Mr Mark Feather
General Manager – Strategic Policy and Energy Systems Innovation
Australian Energy Regulator
GPO Box 520, Melbourne VIC 3001

Lodged electronically to ConsumerPolicy@aer.gov.au

31 January 2022

Dear Mr Feather,

Re: Submission to AER Draft Better Bills Guideline

ActewAGL Retail (ActewAGL) welcomes the opportunity to comment on the Australian Energy Regulator's (AER) Draft Better Bills Guideline (Guideline). This submission sets out ActewAGL's feedback on the proposed Guideline and addresses some of the questions set out in the Notice of Draft Instrument.

ActewAGL is an electricity and gas retailer, providing energy to the Australian Capital Territory (ACT) and the south-east NSW region including Queanbeyan, Goulburn, the Snowy Mountains, Nowra and the South Coast.

ActewAGL supports the introduction of measures that improve customers' understanding of their energy usage and allow easy comparison of offers. However, ActewAGL is concerned that the proposed Guideline does not strike the appropriate balance between the need to prescribe standard billing information to promote comparability, with sufficient flexibility to allow retailers to innovate and format bills to meet customers' information preferences.

ActewAGL's existing billing information is informed by extensive research and industry best practice

ActewAGL's existing billing practices are designed to be easily understood and provide customers with the information they need. Our billing system, which is tailored to provide the information our customers want, is informed by extensive research and industry best practice.

ActewAGL supports aspects of the Guideline that promote simple design principles and increase customers' understanding of electricity offers. ActewAGL agrees with the conclusion of the research from the Behavioural Economics Team of the Australian Government (BETA) that customers prefer simple bills that are free from clutter and unnecessary information.[1] Simple and easy to understand bills reduce contact centre activity, as well as cost to serve.

[1] Behavioural Economics Team of the Australian Government (BETA), *Improving energy bills: final report*, October 2021, p2.

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However, the proposed Guideline is overly prescriptive and does not provide retailers with enough flexibility to structure and provide the information customers want. Retailers should be able to provide additional important information to customers if and when required. The bill is the only communication from retailers that reaches all customers and it is essential that retailers have flexibility to utilise this communication method to best suit their needs and the needs of customers.

From 1 July 2022, ActewAGL must comply with the ACT Retail Electricity (Transparency and Comparability) Code

In September 2021, the Independent Competition and Regulatory Commission (ICRC) published its ACT Retail Electricity (Transparency and Comparability) Code 2021 (ACT Code). The ACT Code set out three requirements for National Energy Retail Law (NERL) retailers in the ACT, including:

- A Reference Price for comparison of electricity offers;
- A better offer notification for electricity customers; and
- An entitlement for customers to obtain clear advice.

ActewAGL provided feedback and submissions to inform the development of the ACT Code and supports its core features. Key differences between the ACT Code and the Guideline include:

- The level of prescription in relation to detail and design principles;
- Requirements to tier/structure information.
- The proposed approach to implement the better offer notification; and
- The requirement in the Guideline to provide customers with a standardised plan summary.

ActewAGL invested significant time and resources over the past 12-months to comply with the ACT Code from 1 July 2022. This included redesigning its existing billing system and processes to comply with the ACT Code's better offer notification requirement. ActewAGL will be required to invest additional resources to comply with the Guideline by 30 March 2023. The requirement to comply with two separate and disparate codes, within a short period of time, will have a significant financial impact on ActewAGL, which will result in costs being passed on to customers.

ActewAGL met with the ICRC during January 2022 to discuss these concerns.

Consider adopting the 'best offer' model proposed in the ACT Code

<u>The ACT Code strikes an appropriate balance between providing better offer information to customers without imposing unnecessary regulatory burden</u>

ActewAGL agrees that a well-designed better offer requirement would benefit consumers and foster competition. The AER's preliminary position is that the 'best offer' obligation be modelled on the approach imposed on energy retailers in Victoria, as set out in Division 4 of

Part 2A of the Energy Retail Code.[2] ActewAGL considers the model adopted in the ACT Code achieves a similar outcome at a lower cost to retailers and customers.

The ACT Code includes an obligation on electricity retailers to conduct a better offer check prior to issuing a bill. It also requires the inclusion of a bill message, advising customers to make contact if a better offer is available and/or use the Australian Government's price comparison website to compare offers. Retailers must utilise smart meter data in conducting these checks, if it is available.

The ACT Code provides retailers with discretion in how they undertake better offer checks, provided the requirements in the ACT Code are met.

The ACT Code will take effect in the ACT from 1 July 2022 and strikes an appropriate balance between providing genuine better offer information to customers without imposing unnecessary regulatory burden. This approach provides NERL retailers in the ACT with enough flexibility to use personalised and relevant data, providing customers with meaningful information to compare electricity bills.

The ACT Code does not require a calculation of the amount that could be saved, which differs from the proposed requirements of the Guideline. The amount that customers can save is difficult to quantify and can change over time. Issues that may impact a calculation of the best offer include customers that have:

- Multiple meters which are based on different tariffs;
- Energy usage patterns that change over time;
- Seasonal appliances e.g. gas heating; and
- Solar systems where feed in tariffs are calculated on a gross or net (or both) basis.

The best offer for one billing cycle may not be the customer's best offer for the next, particularly for jurisdictions like the ACT where there is significant variation in seasonal temperature and energy usage patterns. Requiring retailers to quantify the best offer amount could potentially be misleading and will reduce the amount of energy offers available to customers. The best offer requirements in the ACT Code are more appropriate and measured in their approach, ensuring a conversation occurs between the customer and retailer first and that a customer is not inadvertently directed to a plan that does not meet their seasonal or appliance-based needs.

<u>Smart meter penetration and customer preferences make it difficult to accurately predict a better offer for customers</u>

In the ACT, most customers still have basic meters and many customers with smart meters have had their new meter for less than 12 months. For these customers, it is not possible to outline how much a time-of-use or demand tariff may save them compared to their existing flat tariff.

[2] Essential Services Commission, *Energy Retail Code, Division 4 of Part 2A*, p87.

Even if 12 months of data is available for customers, a retailer may suggest a plan that ultimately results in the customer paying more because of changes in usage patterns, installation of a solar system or other factors that cannot be predicted. For example, a customer that would have been better off on a demand tariff over the past 12 months, may not be better off on a demand tariff going forward.

In selecting a tariff structure, customer preference must also be considered. Customers may prefer a lower rate plan against a discount-based plan or a plan with a higher solar feed in tariff. Many customers prefer the stability and simplicity of a flat tariff, even if it is demonstrated to be more expensive than alternatives.

<u>Adopting the Victorian approach will only reduce cost to serve for Tier One, Victorian-based retailers</u>

The Notice of Draft Instrument outlines that the rationale for adopting the Victorian 'best offer' approach is to promote regulatory consistency, and lessen the cost of system changes for retailers, which is consistent with a goal to minimise the cost to serve where possible.[3]

ActewAGL agrees that the approach will reduce cost to serve for Tier One and Victorian retailers, but consider it is likely to increase costs for other retailers. Adopting the Victorian approach will impact competition and have a bigger impact on regional and smaller retailers who will be disproportionately disadvantaged by the changes.

As such, ActewAGL recommends the final Guideline be more closely aligned to the ACT Code. This would allow the AER to monitor the implementation for effectiveness and adjust in the future only if required. This also ensures that the AER is drafting guidelines that are fit for purpose in jurisdictions that have adopted the National Energy Customer Framework (NECF). Victoria is not a NECF jurisdiction and re-purposing their Code does not contribute to the benefits and rationale of adopting a harmonised national framework.

Aligning the best offer notification requirement with the ACT Code will make it easier for retailers to comply by March 2023

To comply with the Guideline in its current form ActewAGL would need to undertake a comprehensive re-design of its existing bill. A re-design would require input from across the business and engagement with our external system vendor and bill print house. Until a Final Determination and Guideline is released, it is not possible to fully scope the extent of these changes. This also means that it is too early to quantify the exact financial impact of the changes. However, a high-level comparison to similar projects within ActewAGL indicates that the costs would be significant.

Changes of the magnitude required by the Guideline would take retailers like ActewAGL 12-18 months to implement and adopt (as was the case when these same changes came into effect in Victoria). We also note that the proposed implementation timeframe will place a

[3] AER, *Draft Better Bills Guideline – Notice of Draft Instrument*, December 2021, p42.

significant burden on the industry, which will exacerbate resource constraints and access to critical vendors such as those supporting billing systems.

Tiered information requirements will reduce innovation and retailer's ability to meet customer information preferences

Full retail competition in the National Electricity Market (NEM) is underpinned by the assumption that retailers compete for customers by developing new products and innovating to meet customer preferences. The proposed Guideline will not provide retailers with sufficient flexibility to innovate and provide information to customers about new offers, or focus on product design, customer experience or pursue environmental and socially responsible initiatives.

ActewAGL's current billing practices allow information to be provided to customers on the front page of their bill. This could include information on energy saving offers (including ACT Government schemes), price variation events, new products and services, assistance and support measures or other announcements. The Guideline would classify this information as Tier 3 which would reduce its prominence on existing bills.

The extracts below outline some recent information ActewAGL provided to customers on their energy bills.

Figure 1 – Example messages on ActewAGL energy bills

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ActewAGL Retail ABN 46 221 314 841, a partnership of Icon Retail Investments Limited ABN 23 074 371 207 and AGL ACT Retail Investments Pty Ltd ABN 53 093 631 586.

The Guideline should allow retailers to include small messages on the front page of paginated bills, in addition to Tier 1 information. Messages can be important to customers (such as information about financial support during the pandemic) or valued by customers (such as information about energy saving offers). Targeted messaging can be in the long-term interest of customers and not detract from the primary information that must appear on the front page of an electricity bill.

ActewAGL supports a balanced Guideline that provides customers with the consistency and familiarity they need to compare offers, while supporting innovation and allowing retailers to provide information that consumers want and need.

ActewAGL is working to re-design our existing billing and reporting systems to fully comply with the ACT Code from 1 July 2022. If there are any material differences between the ACT Code and the Guideline, it will impose a significant regulatory burden on ACT retailers and increase costs to customers.

Should you have any questions or wish to discuss the matters raised in this submission further, please contact Rohan Richardson at [redacted] or on [redacted]

Yours sincerely

KDean

Kate Dean
Acting General Manager ActewAGL Retail