

Assessing the competitiveness and efficiency of the Victorian retail energy market – notes from the chair

08 November 2019

Electricity and gas

Part 1, Session 1, Customer experience: How should the customer experience be considered when assessing the competitiveness and efficiency of the Victorian energy market??

- Professor Catherine Waddams, Centre for Competition Policy, Norwich Business School, University of East Anglia?
- Cynthia Gebert, Energy and Water Ombudsman of Victoria?
- David Byrne, from Melbourne University's Centre for Market Design
- James Garriock from Insync

I'd like to make some closing remarks of the day but before I do, I will disclose that I am a lawyer, I'm not an economist but I am an engaged energy consumer.

We started the day with an interesting presentation from Catherine Waddams that highlighted the core dilemma that brought us all together today.

That for years, governments, regulators and the industry have been pursuing the idea of competition

in the belief that vigorous competition combined with well-informed, rational effective consumers leads to better outcomes for consumers - but what if consumers are not well-informed, rational and effective – or they just don't want to play?

And if competition doesn't benefit consumers – where do we go from there?

Catherine's lesson for us all, but especially as a regulator, is we need to design systems that account for the differences between consumers.

The panel discussion with Cynthia, David and James brought into sharp focus the challenge before us.

We heard from Cynthia that despite efforts to design better systems that support people in hardship, we still see people who are falling through the safety nets.

We heard that traditional measures to identify competition are likely flawed and that switching rates may be evidence of dissatisfaction and not competition at all.

The question was asked about 'how do you map the competitiveness of a market when things are constantly changing' and we were told about the importance of data.

And we heard that there was a problem with engagement in a market where many people have not spoken to their provider in more than five years.

The quote of the morning though went to James Garriock who highlighted the challenge for us as regulators when he reflected that we were 'trying to build the billy cart as we were going down the hill'.

Part 1, Session 2, Price and service quality: What type of changes in retail prices and service quality should the commission be mindful of when considering the competitiveness of the market both in the short-term and the longer term??

- Danny Price, Managing Director, Frontier Economics

- Associate Professor Bruce Mountain, Director, Victorian Energy Policy Centre
- Bridget Ryan, Policy and Government Lead, GreenSync
- Tony Wood, Director of Energy, Grattan Institute

In our second session we heard from Danny Price, from Frontier Economics who reflected on the challenges of using traditional ways of measuring competition and assuming more competition benefits consumers.

We heard different perspectives about the 'problem with the energy market' and whether the problem is real or a political construct.

We heard that some interventions may be adding to complexity and costs for consumers.

From the panel, we heard that despite somewhat accepted wisdom, switching doesn't necessarily pay.

Bruce Mountain told us that the analysis of 50,000 Victorian bills showed average consumers were paying 22 per cent more than they should be on their energy bills.

Even more surprising was the same data showed even engaged customers who had switched within the previous 12 months were only slightly better off with the data showing on average, they were still paying 19 per cent more than they should.

And we also heard that the energy retailers could have gone a long way to fixing 'all this' themselves – if they got their act together sooner.

Part 1, Session 3, Protecting vulnerable customers – How do we assess the extent to which a competitive market is producing good outcomes for vulnerable customers?

- Kris Funston, Partner, Deloitte Access Economics
- Linda McMillan, Founding Director, Farrier Swier Consulting
- David Havyatt, Senior Economist, Energy Consumers Australia

In our third session we heard from Kris Funston from Deloitte Access Economics who highlighted that

despite Victoria having many of the elements of a highly competitive market compared to other states, Victorians are not benefiting from that competition.

Kris talked about the precursors for innovation that contribute to better consumer outcomes and compared the deregulation of telecoms and energy.

From the panel we were reminded that we are all one accident, job loss or gambling problem away from becoming a vulnerable customer.

And we were told that competition won't solve the problem of looking after vulnerable customers – but a 'good company' in a competitive market will look after them.

And finally, there was agreement that we do indeed need 'some' regulation, but it needs to be 'good' regulation.

Part 2: Facilitated interactive session

We have just had a fabulously interactive session designed to spark some innovative thinking in the room, applying our collective knowledge of markets and the consumer experience to the question of 'how do you measure – in a meaningful way – a competitive and efficient market.

You were asked to consider what would be the top five indicators for measuring that market using first a traditional, and then a consumer or contemporary lens.

Thank you!

In closing I would like to acknowledge my fellow commissioners – Simon and Sitesh. I can tell you that we all truly value the opportunity to be a part of this session where we can engage on the issues that sometimes do keep us up at night.

I would also like to thank a few people who were responsible for today.

To Sarah and her team, Aaron and Sean who are responsible for the work we are effectively kicking off today –developing a framework for measuring the competitiveness and efficiency of the Victorian energy market.

To Michelle and her team, Lisa and Clayton who are responsible for designing and facilitating the commission's communication and engagement program.

Thank you and well done.

And finally, thanks to you, our stakeholders, for being here today and participating to help us kick off this project.

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