

**Submission
No 236**

**INQUIRY INTO ELECTRICITY SUPPLY, DEMAND AND
PRICES IN NEW SOUTH WALES**

Organisation: Momentum Energy

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The Director
Select Committee on Electricity Supply,
Demand and Prices in NSW
Parliament House
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Electricity Supply, Demand and Prices in NSW

Thank you for the opportunity to provide a submission to the Select Committee on Electricity Supply, Demand and Prices in NSW.

Momentum Energy is a 100% Australian-owned and operated energy retailer. We pride ourselves on competitive pricing, innovation and outstanding customer service. We retail electricity in Victoria, New South Wales, South Australia, Queensland, the ACT, and on the Bass Strait Islands. We offer competitive rates to both residential and business customers along with a range of innovative energy products and services. We also retail natural gas to Victorian customers.

Momentum Energy is owned by Hydro Tasmania, Australia's largest producer of renewable energy.

We are mindful that the continued upwards trajectory of retail energy prices is having a considerable impact on residential and business consumers and is cause of concern for many New South Wales families. With this in mind, we provide the following comments on each matter contained in the terms of reference.

(a) the reasons for recent large increases in the price of electricity.

The Committee would no doubt be aware of the ACCC's Preliminary Report into Retail Electricity Prices. Momentum energy supports the ACCC's preliminary findings that the key drivers of retail electricity prices are the wholesale and network costs faced by retailers. Competition in the retail sector is putting pressure on retail margins whereas the largely concentrated wholesale sector or the monopolistic network industry are unconstrained in this manner, consequently have incentives to seek efficiencies.

With this in mind however, we believe that some retail businesses are complicit in ensuring that customers are paying more than is necessary. As stated above, it is competitive pressure which leads to customers gaining the best outcomes, and as we see it, the biggest

issue in the retail space is the extent to which that competition is able to flourish. While we believe that the ACCC review is likely to recommend remedies to the issues in the wholesale and network sectors, we believe that additional action may be needed to ensure that retail competition can drive positive consumer outcomes. The main issue in this regard is the information asymmetry which prevents consumers from participating in the market and making informed decisions.

As a raft of reviews and investigations into the Australian energy industry have uncovered, retail energy pricing is complex. It is driven by a range of inputs which are in turn driven by the regulatory structures and policy considerations which govern them. In recent times, the concept of an energy trilemma, the balance between sustainability, reliability and affordability has emerged. While the inputs and interactions which drive energy prices are complex, we believe that the energy retailer has a responsibility to simplify things as much as possible for consumers, and are concerned that a number of industry participants have instead sought to capitalise on this complexity to limit customer participation.

While billing a customer for the energy which they consume is the most basic function of the retailer, this is not the sole function. Momentum has contended in other forums that the role of the retailer is much broader than this, and that the vast majority of the retailer's role can be broadly described as acting as intermediary between the customer and the rest of the market (generation, wholesale and policy makers). This role is crucial as we manage risk on behalf of the customer and deal with the complexity of the upstream market.

We believe that while retailers have been successful in managing wholesale risk, they have, by and large, failed the customer in terms of providing simplicity. A degree of complexity will always remain in retail energy pricing, but we are disappointed by our competitors who have sought to further complicate matters by obfuscating on energy prices and renewals practices.

Unlike the major retailers, Momentum does not seek to confuse customers with the promise of large discounts off a sometimes hard to discern base rate. Our offers are presented as a low rate where what the customer sees is what they get. Similarly Momentum does not charge fees for customers who choose to receive paper bills, impose penalties for late payment or penalise customers for paying by particular channels. We believe that this approach reflects our philosophy of 'making energy more human' but has in fact been to our detriment in the market, as customers seek out the biggest discount on offer without a real understanding of the underlying rate, the eligibility conditions of the discount or the fact that the discount may not apply to the whole bill. The difficulty in comparing like for like on this basis has been described by ACCC Commission Delia Rickard as "the discount off what?".

The way that prices are presented will not impact the prices charged, but it will help consumers to navigate the market to find a deal which suits their needs. The ACCC report has found that average retail margins across the retail energy industry are reasonable and that, as stated above, reforms in the network and generation sectors will deliver the best results in bringing down the average bill. While this is true, it does not reflect that fact that although average margins are reasonable, there are too many customers paying far too

much. Momentum agrees that price dispersion is a sign of a functioning market, but this is only true if the customer is clear about what the price is. Obscuring the true cost of energy under deep, conditional discounts does not allow customers to compare.

The other retailer practice which can obscure the price that consumers are paying for energy relates to discount expiry. It has been a relatively common practice for retailers to sign customers on to deals which promise substantial discounts (although the issues with these are discussed above) however these discounts expire after a period of time and the consumer can be faced with a significantly higher price. Once again, Momentum considers this practice to be unfair as, even when a customer has been notified in advance of a step price increase of this nature, questions remain as to the extent to which the average consumer will absorb and act upon such information.

The two issues outlined above have received significant attention in recent times. The Prime Minister sought a commitment from retailers to contact customers whose discounts had expired, and the ACCC's Preliminary Report makes reference to the deep discounting issue, so we are hopeful that these practices will be curbed, ideally through industry cooperation, but potentially through regulation. However, until retailers truly commit to making energy simpler and prices more transparent for consumers, the focus will remain on retailers regardless of the fact that the drivers for energy prices reside elsewhere in the supply chain.

(b) the impact of the deregulation of electricity prices in 2014,

Deregulation of electricity prices has removed the risks to retailers of a regulate price which does not reflect the actual costs of procuring energy and serving customers. This has removed one of the barriers to entry into NSW and created an environment in which competition can prosper. As outlined above however, competition is being undermined by information asymmetry which is created by retailer pricing practices.

Continued regulation of prices would not have led to lower energy prices, perhaps with the exception of standing offers, as the underlying drivers of increased costs would not be addressed. The deregulated market has allowed a range of business models and retailers which service niche consumer segments to develop. Re-regulation at this point would threaten these businesses and stifle further innovation.

(c) alleged collusion and price gouging by energy retailers,

Momentum is deeply concerned about any discussion of collusion and do not believe that the practice occurs in the retail energy industry. Further, while we have a firm belief that the retailer practices mentioned above are unfair to consumers, they appear to be within the bounds of the regulatory framework. These practices do not constitute gouging as customers are able to choose a better energy deal but are discouraged from doing so because of the opaque pricing of many retailers. We are hopeful that the ACCC will address these practices appropriate regulatory amendments as this will not only lead to better customer outcomes, but will dissipate perceptions of gouging.

(d) the effectiveness or impact of any current regulatory standards and guidelines,

Although the regulatory framework which governs retail energy practices does allow for the concerning practices outlined above, we believe that the mechanisms exist to ensure that the framework can evolve to ensure that the needs of energy consumers are met. Specifically, we consider the separation of rule maker and regulator (the AEMC and AER) and the transparent rule change process which exists, is better suited to driving positive consumer outcomes than the model which has previously existed and remains in jurisdictions. It is regrettable that it has taken this long for focus to intensify to the point where genuine change is being pursued however Momentum urges the Committee to await the ACCC's recommendations before proposing solutions.

We consider that NSW's adoption of the National Energy Customer Framework has allowed retailers to realise efficiencies as, by and large, retailers face a relatively uniform set of requirements across the jurisdictions in which they operate. While specific elements of the framework need to be addressed to improve customer outcomes, we understand that the ACCC's current review of retail prices will recommend amendments which can be rolled out at a national level to ensure that efficiencies are maintained and that the costs which arise from a fragmented regulatory framework are not borne by consumers.

(e) options for future government oversight and responsibility in the re-regulation of electricity prices,

Re-regulation of retail electricity prices is unlikely to provide meaningful relief for consumers, as the wholesale and network costs which retailers pass on would be unconstrained. Regulating a retail price without action to address input costs creates risk for retailers and will have the effect of driving prices up to the regulated maximum as retailers seek to ensure their returns. As outlined above, we believe that customer protections should be reviewed to put an end to market practices which are unfair or create an information asymmetry. We urge the committee to recommend any changes in the regulatory framework be developed through the AEMC rule change process to maximise efficiency and ensure that all stakeholders have appropriate opportunities for consultation.

(f) the adequacy of planning to meet future electricity demand, including utilising high efficiency, low emissions coal technology as well as the use of nuclear, gas, solar and wind energies, and energy storage through batteries, pumped hydro and hydrogen, and improved transmission between regions,

The high prices currently faced by consumers have arisen due to a failure to adequately plan for future demand and a transition to new generation sources and consumption and retail models. We are hopeful that the attention that these areas are currently receiving will lead to a coherent path forward towards lower prices, lower emissions and adequate reliability for consumers.

(g) the adequacy of programs to assist low income earners, pensioners and senior card holders to afford electricity as well as the impact of additional fees, such as late payment fees, included in energy bills, and

Momentum notes the recent increases to energy rebates in NSW and considers that these will assist low income consumers. We support the prohibitions on exit fees and paper bill fees as we do not believe that there is a justification for penalising customers who struggle to pay bills on time or to interact with their retailer via a particular medium.

(h) any other related matter.

In order to differentiate ourselves in a market characterised by resentment toward energy retailers, Momentum has set itself the challenge of ‘making energy more human’. In doing this we are mindful of the practices which have driven distrust in the sector and seek to differentiate ourselves on this basis.

While we will always try to exceed our customers’ expectation, basic respect, and recognition of the fact that energy is an essential service should not need to be a point of differentiation. We do not want to see a market where retail energy offerings are homogenised, but we believe that a focus on what is best for the consumer should be a common factor of all retailers’ approach.

If you require any further information with regard to these issues, please contact me on

Yours sincerely

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