general population on average, and this is a critical issue for their wellbeing.[2] These include low-income households, those who are culturally and linguistically diverse, rental households and sole parents. These groups are paying a higher price for energy even though there are cheaper offers available in the market, and even when the amount of consumption is controlled for. This suggests that the problem lies in the retail energy market.

[1] ACOSS & BSL 2019 (forthcoming).
[2] Colmar Brunton for ACCC 2018; Azpitarte & Sullivan 2017 (unpublished); ACOSS & BSL 2018.

Higher energy prices also lead to other forms of harm for consumers, particularly those who are low-income or vulnerable. It is well known that many people face difficulties paying their energy bills and there are high rates of disconnection. At the same time, too many people go without essentials or ration their energy use to the detriment of their health, and they will be best served by guaranteed lower prices, not nebulous promises of future innovation delivered by greater competition.

The VDO should offer a guaranteed fair price.

The VDO will only serve its purpose if it is a low-cost offer that all consumers can afford. This would be in line with the terms of reference, which require the offer to be 'reasonably priced'.[3] Customers who default to, or choose, the VDO should be confident that they are paying a price close to the best in the market, and the Brotherhood considers that the VDO price should be set at a level where a significant proportion of customers would benefit from switching to it. BSL and ACOSS worked with an industry consultant, who modelled an efficient regulated price and found that 60% of Victorian consumers would benefit from switching to it.[4]

In general, we support the Commission's proposed cost-based approach to setting the VDO price. In Victoria, consumers pay an average unit rate of 30.3 c/kWh, on which the retail margin is 11%.[5] We support the Commission's proposal to use the existing work of other regulators, who have typically considered retail margins of 5–6% to be fair.[6]

In relation to setting the VDO's customer acquisition and retention costs (CARC), we suggest that current Victorian costs are excessive. Retailers spend more on CARC in Victoria than in any other Australian jurisdiction[7], yet it delivers no meaningful value to customers. We recommend that CARC is set as low as practicable.

Recommendations:

- The VDO should be determined using a cost-based approach.
- The VDO retail margin should be set as low as practicable (possibly around 5–6%).
- CARC should be set at zero or as low as practicable.

The VDO should be a true default for those who are inactive in the market.

As of 2017, 8% of Victorian non-solar customers were on standing offers[8]; and these households will automatically be moved to the VDO when it is implemented. This is a welcome development for these customers, who typically pay very high rates.

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[3] Victorian Government 2018, p.1.
[4] ACOSS & BSL 2019 (forthcoming).
[5] ACCC 2018, p.8.
[6] Wood & Blowers 2017, p. 17.
[7] ACCC 2018, p.230.
[8] ACCC 2018, p.245.

However, many other people—particularly those on market offers with expired discounts—also pay excessive prices and would benefit from being moved to the VDO. Many of these customers have not engaged with the energy market for years, and the VDO is intended to 'safeguard consumers unable or unwilling to engage in the retail electricity market'.[9] However, as we understand it, people who are not on standing offers will have to engage with the market in order to access the VDO. We recommend that, instead, customers on existing offers with expired discounts are moved to the VDO if it lowers their bills.

Recommendation:

- The VDO should be the default for people who are currently on standing offers and people who are inactive in the market (if the VDO lowers their bills).

A default offer should also apply to gas.

As planned, the VDO will only apply to electricity, yet the retail gas market suffers many of the same problems. In addition, all Victorian gas retailers but one also sell electricity[10], so if margins in their electricity businesses are reduced, they may increase gas prices to compensate. Accordingly, we recommend that a default offer also be mandated for gas.

Recommendation:

- The VDO should be mandated for retail gas offers (as well as electricity).

For further information on this submission, please contact Damian Sullivan [redacted] or David Bryant [redacted].

Yours sincerely,

Conny Lenneberg

Executive Director

[9] Victorian Government 2018, p.1.

[10] Tas Gas sell gas in 10 regional Victorian towns but do not sell electricity. See <https://compare.energy.vic.gov.au/retailers>.

References

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