The Policy Pitch: Retail competition in the electricity sector and energy price

13 September 2017

Retail competition in the electricity sector and energy price continues to attract major attention and is an issue that touches all Australians. Two recent events in this ongoing debate are the meeting of retailers with the Prime Minister, and the release of the bi-partisan Review of the Victorian Electricity and Gas Markets lead by John Thwaites and an independent panel.

This Energy Futures Seminar, a part of the Policy Pitch series, explored the Thwaites Review findings and the Grattan Report 'Price shock: Is the retail electricity market failing consumers?' released earlier this year. The expert panel, moderated by Dr Sara Bice and joined by John Thwaites, Tony Wood and Sarah McNamara debated the Review's recommendations for a regulated Basic Service Offer and related issues. Following presentations from the panel, the discussion opened to the floor for questions.

Moderator: Dr Sara Bice, Deputy Director, Melbourne Energy Institute

Speakers: Tony Wood, Grattan Institute
Professor John Thwaites, Professorial Fellow, Monash University
Sarah McNamara, Energy Council's Chief Manager of Corporate Affairs

ANDREW HISKENS: Good evening everyone. My name is Andrew Hiskens and I'm the Manager of Learning Services here at the State Library of Victoria. It gives me great pleasure to welcome you all on this rather cold spring evening to *The Policy Pitch*, a joint initiative of the State Library of Victoria and the Grattan Institute. This seminar is held on the traditional lands of the Kulin nation and I wish to acknowledge them as the traditional owners. I'd like to give a warm spring welcome to tonight's speakers, Dr Sarah Bice, Professor John Thwaites, Sarah McNamara and Tony Wood, and also to Grattan Institute members and staff and Friends of the Library. *The Policy Pitch* is one of a broad range of programs offered by the State Library and our partners. If you'd like to know more I'd encourage you to pick up our winter brochure and have a look at what's on and visit our website to keep abreast of the free community programs that we offer.

Tonight's topic is retail competition in the energy sector and it has featured prominently in current affairs. Two recent events in this ongoing debate are the meeting of retailers with the Prime Minister and the release of the bipartisan review of the Victorian electricity and gas markets led by John Thwaites, who is with us tonight, and an independent panel. Sara, John, Sarah and Tony, I look forward to hearing your observations about this contentious topic and I can almost feel the energy in the room. I'm pleased to introduce the moderator for this evening, Dr Sara Bice. Sara is Deputy Director of the Melbourne Energy Institute, a social scientist and Director of Research Translation for the Melbourne School of Government, and President-Elect of the International Association for Impact Assessment. Sara has

spent much of her career working with communities, corporations and government to reduce the social impacts of mining and extractive projects and improve policy outcomes. She is an award-winning writer and her book *Responsible Mining* is available now. Please join me in welcoming Sara.

SARA BICE: Good evening and welcome. I would also like to begin by acknowledging that we meet this evening on the land of the Wurundjeri people of the Kulin nation and pay my respects to their elders past and present, and to any elders who may be with us this evening as we introduce part of our *Energy Futures* seminar series through Melbourne Energy Institute in partnership with the Grattan Institute tonight looking at retail competition in the electricity sector and energy price. I'm so pleased to see the lights are on. It's something we really take for granted, isn't it? The lights on, the refrigerator hums, the TV turns on. For so long, energy has been, for many of us, a very invisible resource that today is becoming much more visible. A great deal of this increased visibility is due to the noticeably increasing cost of electricity to the everyday consumer and that's certainly why we're here tonight. It's no coincidence that this conversation is taking place at our beautiful State Library - thank you, Andrew - in the heart of Victoria because nowhere else in Australia today are individuals paying more for their energy. Professor John Thwaites' independent review into the centricity and gas retail markets in Victoria - and you'll hear much more about that from the man himself in a moment - found that Victorians are paying an average of around 21% more per year for their electricity than the cheapest offer available in the energy market. These prices were much higher than those found in official estimates. Meanwhile another of our speakers, Tony Wood, and his colleagues from the Grattan Institute found that Victorians could save a total estimated $250 million a year if the profit margin of electricity retailers was the same as for other retail businesses, and you'll hear more from Toy in a moment as well.

The situation has led to calls for urgent attention to a market that was fully deregulated in 2009. We see headlines like those that recently appeared in *The Age* noting that Australian wages are relatively frozen and increasing energy prices are hurting households' hip pockets. The recent release of Chief Scientist Alan Finkel's review into the future security of the National Electricity Market (NEM), to which the Melbourne Energy Institute was privileged to contribute, has sparked ongoing debate over a Clean Energy Target (CET) and it's re-emphasised the pressing need to transition to a low carbon economy and society. We need to look no further than the hurricane-pummelled Caribbean and southern United States or to the flooding in south India for reminders as to the climate change context that make tonight's discussion so important. So for now the lights remain on, but can they remain affordable? To help us contemplate this and other questions tonight, I'm very pleased to introduce our speakers for the evening. The way that the evening will run will be that John will present the findings of his report and that will then be responded to by Sarah and Tony . We will then have an opportunity for a facilitated panel discussion before we open up to the audience. So, to introduce our speakers.

Professor John Thwaites is Professorial Fellow at Monash University and Chair of the Monash Sustainable Development Institute and ClimateWorks Australia. John is also the Chair of Melbourne Water, Chair of the Australian Building Codes Board and Co-Chair of the Leadership Council of the UN Sustainable Development Solutions Network (SDSN) launched by the Secretary-General of the UN to provide expert advice and support to the development and implementation of the Sustainable Development Goals (SDGs). If you need a Chair I think John might be your man. He was Deputy Premier of Victoria from 1999 to 2007, so just prior to the deregulation of the market, and a member of the Victorian parliament from 1992 to 2007, during which time he held several ministries including

health, planning, environment, water and climate change, and I'm sure his is a name familiar to many of you from Victoria.

We're also pleased to welcome Sarah McNamara who was appointed as the Energy Council's General Manager of Corporate Affairs in January 2016. Sarah is a corporate and government relations professional with more than ten years' experience working with policy and regulatory frameworks across the resources and energy sectors. Most recently she was Chief of Staff to the then Minister for Industry, the Honourable Ian McFarlane, and prior to that she worked as a Senior Policy Adviser to the Prime Minister on energy, resources, environment, agriculture and communications. For some of that time she also headed up the community engagement team for AGL Corporate Affairs where she worked as Head of Government Affairs as well. This is a woman whose parents are in the audience and they should be very proud. Sarah began her career as a corporate lawyer and has a Bachelor of Arts and Law from the University of Melbourne, so we're very proud of that, Sarah. She's also worked as a policy adviser in the Howard Government.

Finally, many of you who attend Grattan Institute events will know our third and final speaker Tony Wood, who has been the Energy Program Director since 2011, after 14 years working at Origin Energy in senior executive roles. From 2009 until 2014, Tony was also the Program Director of Clean Energy Projects at the Clinton Foundation - Hillary's book is out now! - advising governments in the Asia-Pacific region on the effective deployment of largescale low emission energy technologies. In 2008 Tony was seconded to provide an industry perspective to the first Garnaut Climate Change Review. We have an expert panel for you tonight with plenty of discussion and debate I'm sure, so without further ado I would like to welcome Professor John Thwaites.

JOHN THWAITES: Thank you and I'd also like to acknowledge the traditional owners of the land where we meet for this important discussion this evening. I'm going to talk about the independent review of electricity and gas retail markets which I conducted together with two colleagues over the past six months and this was a bipartisan review, so Terry Mulder, a former government minister, myself, and Patricia Faulkner, a former senior bureaucrat and Head of Consumer Affairs. The government asked us to review the retail section of the market. Of course, as people know, there's a supply chain, there's generation and a lot of the debate now is about generation, renewables, there's the poles and wires that distributes the electricity, and then there's the retailers who buy the electricity on behalf of the customers and bill the customers for that. We were only looking at that last part of the chain, the retail part of the chain.

When you get a bill it's not broken up like this, but behind your total bill there are a number of different costs. So in an electricity bill you've got that wholesale charge, whether it's renewable or coal or gas; you've got the network charge, which we pay to the network companies for transmitting and distributing the electricity; you've got a charge for environmental schemes, like the Victoria Energy Efficiency Target or the Commonwealth Renewable Energy Target (RET); and then you've got this area that I'm going to focus on tonight, which is the retail portion of the bill, the retail charge. Retailers in sending out the bill and calculating that have two components of their charge, one is their costs - their billing cost, their marketing cost, their cost of keeping customers - and the other is the profit that they make. That's how that's made up. Now, competition in Victoria was introduced into the retail market in 2002 and was completely deregulated in 2009. The intention at the time was to drive down costs and provide better

services for customers. The basis for that was a view - and I can stand here as someone who was part of the government that had this view – was that this would use the benefits of competition to drive more efficiency. That was the theory behind it. When we approached this inquiry we approached it from one overriding consideration and that was is the market now operating in the interests of consumers? That's the whole purpose of having a market and having competition. We concluded that currently the retail energy market is not doing that; it is not operating in the interests of consumers.

The first thing we looked at was what's happening to total bills? If you look at that graph there, that's from the Australian Bureau of Statistics and that's the total bill since the year 2000 and the increase in that. What you see there is that since 2000 we've had an increase of 200% in total bills but, interestingly, if you look at 2009, when the market was fully deregulated, we've seen a very substantial increase and, indeed, total bills have increased by more than 100% since then. They've more than doubled since 2009. So that's the total bill, but remember I said the bill is made up of the wholesale cost and the network charges. Without going into this graph in great detail, what that shows at the top is the total bill and then at the bottom you've got the different components of the bill. The brown, for example, is the network, the blue is the wholesale. What you see is that there has been some increase in network charges and some in wholesale, but it doesn't explain fully the total increase in bills. What we identified through our review is that a significant component of this very large increase in the total bill is the retailer's charge; that is what the retailer is charging as a result of their costs and to make a profit on top of the other parts of the chain, the wholesale and networking. Now, there's been a lot of debate about this issue and a lot of reflection, but what there hasn't been in the past is a lot of investigation of what customers are actually paying. In the past a lot of the investigation has been based simply on what the best offers are in the market, that is what you could achieve if you got the best offer, but we decided that really we ought to be looking at what people are actually paying. That's why we conducted a sample survey and then had that reviewed by an organisation, CME, to work out what people were actually paying.

A lot of our findings were based on that and essentially what we found from the sample was that the customers of different retailers were paying different amounts. Just to give you an idea of the sample we had, AGL customers were paying in total around $1,518 and Origin about $100 less than that. It was in that range, around $1,400/$1,500. What we then did was say let's determine what retail charge they're paying, so out of their total bill how much are people paying for the retailer's portion of their bill? That led us to this graph here which is the retailer's charge on a typical bill in this sample that we looked at. Essentially what that found was that for a typical bill of a customer using about 4Mwh (4,000Kwh), which is a typical customer, the retail portion of that bill was $420, which was around the same amount as the network charge and considerably more than people were paying for the generation of the electricity, which is a somewhat surprising result. Because I think if you went out and asked most people they'd think that most of their bill was going towards paying for generating the electricity, not for what they're getting from the retailer in terms of having the bill sent to them and buying the electricity on their behalf. Nationally, most of the debate has been about the cost of the networks, the distributors, the cost of the poles and wires, and you've heard all the stories about gold plating. What we concluded was yes, there's been some increase in Victoria, but really that so-called gold plating, the big increase in network charges was actually happening in New South Wales and Queensland. In Victoria it appears we have as one important component of our higher prices a large retailer charge.

When we compared Victoria to other states or, indeed, other countries, the retailer charge was pretty significant, and this shows for Victoria more than 10c/Kwh going to the retailer charge out of a total charge of maybe 35c/Kwh or 36c/Kwh. Next to Victoria you see the other states, New South Wales, South Australian and Queensland, are less than Victoria is paying in retail charges and if you compare it to countries in Europe it appears that we're paying considerably more here for the retail portion of the bill. When we broke that up by individual retailers in this sample, that graph shows on the left AGL and then Origin and Energy Australia, the largest retailers. You'll see that the large retailers are towards the top of the retailers' charges and there are the other retailers there, but also on that graph what you'll see is those horizontal lines. The bottom horizontal line you'll see there is the ACT regulated retail charge, how much the regulator in the ACT said was appropriate for a retail charge in the ACT. I think, from memory, it was around $120, that sort of level, so significantly less than the sort of retail charge the typical customer is paying in the market in Victoria of around $400. The other horizontal lines represent other regulated charges. So for us this was a concern and certainly influenced our policy thinking, because if we're paying a lot more here in the market than in a regulated system you've got to question whether the market is really operating in the interests of customers.

Another interesting reflection is to compare the amount we're paying for these retailer charges on an electricity bill to a water bill. On the right you'll see the breakdown of a typical water bill. In a typical water bill of just over $1,000 a customer is paying about $80 for the retailer's charge in sending out the bills and obtaining the water, whereas in the electricity system it's around $400. There'll be discussions and arguments about all the different figures, but the conclusion we reached is that the difference between water, for example, and electricity is so stark that you've got to question whether the current system is working in the interest of consumers. The other thing that we looked at is what's the difference between what people are actually paying and what the best offer is? What we found is that overall on average people were paying 21% more than the best offer and in dollar terms on average that worked out to $294. But, interestingly, you could sort of categorise people in different groups. On the left is the low saving group, there appears to be a group of about 30% of people who are participating in the market and the gap between what they're paying and the lowest offer is relatively small, $84. That's the group on the left, about 30% of the market, but 70% of the market, 70% of the consumers are paying well above the odds. The middle group there are paying $223 more and then there's a group on the right which represents nearly a quarter of all customers who are paying $500 more than the best offer. So clearly this is a significant issue. In the past a lot of the focus has been in a sense it's the customer's fault because they're not getting on the best offer, but the way we looked at it was is the system working when so many people, 70% of consumers, are so far away from the best offer?

Another interesting fact that we saw was a high portion of people's bills, the bill you're getting, is now fixed charges, which is the daily supply charge. This graph shows on the left in brown the total fixed charge in the typical bill and for the AusNet area it's around $420. Now, often the statement is made that retailers have to charge a fixed charge in their bill because the networks are charging them and they have to pass that on. What we did was look at what the networks are charging the retailer for a fixed charge - that's in the blue and the green - and what you'll see there on the right - the other green - is the balance. What it shows is that yes, there is a fixed charge that the networks are charging, but the green at the right there is a very significant fixed charge that the retailers themselves are charging. Of course, that's putting the burden back on customers of any risk of demand reduction or, putting it another way, customers aren't able to reduce their bills by being more energy efficient. When we looked

at it also we saw that over time the network fixed charges were rising as are the retailers', but the retailers' fixed charges have risen more than the network fixed charges and in recent years the network fixed charge here has come down a bit as the cost of metering systems has reduced and that hasn't been passed onto customers. So that's the background on which we had to make some policy recommendations to the government, a background of very significant increase in total bills but also a very significant retailers' charge that seems to be greater here in Victoria than in other states and elsewhere.

What we had to do was then ask what should we do about this and what might be causing the fact that the market doesn't seem to be working? We examined a whole lot of factors, but above all this was the factor: the electricity market, unlike so many other markets, is one where it's an essential service. Customers can't exit and so if price goes up you can't say, "Well, I'm not having that anymore", you just have to keep paying. Even a market you could say in a lot of ways is similar to petrol, the energy for your car, there's more ability to shift out of that because you take public transport, but in electricity you can't do that. So there's a constraint on competition, there's a natural difficulty for the benefits of competition to apply. That's the first and probably most significant reason we saw, but there are other reasons as well. This is something that I learnt through this process, I didn't understand it at the start of our review: prior to having a competitive market the total cost for the retailers was pretty small. Basically, it was about the billing system and financing, but it was not a huge amount and if you look at the regulated price in the ACT - $120, $130, $140 - it's a small amount. So it wasn't as though there was a huge amount of fat to reduce by introducing competition, yet when we introduced competition we introduced a whole series of costs on the market, namely the marketing costs and the customer acquisition and retention costs. So, for example, these switching sites that you see; someone's got to pay for them. The way it works in these commercial switching sites is that you go on and you find a new retailer and the new retailer has to pay the switching site for that. That can be very expensive. Who pays for that? Well, the consumers end up paying for that. When we actually looked at what costs retailers were incurring we saw they've increased very substantially as a result of competition and some retailers are spending an enormous amount just on trying to get customers or retain customers, so that was the second thing.

The third aspect to look at here is the structure of the market where you have a market with three very large retailers - AGL, Origin and Energy Australia - that are vertically integrated, that means they generate the electricity as well as sell it. They have some significant competitive advantages over the smaller new entrants and, in our view, based on what we saw, there was not a huge amount of competitive pressure on the big three from the small new entrants. Part of that was because of the structure of the market. Then the fourth thing about energy that makes it difficult for the market to operate is that actually energy is very hard to visualise. It's not like petrol. When you go to the petrol station you know what you're getting, you're paying $1.30 a litre, you fill up at the time and you drive off and you know how far you've got. With an electricity bill you have to know what the daily charge is, the fixed charge; you have to know what the variable charge is per Kwh; and you have to know how much you're using and maybe when you're using it. You have to be able to work all that out in your head and then you get a bill every couple of months which you probably don't look at because now you've got a 30% discount if you pay on time and you automatically have it deducted out of your bank account. So most people actually don't engage in the way they do when they buy petrol. It's much harder to engage. The final area which is getting quite a bit of publicity - and I haven't spent a lot of time on it tonight, but

the Prime Minister and the Energy Minister have talked about this - are these industry practices like discounts where, frankly, the whole discounting system is totally misleading. The public don't understand it. People think they're getting a 30% or 40% discount, but they don't know what it's off and, indeed, it changes and different retailers have different baselines for that. Even if you do get a discount, how long does it last? You can get a discount and then the underlying fixed charge and variable charge can change, so you're still getting the discount but your real bill is getting bigger. The industry practices have led to a situation where people don't know, they're confused and many of them, I think sensibly, are saying there's not much point in engaging with the market.

So those were the explanations, as we saw it, why this wasn't working and really that explanation summarises and explains our first recommendation, which is that there should be a requirement that all retailers make, as part of a series of offers, one offer which is a regulated no-frills basic service offer. This would be regulated by the Essential Services Commission (ESC) here in Victoria and for the 70% of people that clearly are paying way above the odds now, who aren't able to work out the complicated system that we have, they can know that there is a reasonable regulated offer that they can use and avoid the confusion. We understand that if this recommendation is accepted by the government there will need to be some discussion about the detail and how this will operate, but our basic principle is that this should be set by the ESC, which is independent, and it should be based on how much people use so that people can have confidence in that. So that was our first and probably most important recommendation, but we also made a number of other recommendations to make the market clearer and to empower customers. One recommendation that we believe is important is that any marketing of offers should be on the basis of dollars, not on the basis of discounts, so that people can clearly understand what they're paying in a bottom line dollar sense. We also recommended that there be changes to the way in which contracts and benefit periods are regulated and marketed. Currently there is a requirement that the retailers notify people at the end of a contract period, but not necessarily at the end of their benefit. More and more people are on evergreen contracts now which go on and on but they might have lost their benefits, so we're recommending that there be some reforms there to make it much simpler and clearer for customers.

We're also recommending that there be more access to smart meter data for those who want it and we've made some recommendations to protect low income and vulnerable customers. One of those recommendations is that the government look at a group purchasing on behalf of low income groups electricity on their behalf. We also believe that the ESC should be given more power to monitor the market to find out exactly what's happening and to develop an energy market code that has the consumer front and centre. I guess that's where I'll finish up because that has to be the objective of any system. The objective is not how many retailers we've got or what the churn is or any of these other indicators. The objective should be how is this system affecting consumers? Thank you.

SARAH MCNAMARA: Thanks John and thanks very much to the Grattan Institute for inviting me to speak tonight. It is actually true that my parents are in the audience and whilst I'd like to think that they're here to hear me speak, I think they're also here because, like all of us, they're worried about the rising cost of their electricity bills. There is no doubt, and the industry doesn't resile from the fact, that this is a really big problem for average consumers, particularly in the Victorian market, but there are three points I'd like to make to you here tonight in relation to that issue.

The first point is really simple: the problem of rising electricity prices in this state is not to do with the behaviour of retailers. It is because of the volatility in the wholesale market that we are seeing and the ongoing supply issues we have in Victoria and elsewhere in the NEM in relation to the supply of reliable baseload energy. We know that the closure of the Northern power station in South Australia and the more recent closure of Hazelwood here in Victoria - Hazelwood punched a 20% hole in the baseload generation capacity of this state - leads to massive volatility issues in the wholesale market. One thing that retailers have to do that is really important, it forms part of their retailer charge and it is hard to price accurately when you're looking in retrospect at how retailers have behaved, is wholesale market risk. That is an increasingly difficult issue for retailers to grapple with and the cost of prices in the wholesale market are a key cause of rising prices here. What is the answer to this? The answer does not lie in re-regulating retail prices here in Victoria. We know as an industry that we have suffered ten years of policy uncertainty at a federal level. That needs to stop and the sooner the better. That is why we in the industry have been banging the drum relentlessly on the question of the need for bipartisan reliable policy that we can actually predict will be sustainable into the future. We believe we have a suite of policy options that represent something the industry can work with on the table now in Canberra and we're hopeful that we'll get to a place where there will be bipartisan support for all of the recommendations in the Finkel review, including the Clean Energy Target (CET) or a replacement for it. So what we do want to see is that really strong federal policy support to enable the right investment in the market, because when we don't have the right investment signals, and policy certainty is what enables investors to have the confidence to invest, then we're not going to get investment in the new reliable generation that the system here in Victoria so desperately needs.

The second point I'd like to make is that it's really important that energy retailers and the energy industry as a whole are able to continue to be flexible and to innovate for the new energy future that we're facing. We all know that we're looking at an energy future where people want more engagement with their energy services, where people have more solar panels, more batteries, where there is a lot more intermittent wind and solar generation coming into the NEM which makes all of it more complex, and we know from AEMO's recent report that that complexity is starting to mean that we have real supply issues coming down the line soon. So what we need to do is make sure that our energy market has sufficient flexibility to be able to respond to those demand issues that are certainly coming down the line in the future and we hope we can get to a point where individual consumers, if they want, are able to engage with the market and agree, for instance, to not use as much electricity at certain times and be rewarded for that, or stay in the market if they're prepared to pay a slightly higher price. Those kinds of price signals are really important for a market that has changed fundamentally from the way it was setup in the 20th century, when things were relatively simple and electricity was being delivered straight from a dirty brown coal-fired power station to your door through a relatively straightforward network system. So we do need innovative solutions and we believe that the market is working hard on those solutions and it's actually some of the smaller players that are doing the best work in this space. That's why we're concerned to make sure that we have the creativity still embedded in our industry to enable that work to be ongoing.

Thirdly, I'd like to say that I think that one of the really important things for this industry is that we focus on delivering transparency to our customers and help them to engage with the market, which we know they find confusing. Retailers acknowledge that things need to change and the work they've been doing recently in relation to the Prime Minister's retailer roundtable and the work that they'll do now, I hope,

on the back of the really strong recommendations contained in the Thwaite review - and I'm referring there to recommendations 3 through 11, which we support - when implemented can really work well, we think, to deliver better transparency. We know that customers don't like discounting, it's confusing to them. We know that customers would like a simple comparator rate, for example, where they can analyse what they might save and how much their next energy bill might cost them. But there are complexities to this and the industry needs to work through these complexities so we can make sure we're not misrepresenting to customers what their future energy bills might look like, because of course there are a lot of different inputs into an energy bill and people's usage can also change; it's a volume-weighted product. We're really looking forward, as an industry, to working with governments and regulators on removing these barriers to understanding the energy market. We do think it's important work and we're very supportive of the work the Thwaite panel has done in identifying some measures that will go a long way to achieving those goals.

Now, having indicated our support for recommendations 3 through 11, I'm afraid I cannot be so supportive in relation to recommendations 1 and 2. To say they're problematic to the industry would be an enormous understatement. They represent an extremely retrograde step in terms of the way this industry is regulated. A re-regulation of prices would not deliver to the future energy market the kind of flexibility it would need and companies will close. Small retail companies will not be able to complete in an environment where a basic service offer remains the standard offer for most, if not all, customers in the market. Those companies will close and the jobs, the investment, and the innovation that they are working on at the moment will go with them. One of the reasons that it will be so hard to compete, even for the incumbent retailers, is that we know that the intention of the basic service offer is for the ESC to set a price that does not include some of the basic costs of doing business, and by that I mean the costs of acquisition and retention of customers. This makes it really incredibly difficult to imagine a basic service offer that would be anything other than less than the cost of doing business, which means large incumbent retailers will stay in the market and smaller retailers will have to exit. We believe that this would be essentially throwing the baby out with the bathwater and we also don't understand what the basic service offer would do in a market as a replacement to the standing offer. People don't like standing offers, but standing offers are not well-publicised important public service. The standing offer is set by each retailer in the market as a default offer. I like to think of it as the sort of offer you'd have before you dive into the market, it's the offer you're on. It's a high offer; it's usually the ceiling or the highest offer in the market or thereabouts; it's set differently by each retailer, but they're all kind of about the same; and it's the offer you're automatically on to ensure that you can receive the essential service that is electricity. So when you move into a new house and you haven't bothered to pick up the phone to tell Origin or AGL or Simply Energy or whoever you want to use who you are, a standing offer is the default offer that you will automatically be on and it enables your energy provider to provide you with electricity under really straightforward terms and conditions so you actually have a contract in the market.

There's a good reason why less than 10% of Victorians are on the standing offer. It's because it is expensive and is designed to be a temporary offer from which you dive into, if you like, the market and find an offer that's better for you. It is true that there are a wide range of priced offers in our market at the moment, but price dispersion is a function of a competitive market working. What we need to do as an industry and with government is to make sure that people are empowered to make the choices in that competitive market to get the best deal possible for their circumstances. Of course, it is absolutely

okay if people don't want to make the effort to get the best deal from their circumstances. Customers come in all shapes and sizes and in some ways I think there are probably three categories of customers. The first and most important category is vulnerable and financially disadvantaged customers who, through no fault of their own, may really struggle to engage with a competitive energy market. Retailers are heavily regulated in this space. We've just come to the end of a process with the ESC in relation to how hardship programs operate to ensure that they capture and help the very people that need that help to keep engaging with their retailer, be on the best offer, and manage their energy bills and usage. The second group of customers are, I would say, kind of interested in energy, are prepared to engage with the market and there's no problem for them in engaging with the market; they probably sit down once a year with a comparator site and work out what the best deal is for them. The third and just as important group I would say are the engaged but not interested customers. These are people who simply cannot justify spending the time to engage with the market and shop around and are happy, or at least passive, about paying the cost of not doing so. That's okay too because you're not obliged to be involved in a competitive market any more than you're obliged to be involved with where you shop for your supermarket groceries. It's entirely up to you whether you want to buy your bread and milk at David Jones' food hall, Coles or Woolworths, Aldi or Costco. That's appropriate in a competitive environment where you have a range of choices.

So in conclusion I'd like to say that as an industry we do support recommendation 3 through 11 of the Thwaites' report in terms of making sure that our consumer protections framework really works to the benefit of all customers. However, items 1 and 2 of the recommendations are really, really problematic. We are doing some analysis ourselves in the Energy Council and will be putting out a report by Oakley Greenwood in the next few days which picks apart some of the assumptions that the Thwaites' report relied on when it talked about retail margins and other behaviours in the market. It is really difficult to look with any accuracy at what retail margins actually are, but published data by publically listed companies such as AGL and Origin, which are independently reviewed by auditors, suggests that their actual margins on a $1,400 bill are about $200/$250. Not $423, as the Thwaites' report has suggested. This is a really important distinction, because if retail margins are actually in a more sensible range then the justification for re-regulating and killing a market and driving out retail businesses and all the innovation they bring no longer exists. We would encourage the government to look closely at those recommendations and understand the unintended consequences that implementing recommendations 1 and 2 would bring. Because if the government feels that it might be responsible for energy prices at the moment, it will certainly be 100% responsible for them if it itself is setting the prices and to set that price with the volatility we have in the wholesale market in particular is a very brave game to play, I would suggest, and we would be very concerned about a regulator's ability to be able to do that with any accuracy. Thank you.

TONY WOOD: Firstly, I should point out for anybody who may have been a little confused by the way we introduced a couple of things before that Grattan has an ongoing relationship with the State Library across all of Grattan's activities and we have regular events, *Policy Pitch* issues like this tonight. Secondly, we've had for at least seven or eight years a very strong ongoing relationship with the Melbourne Energy Institute where we speak particularly on the issues associated with the energy component of what Grattan does. Tonight is one of these events where we bring all three organisations together and we very much value our relationship with both the Melbourne Energy Institute and the State Library.

People talk about there's been 49/50ths of agreement on the Finkel recommendations, but surely we've now seen 9/11ths of agreement between the energy industry and the Thwaites' review, so we should focus on the 2/11ths that we don't seem to have agreement on. I should confess, by the way - it wasn't in the introduction - that not only did I actually run one of these retail businesses for several years and, like John, was a very strong proponent of retail competition not just in Victoria but elsewhere, I was also the first Chairman of the Energy Retailers' Association. So I've got form in this whole space, yet for me for what was the most difficult issue, the thing I was struggling with was challenging my fundamental thinking about this retail sector. Because the more we looked at it, the less comfortable we were that this was an issue that could easily be explained by some of the factors that people were using, so we came to the conclusion that there were some fundamental problems.

Now, at the core of this is the data - John eluded to it and Sarah specifically referred to it - and that is the proposition that retailers are making particularly high margins. We included an estimate of what we think the costs of retailing, which includes the cost of managing risk that purchasing the electricity in the wholesale market, includes. In our analysis we made an estimate of that and we said that we thought the retail margins were higher than they should be. They were higher than they were in other sectors and they were also unusually high in Victoria. The AEMC published a report only a few weeks ago that said that the profit margins of the big three retailers in Victoria are 40% higher than they are in other states. That's where I would question one of Sarah's comments that if there was only the wholesale market, then what is it about Victoria that would justify that big difference? The data in terms of getting what people are actually paying, as John suggested, is quite difficult because retailers don't voluntarily provide that information. They'll tell you what their standing offer is and what the best deal is that they're advertising, but they won't actually tell you how many customers they have on what actual margins or actual prices or actual deals, so that means that it's very difficult to work out what the actual profit margins are. The work that is currently being done by the ACCC, commissioned by the Federal Government earlier this year, running in overlap with the Thwaites' review is so critically important, because the ACCC has the powers to actually get the data from the retailers. So I would certainly at the very least caution the Victorian government before implementing recommendations 1 and 2, if they're looking at and based upon the Thwaites' review, to make sure that they've taken into account the initial conclusions of the ACCC review, because they will publish their preliminary report very shortly and that should give us some much better insight into the data.

I want to come back to what we thought were the key issues and key recommendations, and some of this very strongly overlaps with some of John's comments. What is it about electricity? John made the point about the way we buy it. Paula Conroy, who's the Chair of the AER, said to me that it's a bit like if you went into the supermarket each week, filled your trolley with groceries and walked out through the electronic checkout and did that every week. Then three months later you got a bill from Coles telling you what your bill was and you look at this damn thing and it's thousands of dollars, you just pay it because there's no way known you're going to work out that I'd buy all that stuff, how much did it cost, all this sort of thing. It's a very difficult market to engage with and, not only that, as John said, it's also a market you can't simply choose not to buy from. In Victoria we've had more competitors than we've had in any other state in the country, yet we seem to have the biggest problem. It's obvious to us that not only are there issues to do with price, but there's not been that much innovation. Innovation that says we're going to give you a discount for paying on time or a discount for paying through direct debit is hardly the most fundamental innovation we've seen on the planet this century, or some of the stuff I

was certainly involved with doing, offering people magazine subscriptions or RACV memberships. They're fun to have, but they don't really go to the heart of the product because the product is the product. It's a very homogeneous product and some of the innovation just makes it more complicated. When we've spoken to people about this work, just about everybody you speak to has an anecdote about how difficult they found it to engage with the market. Sarah made the point that you'd think it'd be pretty simple for smart people, but you'd better know how to run a spreadsheet because it actually turns out to be not as simple as you'd like to think it should be. We don't have simple comparator rates and it's very good news that the retailers have agreed to do that in their discussions with the Prime Minister, but I know lots of people who've said to me they've got to look at their daily demand charge, they've got to look at the different peak and off-peak charges. The discount, as John said, sometimes is off one of those and not both. It's actually quite difficult. People who even know this sector have just given up in frustration.

One issue that John pointed out which I think is particularly important is the question of people who are disadvantaged, the vulnerable customers, as Sarah described them, on low incomes, for example. It is the case that most state governments in Australia, including Victoria, pay out hundreds of millions of dollars to provide support via various forms of rebate - some of them are fixed dollars, some of them are percentages - to those customers on concessional payments, yet many of those customers aren't on the best deals, so what's happening is that the government tis basically passing that money to the retailers. Now you say surely the answer is a requirement that all people on concessional payments are on the best deal? It turns out that there are some tricky regulatory issues here about what's called full and informed consent. It sounds a bit peculiar when you think about it in this context, but you might think about other contexts where it might make sense, and that is that you can't force people to go onto the best offer. If they don't actively with fully informed consent choose the best offer, then you can't force them to have the best offer. There are things that could be done to fix some of these problems, but they require changes in the regulatory structure and the retailers do have an argument in those cases that the regulations need to change and in that case it would be unfair, arguably, to accuse retailers of gouging the government for what's going on here.

The final point I would make in this space is that this issue has been emerging for a while and has been recognised for a while. I would question why it is necessary for the Prime Minister to shirt-front the companies to get them to agree to do some of the things they now seem to be very happy to go ahead and do. Because my hypothesis would be if they had done some of those things earlier - found ways to fix the regulation, to get rid of discounts, to get concessional customers on the best offer - maybe we would've seen a better outcome, maybe we wouldn't have seen as many customers on bad deals, and maybe they would've avoided the sort of regulatory imposition that's certainly implied quite clearly in recommendations 1 and 2. Because we also said we think there are things you should do at three levels. One is that writing to customers is a great idea, but most likely it won't last very long. Yes, it overloaded the Energy Made Easy website for a while, but that's not going to last I don't think. Secondly, there are some structural things you'll do which will last, hopefully. The sorts of things I've just been talking about basically are recommendations 3 through 11 of the Thwaites' review. Do those, put them in place and then monitor this because, thirdly, the basic service offer which conceptually we think is a good idea, if we're going to proceed with that it's with a great deal of caution, because we do need to make sure that the potential innovation in those product areas that Sarah mentioned are not killed off too early. We do need to make sure that the way these things are put together is done very carefully

and our argument would be have that weapon in place, do the work in thinking about how it might be designed, but do those other things first because it's still possible we could actually get a better result without such a heavy-handed approach. Thank you.

SARA BICE: John, let's start with the 2/11ths because really that seems to be the issue here. The basic service offer does appear likely to be supported by the Victorian Government, but retailers and experts, some of who are on this stage with you now, have been very critical of that. Sarah, you just called the basic service offer extremely retrograde and there's an argument that it may be too onerous and too difficult to implement. So John, is the basic service offer really the best solution to Victoria's energy price problem?

JOHN THWAITES: Well, clearly we wouldn't have recommended it otherwise. Without going through the arguments again, we didn't start with that view and, I can assure you, that was not where we thought we would end up when we started. As a bipartisan panel and a pretty experienced panel, it was really only after looking at the way the market is operating, but more than the way it's operating, the essential nature of the market, that we came to the conclusion that simply by making all these other changes, 3 to 11, yes, you would improve things, but you weren't going to change that fundamental structure which was it's an essential service, people couldn't exit the market, and the amount of savings from the old regulated system weren't able to be matched or offset because of these large competition costs that we're imposing on the system.

SARA BICE: Sarah, do you want to come in here?

SARAH MCNAMARA: Firstly, I'm interested to hear you say, Sara, that you think the Victorian Government will support recommendations 1 and 2. That's certainly a bit of new news I think for the industry at this point. We have been informed by the government, quite appropriately, that they will go through a detailed consultation process and issue their response to the Thwaites' panel report by the end of the year. Now, more recent media reports are suggesting that the government may, without consultation, decide to support in principle all of the recommendations of the Thwaites' report. As an industry and I think generally as consumers, we should be concerned if the government were to take that step because even if the basic service offer is an appropriate solution - and I hasten to say that John and I will agree to disagree on that - to implement that without any consideration of the alternatives or any forensic cost/benefit analysis to identify unintended consequences and costs to Victoria consumers is, frankly, not a wise course of action for any Victorian Government. We want to take the time to work with the Victorian Government through each of these recommendations and make sure they are equipped with all of the information about the impact so they can make the right decision.

SARA BICE: Tony, I'll bring you in here because you've consistently argued over the years that the market needs to be allowed to demonstrate its effectiveness and now there's a question about the market being allowed to continue in the form it has been since 2009. How long do you think we should wait for that market to demonstrate its effectiveness and should Victorians be asked to wait, in light of rising prices?

TONY WOOD: Those of you who have lived on another planet wouldn't have noticed the debate going on between the current Federal Government and AGL about the Liddell power station. There is a

dynamic in the energy system at the moment and maybe more broadly that markets are crap, they don't work, privatisation was a waste of time, it's too expensive, and we need to renationalise the system. The beginnings of it are already being seen in South Australia, in Canberra, in New South Wales and so forth, and in Queensland, of course, they still own it all anyway. We would be fundamentally quite nervous about that because we think the underlying principles that were established back in the mid-1990s about markets being a primary source of good outcomes is still true. We looked at this retail section and many of the conclusions John reached, particularly that fundamental one about do the benefits from competition outweigh the costs of competition? John's conclusion is that they don't. Ours is that they don't seem to, but maybe they might yet. That's a very interesting way of sitting on the fence and I can feel the splinters coming through my trousers as I do it. But I guess the concern for us is unintended consequences, because in the energy sector we've seen many responses to diagnosis of a problem which has created more problems and we have to fix that. It's a bit like you take medicine for something and the side effects of the medicine are worse than the original problem.

So while the concept of the basic service offer and the structure of the basic service offer, including not allowing the cost of competing which we completely agree with, what we're nervous about is whether we need that medicine quite yet and have we really understood the problem and have we made sure that we can do this in a way that's not going to cause unintended consequences? I don't think that's something that needs to take a long time. For example, in particular the analytical work from the ACCC will tell us a lot more about some of the analytical work that both John has had input on and we did some work on.

SARA BICE: John, let's focus for a moment on unintended consequences and, in particular, one consequence which both you and Sarah mentioned, and it goes to an issue of the debate between customer fault versus system issues. I'm thinking particularly about social inequality in current energy pricing, which is certainly something that your report seems to suggest exists and is a real problem, and we know that groups like the Brotherhood of St Laurence and St Vincent's are dedicating resources to these issues. Do you see energy pricing as a social equity issue and what do you think can be done to address that?

JOHN THWAITES: It's clearly a social equity issue. Without energy you can't warm your home in winter, you can't have a fridge or a stove, so energy is absolutely a fundamental right that people should have. It is fair to say that for many families and single people the costs of energy are such that they're in energy poverty, they're not able to heat their home sufficiently, they're cutting back on things that they should not. Having said all of that, we don't think the discussion should be just about that. We think a market should be for all consumers, just like our health system is for everyone. In fact, one of the reasons our health system works better than the American is that we all have joint ownership of it and if we try to categorise action as just for one group then in many cases that group doesn't get as good a service as if the whole of society has a well-working system.

SARA BICE: Sarah, you picked up on this issue as well. What role do you see energy retailers playing in relation to social equity in energy pricing?

SARAH MCNAMARA: I think retailers are acutely aware of the role energy plays as an essential service in our community. They work within that framework every day and are heavily regulated in relation to

how they deal with customers who are experiencing difficulties and how they deal with customers who refuse to engage, and the standing offer I mentioned performs an important consumer protection function in that way. I do think that in practice retailers have really well-designed hardship programs for customers that ring them and explain that they are in financial hardship, quite bespoke programs actually with various degrees of assistance and referrals to financial counsellors and the like, because it's in retailers' interests to keep people engaged and able to pay some, if not all, of their bill if they're going through a tough time. But even before you get to that hardship program, which there is no barrier to entry to other than being in hardship, your retailer is going to offer you any number of assistance measures if you ring and say that you're having trouble paying your bill. If when I get my next energy bill I ring my retailer and say, "Gee, I've just lost my job. The Grattan Institute thing didn't go very well and I got the sack" or whatever, "Can I have an extra couple of months to pay my bill?" or, "Can I pay 50% now and 50% in a month?" I guarantee you any retailer is going to agree to that because they want you to be engaged and talking to them about your circumstances.

Now, retailers aren't community service organisations themselves, but they do recognise the essential nature of the service they're providing and they do work really hard to make sure that they can keep some form of energy supply going to households, even those that are in real financial strife.

TONY WOOD: I think, Sara, one of the issues here is that the essential service characteristic is absolutely one of the things.

SARA BICE: And for those non-economists around, Tony, the essential service characteristic, explain what that means.

TONY WOOD: Simple as John said, you can't survive certainly in today's society without electricity, it would be very difficult. One of my daughters would say an essential service includes so many hours of television a day and a whole lot of other stuff -

SARA BICE: The iPad.

TONY WOOD: But the principle I think you understand. I think there's another issue though and that is there are other elements around electricity that are quite challenging in terms of how we engage with it. One of the interesting questions here is let's assume that we deal with people on low incomes and vulnerable customers in a way that would be maybe more effective than we've done today and, as I indicated, I think the energy industry would like to fix the regulatory impositions and the way that works, even John's suggestions of putting them all out to tender or something. If people choose not to, is there any reason why there should be intervention? One argument is why would you do it before anything else, but the thing is that even in things like mortgages the industry did come up with simple comparator rates to make life a whole lot simpler. I think there are some challenges with electricity in the way a) we buy it, as John described, and b) the complexity of comparing. 80% of Australians, according to Choice, think that electricity bills are the biggest household problem they've got and yet 50% of them haven't changed retailers, even though they know that they can save the sort of money John was talking about. So there is a question as to why should there be intervention? What is it about this thing where people are worried about electricity, but don't do anything about it?

JOHN THWAITES: I'd like to jump in on that because I think this has been one of the problems. People have blamed the consumer and had this attitude of it's their fault, they're not interested. Sarah said there's this engaged but not interested consumer, people can't justify spending their time, they're happy about the cost. Well, they're not happy about the cost. What they're doing is they're making the assessment that the amount of effort and time that they have to put in does not necessarily lead to a better outcome because in so many cases we've seen it doesn't, they lose the benefit of the discount after a period, the fixed charge or the variable charge changes. If you want to see what people really think there was an Essential Media poll yesterday where 85% of people said that they supported some form of government regulation of electricity prices and 5% opposed it. So I don't think there's this overwhelming feeling out there that we're happy with the system. I think it's quite the contrary and I think the idea that we should set up a system and blame the consumer for the faults of the market is fundamentally flawed.

SARA BICE: Sarah, do you want to come in there? I'm conscious that we have a room full of consumers out there with questions of their own.

SARAH MCNAMARA: I'll just be very brief. The industry does not want to blame consumers, this is not a blame game, but people are entitled to engage or not engage with the market. What we need to make sure we're doing is ensuring that there are no reasonable barriers to people who are not encumbered or unable to engage with the market to engage. If you can't be bothered then that's okay too. It's not a blame thing. But if we make one basic service offer the price for the vast majority of the market, people are going to find that that price is not as low as some of the cheap offers in the market and it will do absolutely nothing to fix the other inputs that come into your retail price from the wholesale market and network charges, which will continue, in particular in the wholesale market, to be extremely volatile. So your bills may not come down even with a basic service offer implementation.

SARA BICE: Now over to you, audience.

AUDIENCE: The last time I looked there were something like 4,000 offers available in Victoria and if it takes me five minutes to digest every offer that's 20,000 hours. Secondly, I saw that of those 4,000 offers, they only last about six weeks and then they change; they're always changing. How as a consumer do I have time to examine all of those offers to select the best one for me?

SARAH MCNAMARA: Well, I think the best advice that we like to give consumers in the industry is that the easiest way to check that you're on a good offer is to have a copy of your most recent bill and to go to the Energy Compare website run by the Victorian Government. Not one of the comparator sites that a commercial one that you may be getting a less clear idea of what's what depending on the commissions being paid, but go to the Victorian Energy Compare website with a copy of your bill. It will not be the most fun 10/15 minutes of your life I'm sure, but you will get a snapshot then and there of what's available in the market. My advice would be then every six or 12 months to check in and make sure that you're still on the deal that's at the better end of the range of cheap offers.

TONY WOOD: One of the suggestions that has been, I think, in principle agreed to but is slightly complex to implement by the retailers is one that wasn't, I don't think, on John's list, and that is the idea that on your bill you would have one of those QR codes and then what you'd do is basically scan that -

apparently this has worked in the UK. Because one of the complexities in this is that unless you've been able to go back into all your bills and work out what your actual consumption has been it's very hard to answer the questions you have to answer when you look at these online services and the theory is that will do that for you. Now, I haven't seen the detail of that and Sarah may have a bit more insight as to how practically effective that could be, but if it was available it seems to me to be one of the things that might help break through the complexity of how do I work it out how much I would I save if I just bought the electricity next year that I bought last year in the same way?

SARAH MCNAMARA: Certainly in the recent meetings with the Prime Minister, the Minister, the Treasurer and the Deputy Prime Minister we have discussed and committed as a group of retailers to looking into the portability of consumer information so that you don't have to sit there with your bill and if there is an easier way to do it - and QR codes were one option raised by the Minister which I understand has occurred in the UK - then we'll certainly look to implement that. But there's a lot of technical detail as to our ability to do that and the difficulty with energy is accuracy in terms of how you're predicting what your future bill will be like. We need to make sure that people's consumption data can be an accurate predictor, if you like, of their future consumption and that's a really hard thing to get a handle on. So we're working through those issues now.

SARA BICE: John, to give you a chance to come in here, your own report demonstrates that there are significant savings to be had for those consumers who are plugged into the market. How do you think we can encourage more Victorians to be active energy consumers?

JOHN THWAITES: Well, they have to have more confidence that the market is working and fair and comprehensible, which is why we made a number of recommendations that offers be in terms of dollars and that there be a fixed period for which an offer would last. Right now you can enter an offer and the next month it can change because the underlying fixed or variable charges change. So we recommended that if you enter an offer then it ought to be fixed for 12 months so you know what you're getting, so at least you can sit back for 12 months. I mean, Sarah said do it every 12 months, but you can't do it every 12 months because it could change, so unless you have some sort of guaranteed period people aren't going to have the confidence. But I think the question itself indicated some of the problems for people. There are just so many offers and so many factors in the market it's very difficult. I've used the Victorian Energy Compare site myself. It took me quite some time to do it and it didn't work the first couple of times and then it did, which was good, trying to get your own data into it. So all of these systems are complex and it's not just the Victorian site. You try using any online calculator site, they're not that easy which is why, once again, we come back to the recommendation for most people that if they can get a no frills offer that takes away the confusion, it's in their interest.

AUDIENCE: We've looked at the complexity of the market. To take a simple area, the price of gas which is an input to the electricity price, a direct cost to Victorians and also a potential cause of them losing their jobs if it continues to be high. We've got benchmarks that show we're paying twice as much or three times as much as other people in Southeast Asia who are buying our gas from us that's been compressed, liquefied and transported. Could you address that please? Gas is a large input for Victorians.

SARA BICE: Tony, this is your area.

TONY WOOD: A very quick answer to that question, because it obviously is relevant but not entirely to tonight's discussion, and that is that gas is now contributing significantly to electricity prices. With the shutdown of Hazelwood in Victoria and previously Northern in South Australia, gas generators are setting the price more often because the coal generators aren't there to do it. That's what's been happening in the last little while. There are some good signs here, by the way, that the availability of gas on the east coast and the cost of that gas is coming down. I don't think it will come down to where it used to be, but it will certainly be less than it has been. Many of the comparisons you referred to are actually not valid comparisons. They compare spot prices with contract prices, they compare delivered prices with free on board prices, so you need to be very careful with that, but it is still the case that in Australia for the last year or so the price of gas on the east coast has been higher than it should have been and higher than what you would call export parity.

Now, that has to come back to what the government is trying to do. They've got this potential for imposing export restrictions. My expectation is they may not have to do that, but in the last little while the price of gas has been, even for large users of gas, far more painful, in a sense, than the price of electricity is for small consumers. It's been a very significant problem and it's not going to be fixed permanently, but I think it's going to improve a little.

SARA BICE: You'll see from our panel that the Melbourne Energy Institute and the Grattan Institute are dedicated to gender diversity and so for that reason we're going to go to the questioner in the middle at the back and then we'll return to you, sir.

AUDIENCE: Sarah briefly mentioned the role that federal policy and action plays in all of this, so this question is directed to Tony. The Grattan Institute does back pragmatic policy. The prospects of a national energy policy in the short term are lost now that Finkel's CET has been dropped by the Turnbull Government. When will you back the pragmatic policy offering from the Andrews' Government, which is the Victorian RET?

TONY WOOD: I haven't given up on the central policy change from federal parliament. Now what they call it, I mean, the big debate may very well be the name rather that what's inside the box; that's how tricky politics has become in this country. But I think there are still some prospects of a policy emerging from that which would be not perfect by any means, but it might set us in the right direction. In the context of that, even if we see where we are today in the case of the Victorian RET I have two concerns with it. One is that a single state implementing that sort of unilateral policy, given that we are supposed to be committed to a national system, is a bad idea in principle. Secondly, in the absence of action by Federal Government a better approach would be for the Victorian Government to work with the other states in developing a consistent national approach and just ignore Canberra. Now, that's what almost happened back in 2006/7 - John, you may remember that - where in frustration the Labor states and the John Howard Government thought that we should have a national Emissions Trading Scheme (ETS), then Kevin Rudd was elected and we know what happened next; not very much. So that's why I've been quite critical of the Victorian RET. I understand completely why there's a political response because they don't see any action from Canberra, but I think that particular response is inappropriate and could lead, unless it's done much better than I've seen so far, to potentially a repeat of what we saw in South Australia.

SARA BICE: Other panellists, further comments on this tension between the politicisation of the issues generally?

SARAH MCNAMARA: Well, I think we are where we are in terms of the politics of energy and, much as we'd all like to depoliticise it, that doesn't seem to be ending any time soon. I would agree with Tony that there is still hope for item 50 of 50 Finkel recommendations federally. I think we'll see that play out pretty smartly over the next couple of months and hopefully see something that is almost a CET and called something else if that's important for the Coalition Party room. As long as that can get bipartisan support then I think industry would be okay with that, but the answer from the states of going it alone, if you like, does not deliver the kind of confidence to investors that they need to invest in generation and really it muddies the waters and increases costs. So I do agree with Tony that if the states were to have an alternative plan they would be best to work together federally and I actually think they asked the regulator for advice on whether they could have a cobbled together national plan after the last COAG meeting. But, in any event, let's just hope that the Finkel recommendations can get across the line in Canberra sooner, rather than later.

JOHN THWAITES: I guess now with my hat on as Chair of ClimateWorks, because it's not part of this review at all, I'd say that Australia has signed up to the Paris Agreement under which a) we've agreed to get 26% to 28% reduction in emissions by 2030 and b) we've agreed to a 2° maximum temperature rise, which means net zero essentially by 2050. Now, you can't do that and not take very substantial action to decarbonise our electricity system. I think what we're seeing in the US and in Australia are states saying that we're going to do what we can to help achieve this national and international goal that has been set. It's very easy just to say we'll sit back and wait for national or bipartisan agreement. If we do that then nothing will happen and the reality is in the US if it wasn't now for California and other states taking action, they'd be going backwards. I might say, in Victoria here we set up the Victorian RET when I was a Minister here. That actually got renewable energy going at the time the Howard Government said no, the fact that this was coming on. I don't think that the state actions that are being taken are going to lead to companies not investing. Quite the contrary, renewable companies are queuing up to invest. So yes, it would be better if the national government acted, but in the absence of that I'd rather act on climate change and do something than do nothing at all.

SARA BICE: We are conscious of your time. This is a debate that could continue and there's quite a queue of questioners, but I'm told we'll take one final question.

AUDIENCE: There is some evidence that RETs and feed-in tariffs are actually exacerbating this problem of price dispersion and creating cost reallocations between particular types of households, in particular from solar households to non-solar households, and often retailers have to recover costs from households where there's the least market pressure, so those on standing offers, for example. If we can agree that this is a problem that is currently going on, can you guarantee that the basic service offer won't actually exacerbate these kinds of inequitable cost reallocations?

JOHN THWAITES: The first thing I'd say is that, having been a politician, you never guarantee anything, so I'll say that because you don't know whether the sun's coming up tomorrow. Having said all of that, the principle and purpose of a basic service offer is simply there to provide one offer in the market that's regulated. It's not to replace the others. So the other offers will be there and whether it's solar or other

things, they can be there. This doesn't change that. So the other problems you've talked about of cost shifting between one group or another, they're there before, they're there in the future. The basic service offer doesn't solve that, so if you're looking at those you need other solutions. I could have a debate about aspects of those things, but in my experience the problem for poorer people and energy is not caused by the fact that people have solar on their roofs. This is a red herring that's used. There are a lot more basic things about the total cost of energy that we're all paying that are having a much better impact on poor people.

SARA BICE: In there interests of time, we're going to have one final question here and I'll get you each to answer quickly. We've had the Finkel review, we've now had the Thwaite's report, and we're about to have the ACCC retail report, which Tony mentioned, coming out later this month. Panellists, do you have any predictions on the results of that particular report and should Victoria wait until that report comes through before taking any decisions about its own energy market? John?

JOHN THWAITES: Can I emphasise that it's not my job to tell the Victorian Government when or what to do? We've given them the report and it's up to them. Someone made a comment that the Victorian Government had made a decision in relation to it. I'm not aware of that. I don't believe they have. As far as I know, they've said that they're going to consider it and there's a process that they're going through. I know we had a day that I think Sarah attended with a number of others where we spoke about it, there was a consultation about it, and I think they're ongoing discussions. My answer to that is it's not my role to tell the Victorian Government, but just on timing my understanding is that the ACCC report comes out in a few weeks, so I doubt whether there'll be a decision before then by the Victorian Government.

SARA BICE: Any predictions on the ACCC report or findings?

JOHN THWAITES: Once again, none at all in terms of I've got no knowledge, however the AMC, which hasn't been at the radical edge of this discussion, has already come out and said that Victoria is paying higher retail costs than other states. I'd be surprised, given that they found that and we found that, if the ACCC didn't have something like that. That's not based on knowledge, but just based on logic.

SARA BICE: Sarah, any predictions?

SARAH MCNAMARA: Unlike John, it is part of my job to try and tell the Victorian Government what to do. With that in mind, yes, I think the Victorian Government should wait until the interim report of the ACCC is released. Now, it goes to the Treasurer on the 27th and it'll probably be released sometime after that. Do I know what's in it? No, I don't. To the extent that there are higher prices in the Victorian market, one suspects that volatility in the wholesale market in Victoria may be a pretty significant input into that, but the difference with the ACCC report and, with the greatest of respect to both the Grattan Institute and the Thwaites' panel in relation to their work, the ACCC has been able to compel from retailers ten years' worth of intricate data in relation to how they are pricing their energy services. Those datasets have not been made available to either the Grattan Institute or the Thwaites' panel in their work. So I think we may see some really interesting results out of the ACCC and the Victorian Government would be, in my humble opinion, very well advised to have a look at those and enjoy the benefit of that data that we're all looking forward to receiving.

SARA BICE: Tony, any further predictions?

TONY WOOD: Well, firstly, I think that the work that's being done by the ACCC should not be a one-off. I'm not saying it should be done every couple of weeks by the way, but it's not unusual in other sectors that are controversial in terms of pricing for the ACCC to collect data. It's a bit more difficult in some areas because you don't have pump prices like you do for petrol, but I think it's essential because otherwise you end up with this very difficult discussion where we don't really have the data to have the proper debate that we've been talking about. Now, my suspicion is that what we'll find is a bit of both, like most things. What we'll find is that the margins are unusually high in Victorian retail compared to what retailers provide. Some of those trends that John talked about are difficult to explain because I don't think the wholesale issue seems to explain all of that. It wouldn't surprise me if the margins instead of being 15% or 16% were 9% or 10%, but that's still higher than I would think is going to be justified. I also suspect the ACCC will find that there are other issues within the energy market about which they're concerned, such as the vertical integration and concentration of power in the wholesale market. There are people, some of you may know, who are quite concerned about vertical integration and whether that's anticompetitive in itself. So they'll be important issues to emerge from that.

I think practically and in principle it would make sense for the Victorian Government to wait. Now, the trick here might be that what we see is only a preliminary report from the ACCC with indicative numbers and doesn't actually cut through to the very point where there's a degree of disagreement here tonight. So in that case that will be more difficult to do. Our recommendation is to absolutely get on and do these other things and use the threat, if nothing else, of the basic service offer for the industry to gets its act together and prove that it's not necessary. Wouldn't that be a good outcome? I'm not so optimistic about that.

SARA BICE: We love to end on notes of optimism. Tony didn't allow us to do that tonight -

JOHN THWAITES: Just a little bit pregnant.

SARA BICE: Yes, but I will ask you to join me in thanking our panellists tonight, Professor John Thwaites, Sarah McNamara and Tony Wood. We would like to thank you all for coming. On behalf of the Grattan Institute, the Melbourne Energy Institute and our wonderful host, the State Library of Victoria, thank you for your time, for your enthusiasm, for your energy, and we wish you all a lovely spring evening with warm homes and cheap prices on energy bills. Thank you.

END OF RECORDING