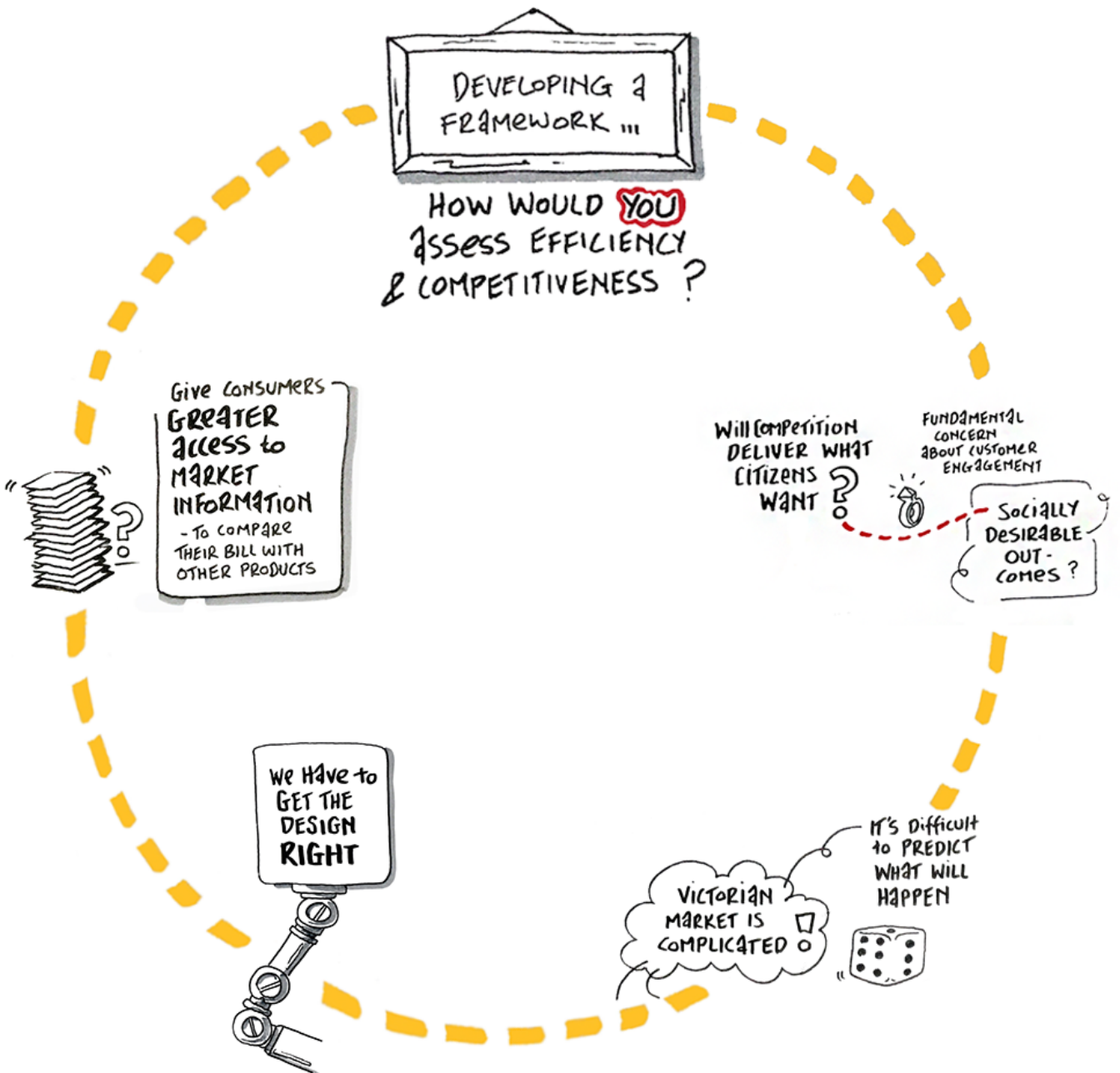


Keeping watch

How to tell if the energy retail market is delivering for Victorian consumers?





The Victorian government has requested the commission to give effect to recommendation 8A from the independent review, which requires the commission to monitor and report on the competitiveness and efficiency of the Victorian retail energy market.

The commission has also been:

- tasked with developing a framework to conduct carry out an assessment on the market, and is required to complete its review by 31 December 2019
- given an on-going function to “to monitor and report on the competitiveness and efficiency of the Victorian retail markets for electricity and gas”
- We have developed a framework and approach having regard to what we believe are the key reasons why reporting on the energy market is important.

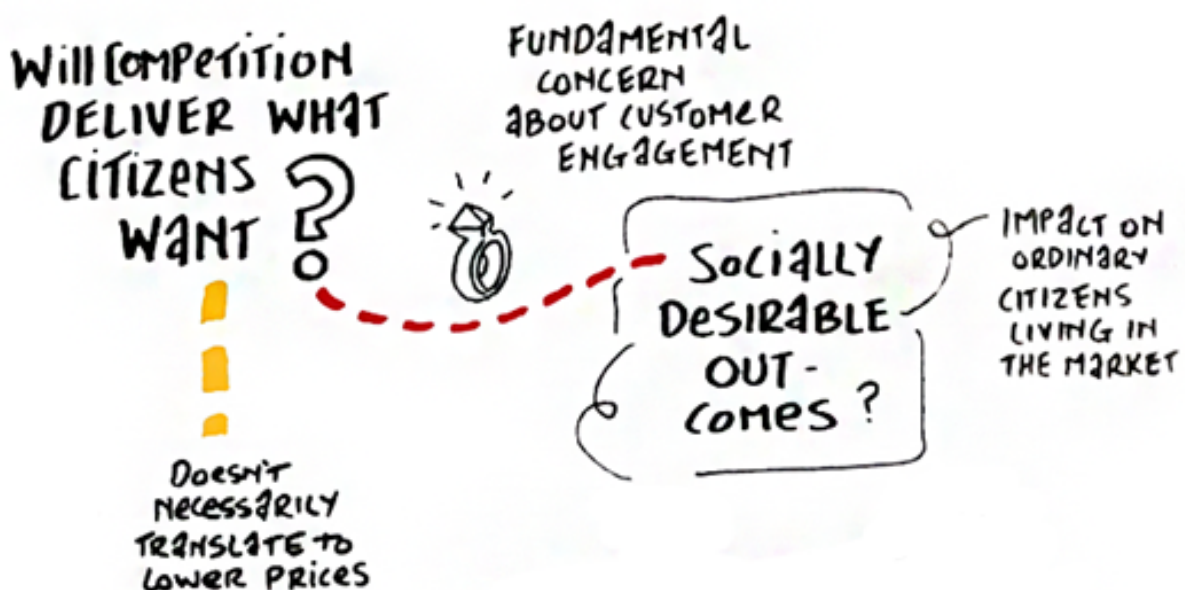
We have also consulted widely to ensure we best reflect what is important to our community.

What sort of outcomes should Victorian energy consumers receive?

We are looking for competition in the market that delivers positive long-term outcomes for Victorian consumers – a market with effective competition.

This recognises that competition is a means to an end rather than an end in itself and measuring the competitiveness and efficiency of the market can indicate what effect the market is having on customer outcomes.

This is particularly important given that energy is an essential service where the overwhelming majority of customers cannot exit or find a fully substituted product.

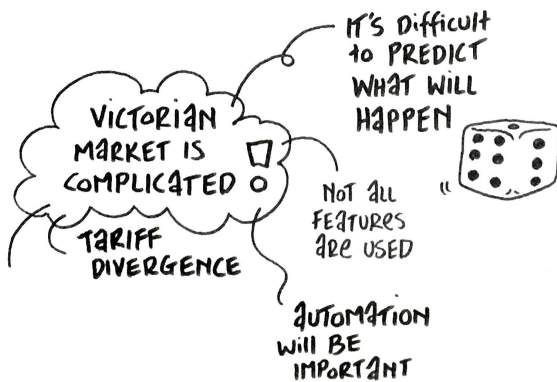
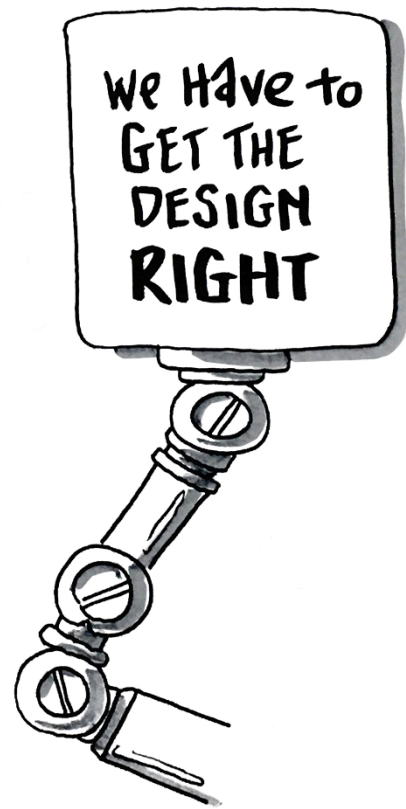




Can a highly competitive market deliver these outcomes?

Victoria became the first Australian jurisdiction to initiate steps towards full retail competition in 1994. At the time, it was expected that the introduction of full retail competition in the energy market would deliver positive outcomes for most Victorian consumers. Policy makers believed that full retail competition would deliver positive outcomes for customers because there would be genuine and vigorous rivalry between retailers because customers would exercise their ability to choose the retailer that provides them with the service they want.

The degree to which competition would provide the same benefits to vulnerable customers is less clear. As energy is an essential service, it is imperative that all customers experience positive outcomes. Where there is uncertainty as to whether a highly competitive market can deliver positive outcomes for all customers, other protections need to be put in place.



The Victorian energy market has failed to deliver these outcomes

Recent reviews have concluded that the Victorian energy market does not exhibit the characteristics of a highly competitive and efficient market. Although some indicators, such as market concentration, suggest the energy market is quite competitive, other observations suggest otherwise. This is particularly evident in the current pricing practices of retailers who engage in pricing strategies (such as conditional discounting) that make it very difficult for a customer to understand and compare the vast array of offers. There was also evidence that the retail charges being earned in the Victorian market are among the highest in the country.



Our framework and approach to measure effective competition

We have developed a framework to help us monitor and report on the competitiveness and efficiency of the market. It will enable us to uncover insights that can meaningfully shape regulatory and policy decision-making, particularly when identifying evidence of market failure.

The classic framework for assessing the competitiveness and efficiency of a market is the structure, conduct and performance framework, which has been applied across many markets for decades. We recognise that this is a rational and structured framework for considering markets.

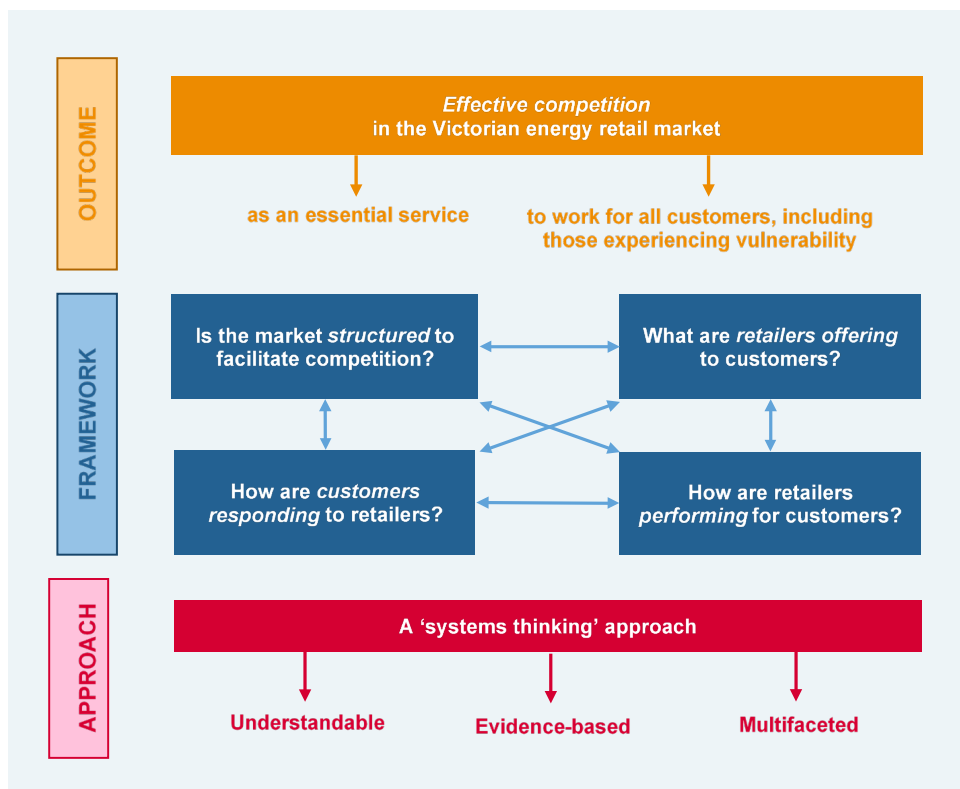
We will use an amended framework that builds on this framework, by drawing out how retailers and customers interact in the market. Our framework will capture the following questions:

- Is the market structured to facilitate competition?
- What are retailers offering to customers in the market?
- How are customers responding to retailers?
- How are retailers performing for customers?

We also know that there is no single indicator that shows whether the market is sufficiently efficient or demonstrates effective competition. Therefore, we will use a 'systems thinking' approach that allows us to consider how different components of the market interact and influence each other.

We will use the following approach when analysing the market and publishing our findings:

- **Understandable:** readers will be able to clearly see how we have used the framework and how this has led to our assessment of the market and any recommendations
- **Evidence-based:** the framework will be underpinned by quantitative and qualitative data for our indicators as well as robust analysis of the insights they provide
- **Multifaceted:** we will not rely on a single indicator or any category of indicators, such as market structure, to assess the competitiveness and efficiency of the market. Instead we will analyse the indicators and understand and explain how they interact with each other.





What will our report provide?

The commission will begin monitoring the market from 2020, using this framework and approach. In the lead up to the first report the commission will continue to engage to ensure the first report best meets the needs of stakeholders.

Our first report will focus on two major symptoms for why we believe there is a gap between our current market and a fully effective market:

- Lack of genuine innovation. Genuine innovation (both demand and supply side) should result in better outcomes for consumers whether it be from new products or a step change in costs.
- Low levels of trust. Trust ought to be present for the market to be effective for all customers, particularly customers experiencing vulnerability.

It is also likely that these two focus areas would continue to be a focus for our monitoring and reporting on the market in future years. We are particularly interested in monitoring innovation over time to identify new and emerging energy products or services, and to understand whether the regulatory framework is fostering or hindering innovation in the retail energy market.

It is anticipated that the first report will be released later in 2020.

We want our report to provide value for our community. Customers should be able to read the report and have confidence in the market working in their best interests. Policy makers should be able to use our report to consider what amendments may be needed to improve the outcomes of the market, particularly in areas where there is potential market failure. Retailers should be able to understand how their actions in the market will influence our assessment, and therefore the impact that may have on policy changes.

We welcome stakeholders' contribution to our review, whether it be through formal submissions or attending interviews, meetings and workshops, to help enhance our framework and approach, or to suggest other areas of focus for our first report. Stakeholders are welcome to provide formal submissions to this framework and approach until 30 March 2020.



The drawings presented in this summary are from notes taken at our November public forum. The notes reflect some of the discussions covered by our speakers, panelists and attendees.