

## Submission to ACCC monitoring of electricity supply in the National Electricity Market – Discussion Paper

19<sup>th</sup> December 2018

Australian Competition & Consumer Commission  
Level 17  
2 Lonsdale Street  
Melbourne Vic 3000

**By email:** [ElectricityMonitoring@accc.gov.au](mailto:ElectricityMonitoring@accc.gov.au)

Dear ACCC Secretariat,

We thank the ACCC for the opportunity to provide a submission on the ACCC monitoring of electricity supply in the National Electricity Market – Discussion Paper. We suggest the ACCC might give regard to our report and forthcoming consumers research in developing metrics relating to objectives relating to consumer experience and outcomes in energy markets.

The Consumer Policy Research Centre (CPRC) is an independent consumer research organisation which undertakes research to inform policy reform and business practice change. Our goal is to achieve a fair outcome for all consumers. We conduct research across a range of consumer markets, with a focus in 2018 on consumer decision-making, housing, consumer data and the online marketplace. We work collaboratively with academia, industry, government and the community sector.

In its discussion paper, the ACCC has primarily considered how the different prices components might be better monitored to provide insight into consumer outcomes. While affordability is a primary issue for consumer outcomes, evidence also suggests that consumers incurs significant additional costs to address issues relating to customer service – resulting in a significant loss to consumer welfare.<sup>1</sup>

The ACCC has raised a number of questions around the kinds of measurements of behaviour they should collect, and sought input on the policy issues likely to impact the functioning of electricity markets:

- 13) What specific measurements or thresholds of market outcomes or participant behaviour should be used in the ACCC's electricity market monitoring?
- 14) What policy issues are likely to impact on the functioning of the electricity market and should therefore be a focus of monitoring by the ACCC?

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<sup>1</sup> EY Sweeney, *Australian Consumer Survey 2016* (The Treasury, on behalf of Consumer Affairs Australia and New Zealand, 2016), 63-66.

CPRC's recent report, "*But are they any good?*" (attached), examines the benefits of service quality information disclosure for consumers, and considers the impact of a lack of trusted, transparent information about the service quality consumers can expect from businesses in complex service sectors. The lack of this information often means consumers may rely on inappropriate proxies such as price, word of mouth or brand name recognition and marketing, which often favours incumbents and may in fact inhibit competition to provide good customer service to consumers.

If information asymmetry about service quality of providers creates ambiguity in the market and results in reduced consumer participation, as is suggested by the literature, it may also result in market inefficiencies.<sup>2</sup> The absence of service quality information provides little incentive for suppliers to compete on changing demands around service quality and improve their service offering, resulting in poor technical and dynamic efficiency.<sup>3</sup> Where consumers perform only a limited search of the market, firms might compete to be the first to attract consumers, rather than competing to provide the best offer.<sup>4</sup> As noted by the UK's Office of Fair Trading, this potentially results in overuse of resources for marketing and advertising rather than providing a lower-priced or higher quality product.<sup>5</sup> This has arguably been a key driver of cost in the retail energy market, the ACCC's Final Inquiry found evidence that retailers may pay up to \$200 per customer acquired through commercial comparators, attributed to factors such as the cost of commission for different comparison websites, advertising, and call-back activities to retain customers.<sup>6</sup> Moreover, where product-environment information is ambiguous, consumers may choose not to switch to lower cost providers with equal/greater quality than their current provider, diminishing demand-side competition and ultimately resulting in muted price competition or *X-inefficiency* – whereby firms lack adequate competitive incentives to reduce unit costs of production.

CPRC's report also notes that following widespread recommendation, the UK Department for Business, Energy & Industrial Strategy's (DBEIS) *Modernising consumer markets: green paper* outlined the implementation of a variety of customer facing measure of service quality by regulators of water, energy, banking and insurance, and telecommunications in the UK would develop by December 2018. DBEIS expects that these measures will be primarily used by businesses, regulators and community advocates to measure market outcomes rather than consumers, though the paper does not preclude this possibility.

The publication of CRPC's discussion paper coincides with the delivery of our research partnership with RMIT's Behavioural Business Lab - with support from the Essential Services Commission (ESC), the Department of Energy, Land, Water and Planning (DELWP), and the Energy and Water Ombudsman Victoria (EWOV) - to investigate the opportunities to make meaningful service and quality information available to energy consumers. This project includes qualitative and quantitative research exploring the non-price attributes that consumers value in the energy retail market.

In relation to the current monitoring approach and measures proposed by the ACCC, CPRC would like to highlight the benefit of closer consultation with consumer organisations on the

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<sup>2</sup> Onesun Steve Yoo, Rakesh Sarin, "Consumer Choice and Market Outcomes Under Ambiguity in Product Quality", *Marketing Science*, (Articles in advance) (2018).

<sup>3</sup> Consumer Affairs Victoria, "Designing Quality Rating Schemes for Service Providers", 2006 2.

<sup>4</sup> Office of Fair Trading, *What does Behavioural Economics mean for Competition Policy?*, March 2010, 19.

<sup>5</sup> *Ibid.*

<sup>6</sup> ACCC, *Restoring electricity affordability and Australia's competitive advantage - Retail Electricity Pricing Inquiry—Final Report*, 2018, 231.

finalisation of metrics. There are several insights we'd be happy to share from our consumer research program in relation to information disclosure, transparency, comprehension and product choice.

If you have any questions about our research, please contact Research & Policy Officer Ben Martin-Hobbs on [ben.martinhobbs@cprc.org.au](mailto:ben.martinhobbs@cprc.org.au) or (03) 9639 7600.

Yours Sincerely,



Lauren Solomon,  
**Chief Executive Officer**  
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