

There has long been a vigorous debate about the many and varied reasons why electricity prices in Australia are so high. An [ACCC review](#) found retail electricity markets mostly do not work in the interests of the customer – but this is only part of the story.

Another commonly accepted theory assumes that long-term customers of an electricity retailer pay a “loyalty tax” while those who switch every year save money.

Read more: [*If you need a PhD to read your power bill, buying wisely is all but impossible*](#)

But [our research](#) has found that Victorians who switch their energy providers typically save less than A\$50 a year. This challenges the common understanding of how these markets work.

Questioning common wisdom

Working from the assumption that seeking better deals can save households significant amounts, governments throughout Australia have encouraged customers to switch retailers often. Switching rates in Australia are actually very high, especially so in Victoria.

To test how well the theory matches reality, the Victorian government provided my colleagues and I with 50,000 real electricity bills uploaded by Victorian households to the government’s price comparison website in late 2018. (These households agreed their bills could be used for research purposes and bill uploads were voluntary.)

Our sample is reasonably representative of the population, although we think these customers may be a little more engaged with the energy market than typical Victorians.

Victorians who switched energy retailers only save \$45 a year – leaving hundreds on the table

Written by Bruce Mountain, Director, Victoria Energy Policy Centre, Victoria University

What we found challenges the commonly accepted theory of how the retail market works. As it turns out, for most customers, switching retailers does not greatly reduce the amount of money they leave on the table (the difference between their annual bills and the market's best offers).

The typical customer that has not switched energy retailers in the last year could have saved A\$281 per year (about 20% of their bill) if they had signed up to the best possible deal.

Read more: [*Australia's energy woes will not be solved by reinforcing a monopoly*](#)

But in reality, customers that did switch retailers in the last year saved only A\$45 a year, or about 3% of their annual bill. This suggests that customers are not switching to the best possible deals. A A\$45 saving is not a great reward for the time and effort they would have spent searching and then switching.

The first reaction of many economists to our finding would be that the retail market is working: the competitive pressures from switchers shows profits have been competed away and there is now little to be gained from switching.

From this perspective, those who did not switch could rest easy that the market was working for them. This is, after all, how many markets work. I am often amazed at the quality of many things I buy, and their prices that fall without me having to do anything to bring it about.

However, this does not seem to be the full picture in the electricity market. All customers, switchers and remainers, are typically paying some 20% more than the cheapest available option.

And it's not that there are just one or two fantastic deals that customers are missing – there is a

good number of much cheaper deals that they are not finding.

We also cannot assume customers are looking for other qualities, like customer service, instead of lower prices: saving money is by far the main reason customers switch.

Why is this happening?

Our finding begs an explanation. We suggest it starts with the observation that while electricity is extremely valuable, it's just a utility. While people get pleasure from buying many things, electricity is certainly not one of them. Quite understandably, most customers want to spend as little time as possible engaging in electricity markets.

Many offers are also eye-wateringly complex. Large businesses fare far better than households in the energy market, through the simple but costly method of hiring professional consultants to find the best deals.

So, we have a complex product that requires skill to buy well but customers are, quite rationally in most cases, reluctant to spend the time acquiring those skills. It is understandable why most people do not do well when they navigate the market on their own.

But when customers seek advice from price comparison websites and similar advisors - as around half seem to do – they are often not getting good advice.

Perhaps this is to be expected in a market in which advisors are almost always paid by the sellers, and customers have little ability to assess the quality of the advice they get.

There are no easy solutions. Governments face the often mutually inconsistent objectives of stimulating choice and making choice simpler. The task is difficult at the best of times, and governments are seldom good at engaging with dynamic, fast-moving markets.

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Some might argue that cheaper retailers simply have to convince customers of their merits, relative to the more expensive offers from the other retailers that most customers select. But electricity must already be one of the most advertised products in Victoria.

About 110 years ago, economist Alfred Marshall [suggested](#) that a government could print a good edition of Shakespeare's works, but it could not have got them written. While the carcass of municipal electric works belongs to the officials, he said, the genius belongs to free enterprise.

Read more: [New regulations expose energy price gouging through 'free' comparison sites](#)

The creation of a retail electricity market in Victoria 17 years ago sought to bring the “genius” of free enterprise to the sale of electricity to small customers. Taken in the round, the results so far are not entirely encouraging.

The Victoria Energy Policy Centre is partly funded by the Government of Victoria. Bruce Mountain is also the proprietor of www.beatyourbill.com.au and bills uploaded there are also used by VEPC in its retail market research.

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Read more <http://theconversation.com/victorians-who-switched-energy-retailers-only-save-45-a-year-leaving-hundreds-on-the-table-122786>