



7 May 2018

By email: lily.d'ambrosio@parliament.vic.gov

The Hon Lily D'Ambrosio MP
Minister for Energy, Environment and Climate Change
Level 16
8 Nicholson St
East Melbourne
VIC 3002

Dear Minister,

Victorian Government Interim Response: Bipartisan Independent Review of the Electricity and Gas Retail Markets in Victoria (Independent Review).

We refer to our correspondence of 3 October 2017. The Brotherhood of St Laurence, Consumer Action, Council of the Ageing (**COTA**), Financial and Consumer Rights Council (**FCRC**) and Jesuit Social Services welcome the Government's Interim response to the Independent Review, and the associated Consultation Paper released by the Department of Environment, Land, Water and Planning (**DELWP**).

We welcome your efforts to get the market moving through the recently announced \$50 incentive. We do, however, consider there is urgent need for more systemic reform of the retail energy market.

As stated in our previous correspondence, over many years our organisations have witnessed first-hand the suffering that high energy retail charges have imposed on low income and vulnerable people in Victoria. The Independent Review provided a strong analysis of ongoing market failure in retail energy in Victoria and made a series of sensible recommendations to address that failure. **We continue to fully support all recommendations made by the Independent Review.**

This important program of reform has the potential to re-shape the relationship between Victorians and the businesses licenced to provide an essential service. When people have

no choice but to buy a product or service, and when that product or service has a profound and material impact on quality of life, it is incumbent on Government to ensure that the consumers of that product or service are well served by the market - and not harmed by the pursuit of corporate goals at the expense of social objectives.

On that basis we are pleased with the Government's commitment to recommendations 3 through to 11. We have no doubt that these important reforms will be of significant benefit to all Victorians - including vulnerable Victorians - and we urge the Government to progress the program of reform as a matter of urgency.

In particular, we look forward to working with the Government to progress recommendations 6 and 7, which relate specifically to low-income and vulnerable consumers. Recommendation 7B, (to explore a group purchasing/single buyer scheme) and recommendation 6D, (to review the administration of the Utility Relief Grants Scheme (**URGS**)), are high priorities for us amongst the suite of other positive reforms that the Government has supported.

We are disappointed that the Government has not yet committed to recommendations 1 and 2, although we remain hopeful that following the consultation period these may yet be adopted.

As stated in our previous correspondence, a well-designed Basic Service Offer (**BSO**) will deliver more affordable energy to Victorian households, without reliance on the expectation that people have the time and capacity to navigate the market. A BSO would provide consumers with an offer that they could trust – a 'fair price guarantee' for energy. The policy fundamentals and intent of the proposed BSO are very clear. A BSO would be an offer available to all Victorians, which energy retailers would be required to offer, and which would be identified by the ESC as representing a fair price for energy. This would strip out some of the excessive retail costs the Independent Review, (and since then, the ACCC), have identified as unnecessarily inflating the cost of this essential service in Victoria.

The BSO is also not an unusual policy response in complex markets like energy. Replacing the standing offer, it can offer a safe default. Despite efforts by governments and regulators to make switching easier, the evidence shows that providing more information and a few prompts will not overcome consumers' perception that the potential benefits of switching are simply not worth it. Sticking with the same product and provider can be a rational decision. Consumers should not be penalised for this loyalty, and the BSO can play a role in ensuring retailers treat their customers fairly in the first place. A similar function is played by the MySuper product in superannuation, and we note that the UK has recently enacted a price cap in recognition of the problems of energy retailers penalising loyalty.

In the policy debate that has emerged since the Independent Review, the challenges and complexity of implementing a BSO have generated significant discussion - sometimes

overshadowing the genuine need and market dysfunction that led to the recommendation.

We acknowledge that the BSO proposal will require further development, and some questions currently remain unanswered. Exactly where the BSO would sit in relation to other offers in the market and what proportion of consumers are already purchasing energy at a rate cheaper than a potential BSO (and the demographics of those consumers) is not currently known. Further, the methodology by which the Essential Services Commission (**ESC**) would develop a BSO, (and whether the ESC currently has sufficient information gathering powers to do so effectively), is yet to be determined. The mechanism by which consumers would come to choose or potentially be placed on a BSO by default needs to be confirmed.

These unknowns require that the BSO be developed through full and thorough consultation, and not rushed. Nor should it be confined to the “too hard” basket – it is a positive and powerful reform based on sound policy analysis and should receive the necessary consideration. The ACCC’s final report following their current inquiry into retail electricity pricing, and the ESC’s soon to be developed reference price will both provide critical information for the development of a BSO - and will help to answer some of the questions currently being asked.

As noted above, in relation to recommendation 2, we see this as a complementary measure with recommendation 1. If a BSO were to be implemented, then it would take the place of standing offers, obviating the need to maintain them.

We urge the Government to commit to the fundamental principle of establishing a BSO in the Victorian energy market and reiterate our willingness to engage with the development and implementation of all recommendations of the Independent Review. While the BSO will rightly take longer to develop, the important reforms to which the Government has already committed should be fast-tracked.

Yours Sincerely,



Conny Lenneberg
Executive Director
Brotherhood of St Laurence



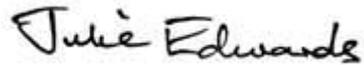
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CC. The Hon Daniel Andrews MP, Premier.
The Hon Tim Pallas MP, Treasurer.