ESSENTIAL SERVICES COMMISSION

# A 'striking consumer preference' for large energy retailers

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# A note on changing energy market conditions

**Retailer of Last Resort (ROLR) events**

**Historically high wholesale gas/electricity prices**

**AEMO suspended wholesale electricity market**

**Retailers not taking new customers**

**Some retailers only offering standing offer prices**

# Increasing competition in the Victorian energy market

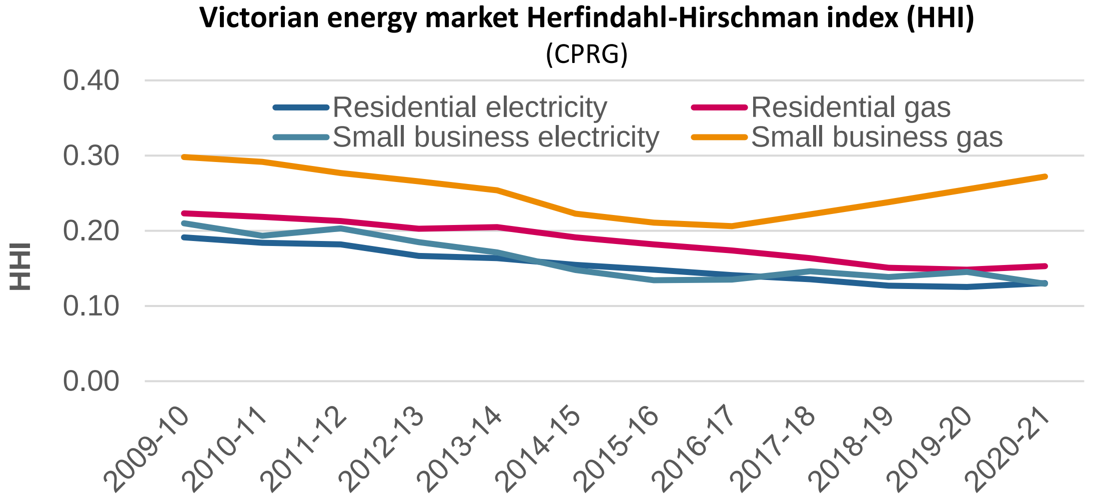
**Victoria opened to retail competition (early-2000s)**

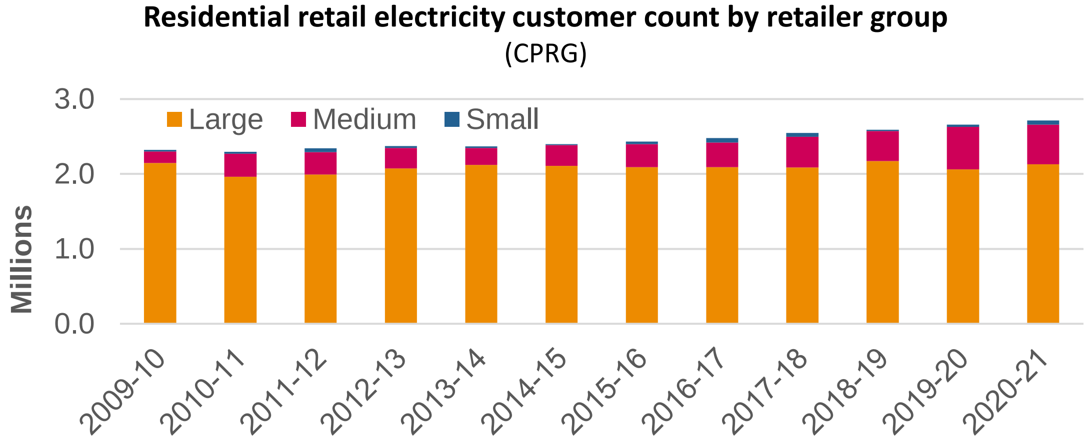
**Over the past twenty years**

- Sizeable number of new market entrants
- Declining market share of large retailers
- Consistent customer numbers for large retailers

**Market concentration generally declining (HHI)**

**However, competition not the sole driver of consumer outcomes[1]**




[1] Stigler (1961), Stiglitz (1979), Burdett & Judd (1983)

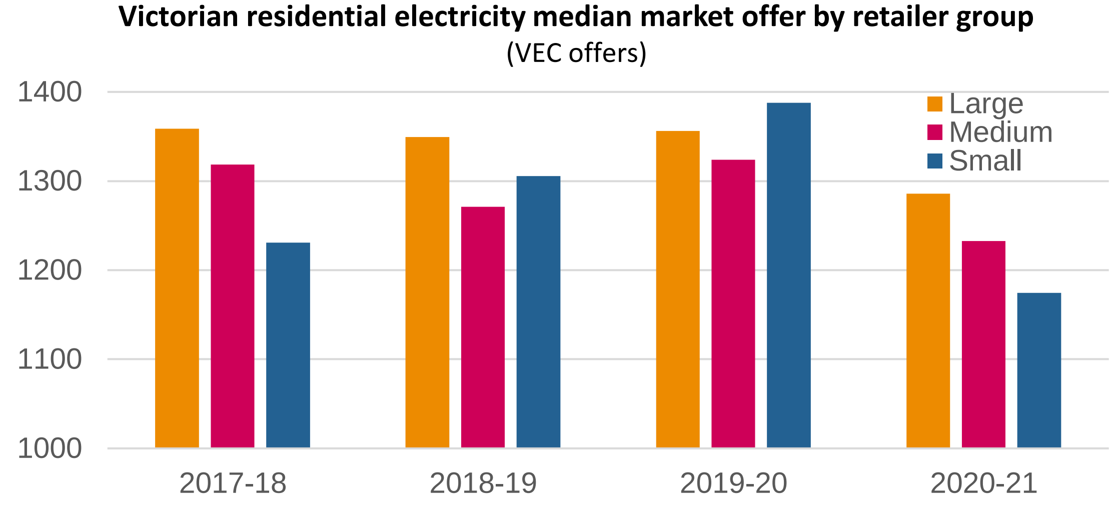
# Revealed preferences: is price most important?

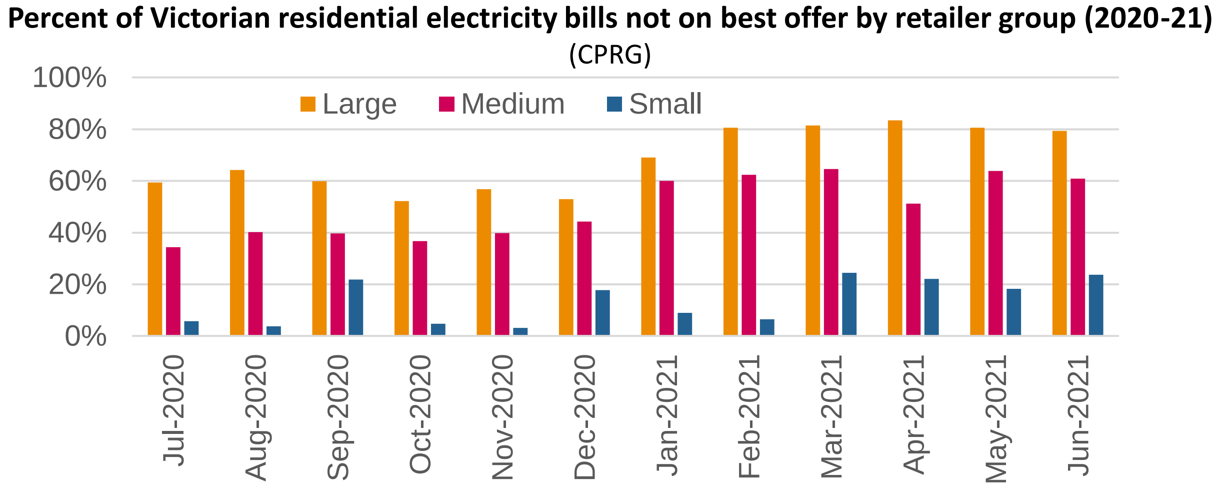
**Customers tend to rank price first in surveys**

**Large retailers offers have tended to be more costly**

**Higher proportion of customers not on a large retailers best offer**

**Case of revealed preference over stated preference**



# Customers are loyal to a fault

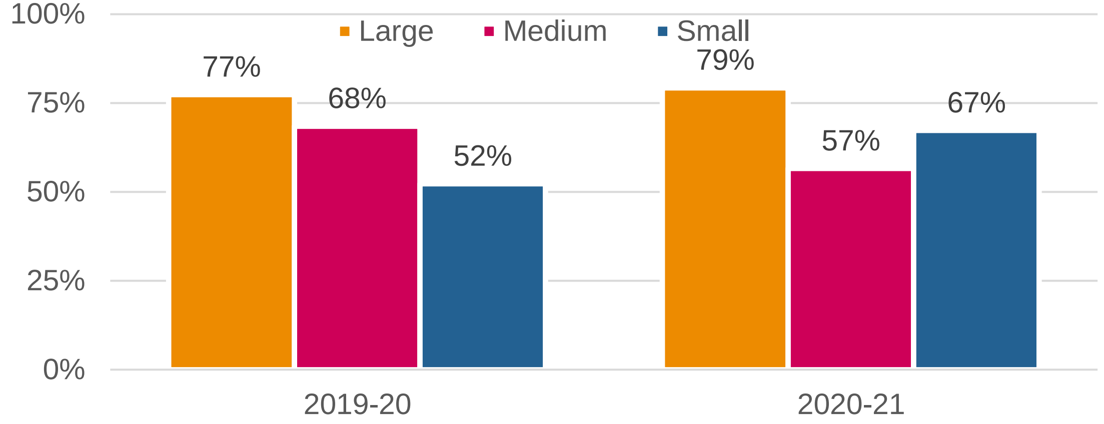
**Customers more likely to stay with large retailers**

**Potentially captured 'sticky customers'**

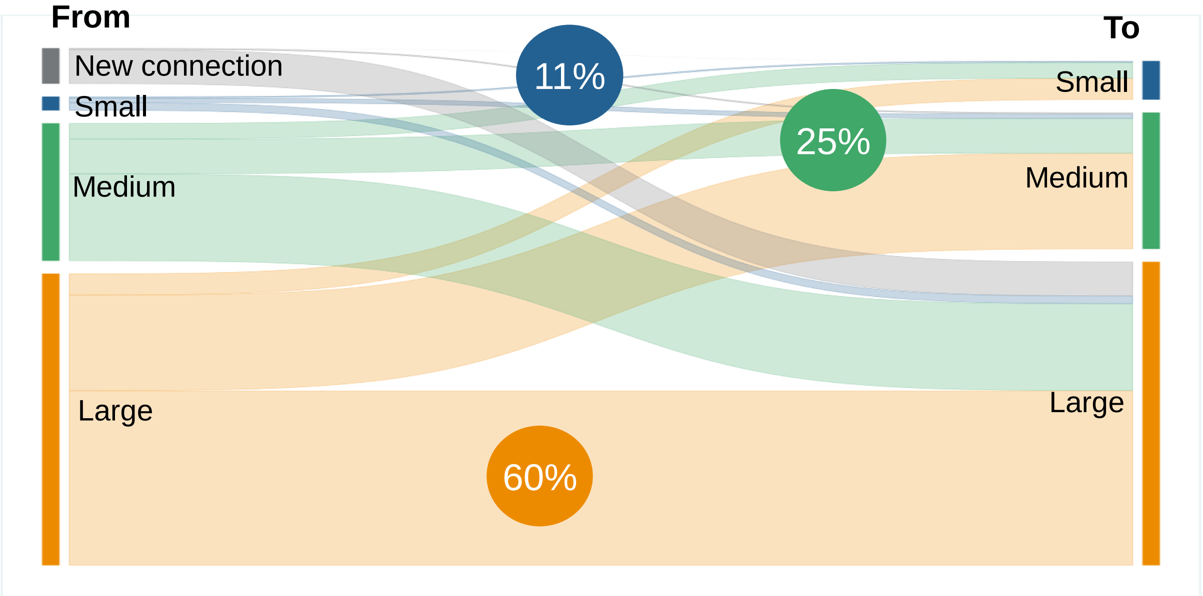
**Majority of switchers go to large retailers**

- 60% of large go to another large
- 56% of small go to large
- 63% of medium go to large

**Victorian residential electricity customer retention rate by retailer group**
(AEMO transfer data)




**Victorian residential electricity transfers between retailer group (2020-21)**
(AEMO transfer data)



# Potential explanations

**Misconceptions about stability of supply**

**Potentially better customer service**

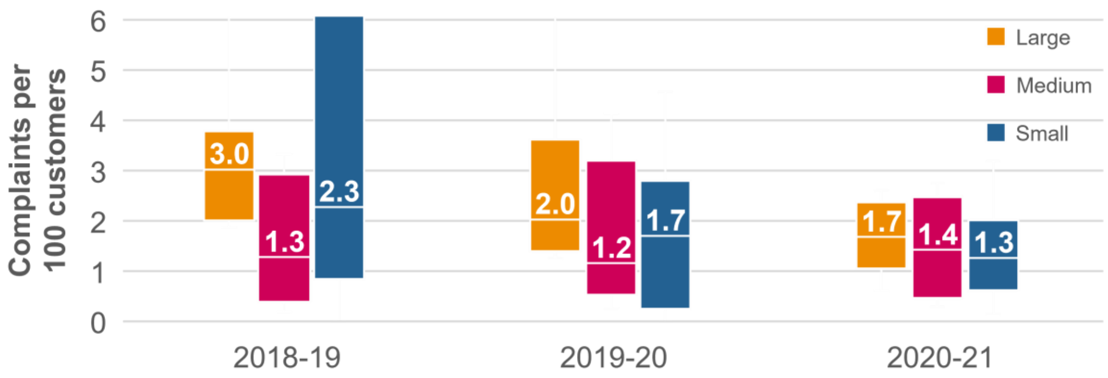
**Convenience**

- Paper bills
- Bundling

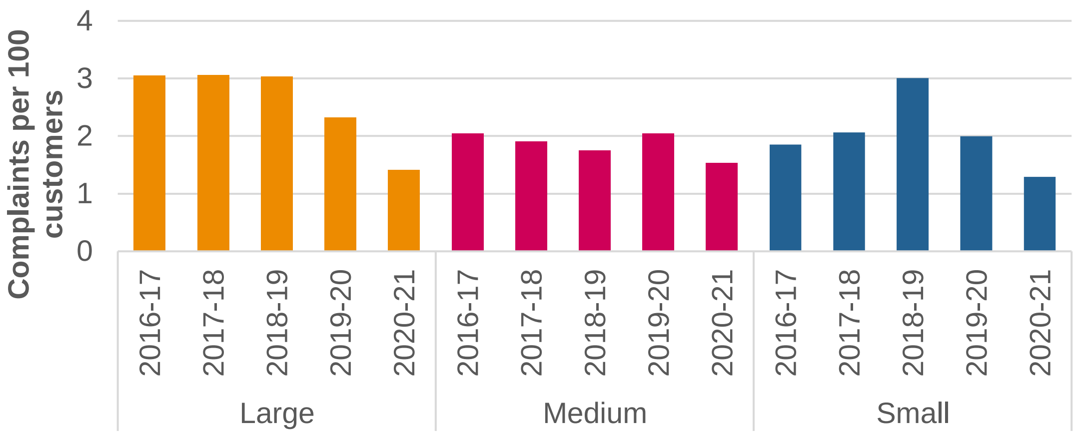
**Search**

**Prominence and incumbency**

**Victorian residential electricity customer complaints per 100 customers (median and standard deviation)**
(CPRG)

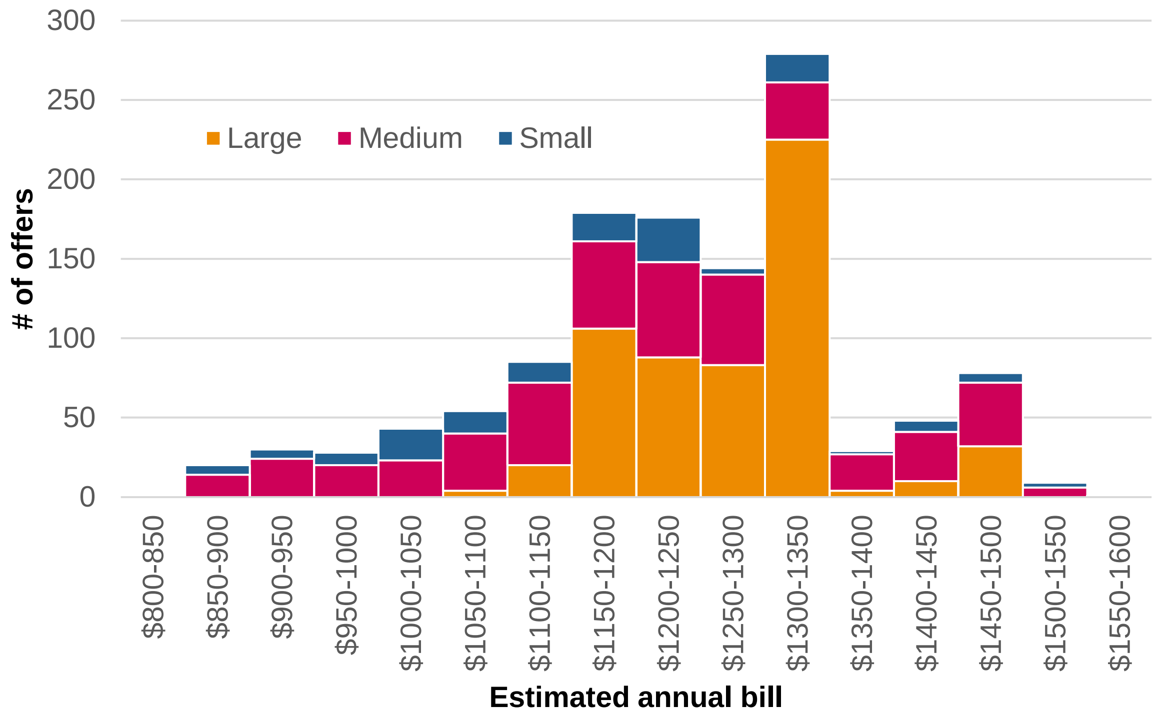



**Victorian residential electricity complaints per 100 customers indexed to 2016-17**
(CPRG)

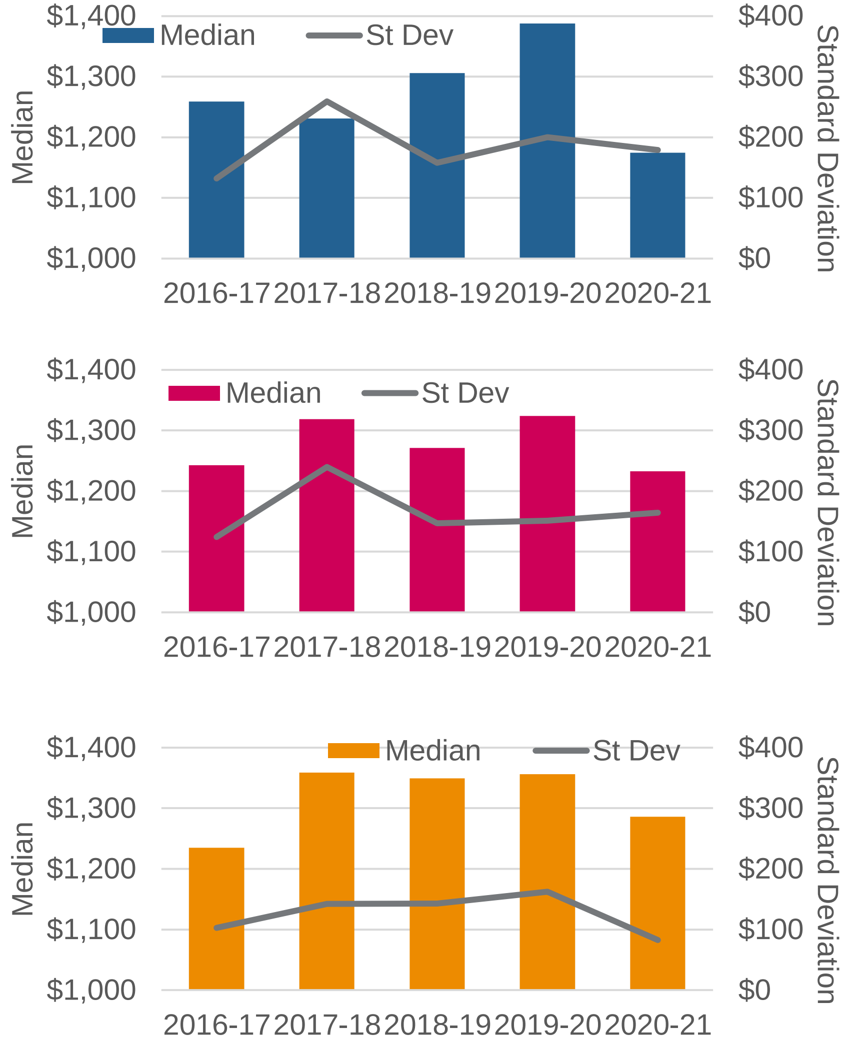


# Retailer strategies

**Distribution of residential electricity market offers by retailer group (2020-21, Jemena)**
(VEC offers)




**Median and standard deviation of residential electricity market offers (Jemena)**
(VEC offers)



These nuanced outcomes are partly driven by sophisticated consumers – with their own set of objectives and preferences – interacting with a complex market.

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# Q&A