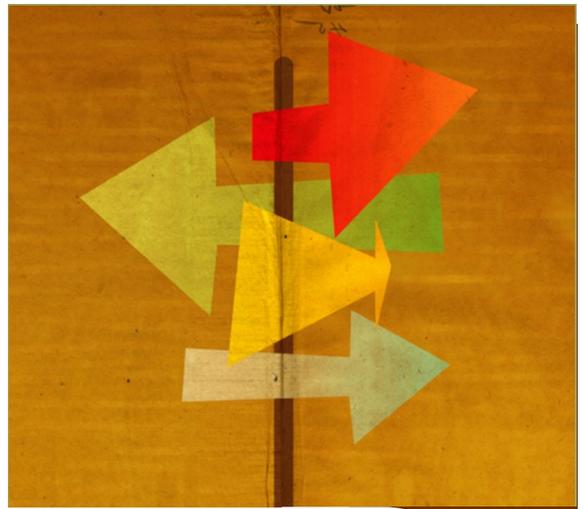


Improving energy market competition through consumer participation

Highlights from a CUAC research report



Background

It has become clear in recent years that many consumers find it difficult to make effective choices in Victoria's retail energy market. A large number of offers coupled with limited consumer understanding of, and interest in, the energy market leads to less than optimal decision making and consumer engagement.

Acknowledging these issues, CUAC initiated a research project aimed at assessing the nature and extent of any problems with consumer participation in the retail market. The project analysed relevant literature on the subject of consumer behaviour in competitive markets to identify creative solutions to improving the competitiveness of Victoria's energy market.

The research aimed to move beyond the use of switching rates alone as a proxy for market health. It provides a broader picture of the consumer experience of the market as a better indicator of market performance.

The research is premised on the idea that if consumers are empowered to make effective choices, competitive pressure on retailers will be maximised and market outcomes will be stronger.

The result of this research is the report *Improving energy market competition through consumer participation*. The report highlights a number of issues with market structure and consumer engagement and identifies a range of approaches to improve both the consumer experience and market competitiveness.

Research review

The research highlighted a range of factors likely to reduce consumer engagement in markets for products like energy. Limited consumer capacity was identified as the major factor likely to reduce the effectiveness of consumer participation. Constraints on consumers' ability or willingness to engage with and process complex information about their available choices reduces the effectiveness of their decision making. Issues such as search costs and consumer responses to discounts and bonuses are also likely to impact on the effectiveness of consumer decision making.

Of particular interest was a landmark study on consumer behaviour which found that consumers were much more likely to make active choice in a market with limited rather than abundant options.

Research on consumer participation in competitive energy markets suggests that issues such as consumer capacity are likely impacting on market competitiveness and consumer participation.

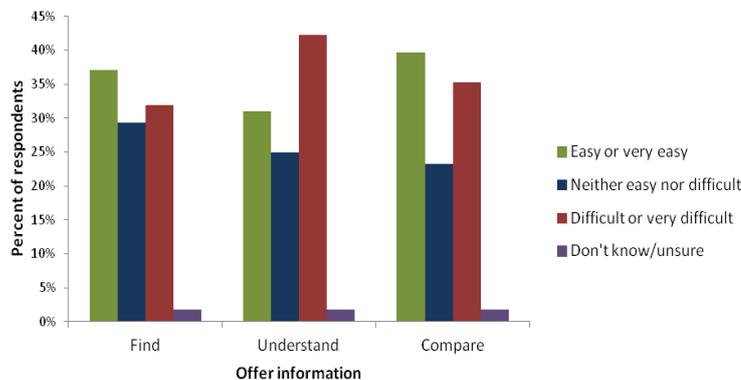
For example, research from the UK found that the quality of switching decisions made by UK consumers was similar to the quality of decision that would be expected if they had chosen an offer at random. This was attributed to limited consumer capacity to make complex comparisons.

Studies of the Victorian market coinciding with successive rounds of reform have continued to highlight consumer difficulty in understanding offers and participation.

Consumer survey

To understand the effectiveness of consumer participation in the Victorian market, CUAC surveyed 327 Victorian consumers on the ease and experience of energy market participation. The survey found that many Victorians continue to have difficulty in understanding offers and are subject to misleading door-to-door sales conduct.

Fig. 1: Ease of finding, understanding and comparing offer information



Other key findings from the CUAC Survey are that:

- 42 per cent of survey respondents found it difficult to understand energy offers compared to 32 per cent of respondents who find it easy;
- 33 per cent of survey respondents indicated that they thought that the price of energy is set by the government in Victoria;
- 52 per cent of respondents who had changed electricity or gas retailer indicated that they switched provider to seek lower prices;
- 37 per cent of consumers who had not changed energy providers indicated that the reasons were that it was “too hard to choose”, “not worth the effort”, or they “could not be bothered”;
- 75 per cent of respondents to a voluntary, open-ended question about any energy market issue used this opportunity to comment negatively about door-to-door sales;
- 30 per cent of respondents indicated that there was a likelihood they would switch retailer in the coming year, compared with 54 per cent indicating that this was unlikely;
- 74 per cent of respondents

who had changed providers reported a degree of confidence in their switching decision; and

- 61 per cent of respondents expressed support for a competitive market model.

Analysis of switching sites

The research also made some key findings on the quality of information available to consumers. The report found that the information provided by online switching sites was often incomplete and in many cases incorrect.

Similarly, the survey revealed that many respondents had experienced mis-selling from door-to-door salespeople. For example, 87 per cent of respondents indicated that they had been approached by a door-to-door salesperson and, of these, 31 per cent indicated that the salesperson had told them the whole neighbourhood was changing energy provider.

Recommendations

The report makes a number of recommendations to improve Victoria’s competitive energy market based on the research findings. These include recommendations relating to the quality of, and access to, consumer information.

Additionally, a range of regulatory approaches are recommended to improve the simplicity of the market and comparability of energy offers. Some of the key recommendations include:

- Government resourcing for a comprehensive and multi-faceted information campaign on energy;
- Regulation on the number and expression of energy offers to improve comparability and simplicity;
- A review of the role of discounts and bonuses along with the regulation of fixed charges, in some circumstances, to allow for comparison on the basis of variable charges alone;
- Improved resourcing and design for regulator operated price comparison websites;
- The introduction of a voluntary code of practice for privately operated price comparison services; and
- Increased compliance and enforcement activity by regulators on door-to-door sales conduct.

Next steps

This research provides a good portrait of the state of the Victorian market along with positive approaches to improve its operation. The report also provides crucial indicators to the Commonwealth and other states and territories as they consider transition to full retail competition across Australia.

CUAC will be seeking to advance the findings and recommendations from this project with decision makers at both the state and national level in the first half of 2012.