

Response to Catherine Waddams

“A review of the energy price cap and the future of switching”

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Outline

- 1. Background**
- 2. Retail market similarities and differences**
- 3. What did I find from a recent market test of my own supply?**
- 4. The Victorian rejection of absolute price caps and compromise on relative price cap**
- 5. Interesting recent developments**

Background to retail electricity market in Aus.

- ▶ Most customers (about 6.5m) in south and eastern states able to choose their supplier, for at least a decade (18 years in Victoria).
- ▶ Regulated price cap at first; then no controls (for about a decade); then regulated “default offer” plus various other changes (more later).
- ▶ Government-run price comparison websites; private price comparison effectively unregulated.
- ▶ High prices (and substantial increases since deregulation)
- ▶ Lots of rooftop solar, smart meters, time varying tariffs, distributed batteries starting to become popular.

Retail market similarities and differences, GB v Aus

▶ Similarities

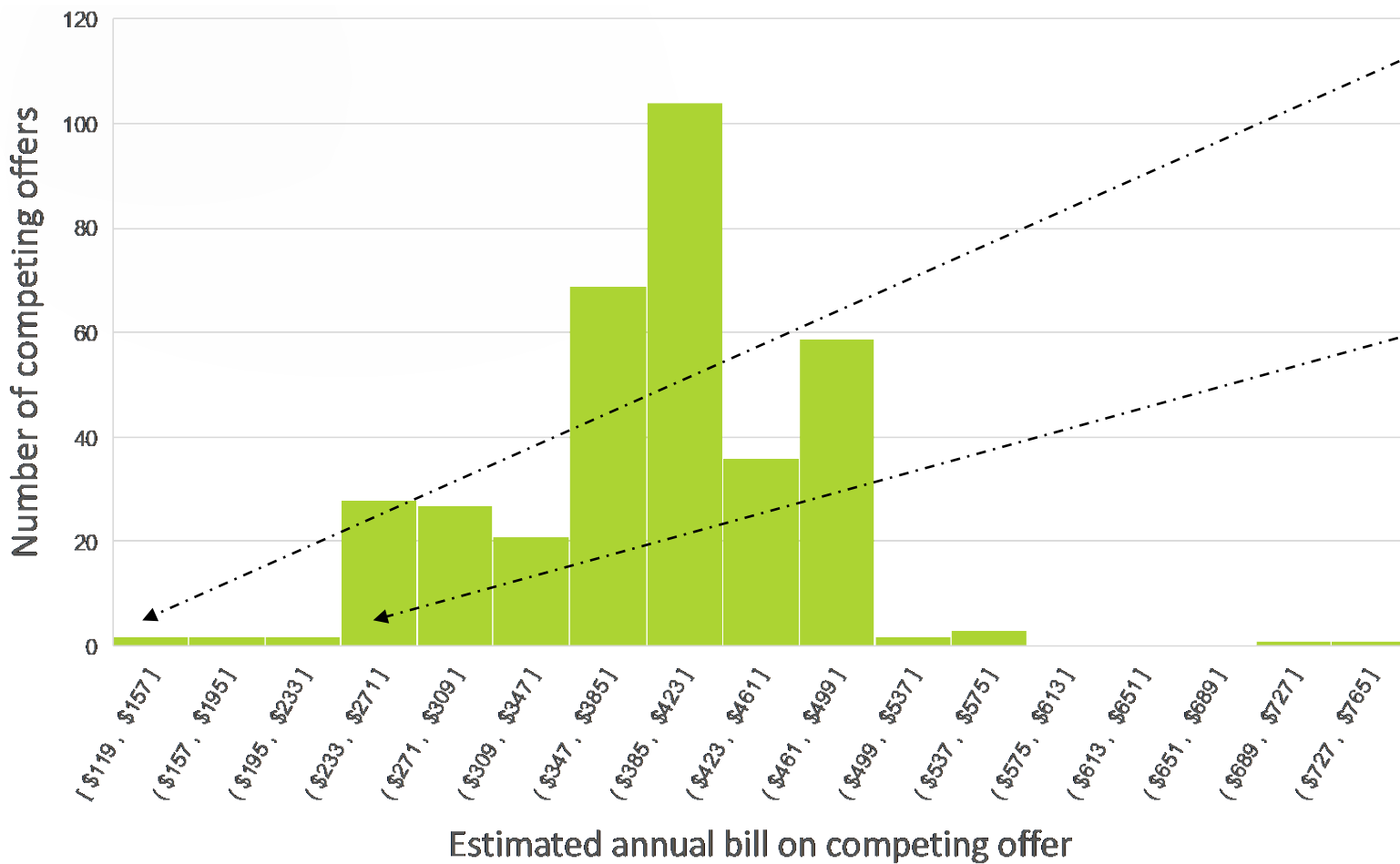
- ▶ Many suppliers
- ▶ Price dispersion (and community/political opposition to this)
- ▶ Switching costs seem to be low
- ▶ New entrant suppliers compete on price
- ▶ Perception of “loyalty tax”
- ▶ High switching rates (circa 20% p.a.)

▶ Differences

- ▶ Fixed term offers are very unusual in Australia;
- ▶ “Default offer only applies to very small number of customers;
- ▶ Transparency of actual prices paid much higher in GB;
- ▶ Price comparison unregulated in Aus (but govt provides PCW);
- ▶ Enduring concern about misleading marketing and market complexity;
- ▶ All popular suppliers in Aus are vertically integrated (the success of new entrants such as Bulb/Ovo/Octopus not yet evident in Aus.)
- ▶ Supplier licensing (and collateral requirements in mandatory spot market) provides some confidence on supplier financial capacity
- ▶ No auto-switching/concierge market in Aus.

What did I find when I recently tested the market for my own household supply?

Government's PCW listed 357 offers from 30 suppliers. The cheapest offer would give annual bill of ~ \$129; most expensive ~ \$762; median offer ~ \$394 (my bill was ~ \$375 before switching).



I switched to supplier with cheapest offer (expected saving of ~ \$244).



When I checked later what the supplier actually did, they put me on their fourth cheapest offer (my expected saving will actually be ~ \$143).



I saved by switching but still left lots of money on the table (consistent with our prior research). Is my experience typical?

Victoria rejected absolute price caps and has sought a compromise on relative price caps

- ▶ Thwaites Review (2017) considered absolute price cap but decided against on concern about withdrawal of cheapest offers. Instead:
 1. “Default Offer” - (offer applies as default for small number of customers who have never switched supplier) ;
 2. Suppliers have to state any discounts in “market offers” relative to default offer;
 3. Suppliers must tell customers how much they could save if they were on their supplier’s cheapest offer;
 4. Suppliers can’t increase prices (to existing customers) more than once in 12 months.

Victorian approach seeks compromise that promotes competition, limits scope for “bait & switch/tease & squeeze” and encourages transparency on existence of better deals (from the same supplier).

Has the Victorian approach worked?

- ▶ Don't know: decent sample of customers' bills are needed to see what is really going on.
- ▶ My guess? Price dispersion has not narrowed ... but are the best deals really attainable? If so, what does this mean?
 - a) We should not expect that the best offers are easy to secure in any practical market; or
 - b) If price dispersion is not as it seems, then maybe dispersion is not really an issue.
- a) Maybe, instead, we need to measure the “aggregate customer detriment” ...

Might technology greatly change things?

- ▶ Seven year fixed priced offers now available for the first time:
 - ▶ Priced a little below the default offer.
 - ▶ Supplier builds, owns and operates power station (solar PV + battery) on customer's premises and using it (mainly) to supply the premises.
 - ▶ On year 8 the power station is transferred to the customer, free of charge.
- ▶ If this becomes popular (surely it will – you don't look a gift horse in the mouth?) we may need to think quite differently about retail markets (and many other aspects of the electricity market).
- ▶ We might think carefully about the effect of regulation on innovations such as these.