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The ACCC review is trying to get a better deal for electricity consumers

Customers are not getting the best electricity deals. **Quinn Rooney**

by **Josh Frydenberg**

The price of electricity is the product of a complex equation. Generation, transmission, distribution, retail and renewable energy schemes all play their part.

In the six years to 2013 when electricity prices increased by more than 100 per cent, it was the upgrades to the grid, colloquially known as poles and wires, as well as the carbon tax which were predominantly to blame.

More recently it has been the greater penetration of wind and solar with the backing of renewable schemes combined with the higher price of gas that has increased generation costs.

But the impact of one component of the electricity bill that has been harder to track has been that of retail charges. This is where transparency is low and profit margins appear high.

Typically retail charges can be a quarter of the household bill but are significantly less for business. Because business typically requires a higher volume of electricity than households, retail costs are a smaller share of their bill and in a number of cases energy-intensive businesses are able to buy direct from the generator.

Retailers matter

The services retailers provide, however, are important. They are the aggregators that buy electricity from generators, pay the networks and comply with government schemes like the renewable energy target (RET), before presenting a single bill to the customer. As buyers in the wholesale market they also have to manage risk, entering into hedging contracts to counter volatile prices.

Nevertheless, indications are that the profit margins of many of the bigger players are between 13 per cent to 22 per cent, according to the Grattan Institute's report on the Victorian market. This is particularly high by industry standards.

In this important report the Grattan Institute suggests that energy retailers are enjoying margins that are more than three times UK-based equivalents and more than twice that of retailers in other industries, such as food, motor vehicles and fuel.

The conclusion is that the full deregulation of the electricity retail sector, which started in Victoria in 2008 before moving to NSW, South Australia and Queensland, has not produced the dividend intended.

The answer put by Grattan does not necessarily lie in reverting to more regulation and maximum prices beyond which consumers cannot be charged, but rather empowering the consumer with more information so the benefits of a competitive market can surely work.

ACCC review

This is why the Turnbull government has tasked the Australian Competition and Consumer Commission (ACCC) to undertake a wide-ranging review under the Competition and Consumer Act. An interim report will be produced within six months and a final report by 2018.

With its comprehensive powers to gather information, the ACCC is perfectly placed to inquire into whether and if so, how; barriers to entry, vertical integration, anti-competitive behaviour and some would describe an uneven balance between profitability and risk are creating outcomes that may not be in the best interests of consumers.

Simply by boosting consumers' ability to find and compare different retail offers could lead to significant savings. While 50 per cent of consumers have not changed retailers in the last five years, the Australian Energy Regulator (AER) suggests by moving suppliers a household in Tamworth, NSW, or Woodville, South Australia, could save hundreds of dollars a year.

Research in 2015 by one of the big retailers showed there were 26,000 "vulnerable" – namely lower-income – households who were stuck on the existing highly priced "standing" offer. Meaning those with the least were consigned to paying the most.

We need to look more closely at this situation where concessional holders are confined to second-best contracts. As well as looking at how customers can be better notified about the discounts on offer and when they are coming to an end.

Saving money

Grattan has suggested that improved transparency could save Victorian customers alone up to $250 million a year.

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If we can get the level of consumer engagement and empowerment right, it will also nicely complement the major new opportunities presented by technological change.

For example, electricity smart meters. Combined with innovative demand side management apps, like the one used by Mojo customers in NSW during the recent heat wave, these technologies can provide retailers with the chance to offer customers an opportunity to boost their energy efficiency and reduce their power bills. It is a win-win for consumers and retailers.

Only better transparency and customer information will enable more people to enjoy the benefit of such offers.

As an essential service with relatively inelastic demand, electricity pricing affects us all.

With so many inputs there are unfortunately no silver bullets, however, retail prices which have often been bundled with wholesale costs have for too long gone under radar.

On the back of the ACCC's recent inquiry into gas markets that sparked significant reforms the timing is now right for its analytical and information-gathering powers to be applied to the retail electricity sector.

Josh Frydenberg is federal Environment and Energy Minister.

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