Brotherhood of St Laurence
Working for an Australia free of poverty

ABN 24 603 467 024

Brotherhood of St Laurence
67 Brunswick Street
Fitzroy 3065 Victoria Australia
Telephone: 03 9483 1183
Facsimile: 03 9417 2691
DX 282 Melbourne

5 April 2019

Essential Services Commission
Level 37, 2 Lonsdale Street
Melbourne, Victoria 3000

Submission regarding Victorian Default Offer draft advice

The Brotherhood of St Laurence welcomes this opportunity to comment on the draft advice issued by the Essential Services Commission (ESC) regarding the Victorian Default Offer (VDO). We commend the Victorian Government for taking action on the high energy prices affecting so many households, and the ESC specifically for their work to determine a fair price.

The Brotherhood strongly supports the VDO, and supports the cost-stack methodology and proposed prices.

At the proposed prices for the five distribution zones, the ESC estimates the VDO will directly benefit some 145,000 Victorian households on standing offers by up to $520 per year.[1] This is a significant sum for many households, and represents money that can be saved or spent on other essentials, rather than increasing the profits of energy retailers. We support the ESC's prices and their underlying methodology.

The Brotherhood notes that VCOSS has provided an extensive submission and we broadly support its recommendations.

The VDO must be a true default to be effective and we urge the Victorian Government to move people with expired discounts to the VDO if it lowers their bills.

The VDO should also provide a safe option for people who cannot otherwise access fairly priced offers. As the Brotherhood sees all too often in our energy brokerage trial, the cheap offers often held up as evidence of the competitive market functioning properly are unavailable to many, such as those with low credit scores and those who cannot pay bills online or on time. Our analysis shows that a 'big 3' customer who fails to meet their conditional discount could also save over $300 per year by switching to the VDO.[2]

Energy retailers are likely to claim that the VDO prices are too low and that their profits will be eroded, or that customers will suffer from reduced competition. From our perspective this view should be given limited credence. Origin Energy, which has the highest proportion of affected

[1] Essential Services Commission 2019a, p.39; Carey 2019.
[2] Based on an average consumption (4,000 kWh p.a.) house in the Citipower distribution zone, averaging prices from the January 2019 Tariff Tracker for AGL, EnergyAustralia and Origin.

(standing offer) customers in Victoria, predict that their revenue will be reduced by less than $20 million, which is approximately 0.14% of their $14 billion revenue.[3] Retailers do not appear to have been discouraged from setting up in Victoria, as the ESC has issued three new electricity retail licences since February 2019.[4]

More important than the impact on retailers is the direct benefit to consumers. As an independently set, fair price, which cannot be arbitrarily increased, the VDO will provide much-needed bill relief, and certainty to those who need it. The well-documented failings of retail market competition to date necessitate government intervention in this essential service and should outweigh concerns about the impact on competition.

It's essential to make the VDO easily accessible to all Victorians.

As the Commission has noted, the 'purpose of the VDO is to provide universal access to a "fair" price'[5], so it will be crucial to address the barriers to access, otherwise many customers will continue to pay high prices.

The terms of reference for the VDO clearly state that it 'will be offered unconditionally by each licensed electricity retailer to all domestic and small business customers'. Implementing this obligation upon all retailers to offer the VDO is vital. Without it, customers may have to work out which of the twenty-plus retailers in the market is obliged to offer them the VDO and contact them to request it—a confusing, discouraging process that hardly resembles a default option. Instead, consumers should be able to ring any retailer and ask for the VDO, knowing they will be guaranteed a fair price.

The VDO should act as a default for customers who are inactive in the market.

AEMO data shows that 75% of Victorians do not switch in a given year[6], and most discounts expire after one or two years, so many people on expired offers pay unnecessarily high rates. These households should be moved to the VDO if it lowers their bill, otherwise they may be stuck on expensive offers indefinitely.

We urge government to consider interactions between the VDO and other policies, particularly the other recommendations of the Thwaites Review. Where retailers are obliged to move customers to the nearest matching offer at the end of their benefit periods (recommendation 4C), they should also be made to offer customers the VDO, or it should become the default option.

We are heartened to see that the Commission expects the VDO to become the maximum price that customers in embedded networks[7] can be charged, as they have often been subject to very high prices with no opportunity to switch offers. We support this cap on embedded network prices, except in the rare circumstance where a customer has chosen a higher-priced market offer.

Recommendations

- All retailers should be obliged to offer the VDO to all households.
- People on existing expired market offers should be moved to the VDO if it lowers their rates.

[3] ESC 2019a, p.39; Origin Energy 2019, 2018.
[4] ESC 2019b, p.5.
[5] ESC 2019c, p.3.
[6] Australian Energy Market Operator 2019.
[7] Embedded networks are areas (such as certain apartment buildings, retirement villages and caravan parks) where customers cannot generally choose or change retailer and consequently pay high rates.

- When a customer's benefit period or contract expires, they should be offered or defaulted onto the VDO.
- The VDO should be the maximum price that embedded network customers can be charged unless they select a higher-priced market offer.

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

Yours sincerely,

Damian Sullivan

Senior Manager, Energy Equity and Climate Change, Brotherhood of St Laurence

References

Australian Energy Market Operator (AEMO) 2019, *National Electricity Market Monthly Retail Transfer Statistics,* <http://www.aemo.com.au/-/media/Files/Electricity/NEM/Data/Metering/MRTS/2019/NEM-Monthly-Retail-Transfer-Statistics-201902.pdf >.

Carey, A 2019, 'Default electricity offer could slash hundreds from household bills', *The Age*, 8 March, <https://www.theage.com.au/politics/victoria/default-electricity-offer-could-slash-hundreds-from-household-bills-20190308-p512os.html>.

Essential Services Commission (ESC) 2019a, *Victorian Energy Market Report 2017-18,* ESC, Melbourne.

Essential Services Commission (ESC) 2019b, *Victorian Energy Market Update March 2019,* ESC, Melbourne.

Essential Services Commission (ESC) 2019c, *Victorian Default Offer to apply from 1 July 2019,* ESC, Melbourne.

Origin Energy 2018, *Annual report 2018,* <https://www.originenergy.com.au/content/dam/origin/about/investors-media/documents/Origin_2018_Annual_Report.pdf>.

Origin Energy 2019, *Statement on the Victorian Default Offer,* <https://www.originenergy.com.au/about/investors-media/media-centre/statement_on_the_victorian_default_offer.html>.