

4 May 2010

General Manager
Markets Branch
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001

via email to: aer inquiry@aer.gov.au

Dear Sir/Madam

AER Retail Pricing Information Guidelines

Thank you for giving ActewAGL Retail the opportunity to comment on the AER's draft Retail Pricing Guidelines.

Our response to the guidelines is detailed in the attached document for your consideration.

If you have any questions about our response please not hesitate to contact me on (02) 6248 3301.

Yours sincerely



Ayesha Razzaq
General Manager, Retail

Let's power ahead.



ActewAGL

AER Retail Pricing Information Guidelines
ActewAGL Retail Response

Executive Summary

ActewAGL Retail (ActewAGL) welcomes the opportunity to comment on the AER's draft Retail Pricing Guidelines. ActewAGL notes that this early consultation process allows more time for the AER and stakeholders to consider issues relevant to the guideline, however ActewAGL notes that the National Energy Retail Law (NERL) has not yet been finalised, and may be subject to change. ActewAGL supports the AER's intention to ensure that any changes to the framework prior to its passage through the South Australian Parliament are reflected in the final guideline.

ActewAGL notes that standing offer prices in the retail energy market may be subject to change every six months, and there is no restriction to changes to market offer tariffs. ActewAGL considers that the AER should be careful not to impose unnecessary additional costs through its guideline by requiring details to be published that are soon made redundant through changes to tariffs.

ActewAGL does not consider it is appropriate for the guidelines to take a prescriptive approach following a fixed template. Any requirements in the guidelines should consider the variety and complexity of existing standing offer and market offer tariffs. ActewAGL does not support presenting information on market offers aside from the headline offer on its website as this is competitive information and to maintain competition in the energy sector for these offers, retailers must be able to maintain the commercial sensitivity.

Finally, to comply with the pricing guidelines energy retailers will incur substantial additional costs to reprint material, amend websites, advertisements and any other media used which will, by necessity, be passed through to the end consumer. ActewAGL Retail considers that the additional cost burden imposed by this guideline may have the perverse effect of pushing consumers towards hardship or financial distress.

Our response to the proposed guidelines is detailed below and we hope it gives the AER a clearer picture from an energy retailer's perspective.

Background

The AER have issued an Issues Paper for public consultation on Retail Pricing Information Guideline. This paper is preliminary consultation prior to the enactment of the National Energy Retail Law which is expected to be passed by the South Australian Parliament in its 2010 Spring Sitting with a phased implementation in individual jurisdictions from 1 January 2011.

Scope of the Guideline

ActewAGL notes that the sections 206 and 219 of the proposed National Energy Retail Law (NERL) set out a requirement on retailers to present details of standing and market offer tariffs in a manner and form required of by the AER's Retail Pricing and Information Guidelines, and present them in that way when publishing or advertising those prices. These provisions, however, do not require that the guideline impose the same level of standardisation to both standing and market offer tariffs.

The AER's Issues Paper focuses almost entirely on the presentation of market offer tariffs, and does not consider the case for a differentiated approach and level of standardisation between the presentation of information for standing and market offer tariffs. ActewAGL considers that it would be appropriate for the guideline to apply different levels of regulation to the presentation of standing and market offer tariffs, reflecting the diversity of potential market offer tariffs, and the need to ensure that the guideline does not stifle innovation by imposing rigid restrictions on how market offers are structured and presented.

ActewAGL notes that the proposed NERL does not require retailers to publish their market offer tariffs, only that when standing and market offer tariffs are published, the presentation of tariffs is in accordance with the guideline. In this respect, ActewAGL considers it appropriate to limit the application of the guideline to advertising media where the presentation of detailed pricing offers is likely, as set in the responses to questions below. The AER may also consider how tariff information may be presented on third party switching and comparison sites that display any energy pricing information for comparison such as www.switchselect.com.au, etc.

ActewAGL also considers that the AER should take care to ensure that its guideline does not extend beyond the intent of the proposed law to requiring publication of details of market offer tariffs that may be commercially sensitive to a retailer. For example, the high level presentation of a headline offer on a website should not necessarily require that all information associated with that tariff be publicly available to all visitors to that website. Details of the offer may be set out (in accordance with the guideline) in leaflets and brochures sent or made available to customers and prospective customers once they have expressed an interest in a particular offer. This approach allows price disclosure and the opportunity for customers to compare offers without requiring the publication of commercially sensitive information about retailers' competitive offers. ActewAGL considers that this is consistent with the intent of the guideline, as set out in the proposed NERL, to "assist customers to consider and compare standing offer prices and market offer prices offered by retailers."¹

Options for the medium of presentation

Questions asked:

1. What are stakeholder views on the forms of advertising that the AER should target?

ActewAGL considers that the AER should limit the media to which the guideline applies to only those media where it is likely that detailed information about prices will be presented, and on which a customer is likely to base its switching decision.

For example, as the AER notes, a billboard is unlikely to contain detailed pricing information. A billboard may, however, contain some high level information about a headline offer. On seeing a billboard a customer may seek additional information, but they are unlikely to make a decision on the billboard offer alone. It is therefore important to the guideline not apply to media that are intended to encourage a customer to seek further information on a tariff or offer. Otherwise, the guideline may force retailers to include inappropriate levels of detail in advertising material that cannot adequately support this level of price disclosure, and on which the customer does not ultimately base its switching

¹ Proposed National Energy Retail Law, second exposure draft, section 242(b)

decision, as the customer is likely to seek out or receive further information about an offer, either through the retailer's website, or by requesting further information through a call centre.

ActewAGL therefore agrees with the AER's view that the guideline not apply to billboard, radio and television information.

2. to what extent should the AER be less prescriptive, e.g. billboards as opposed to door to door sales, brochures and website?

The AER should consider that the potential time that a customer is likely to spend studying and analysing the information being presented in a particular media in deciding the appropriate level of detail that should be presented in that media.

Billboards or radio ads do not allow a customer sufficient time to study and compare information, and as such should not be regulated by the AER. For example, where the consumer is being presented with a 'grab' as in radio and TV advertising retailers should be able to advertise the headline offer without also discussing details of that offer, including comparison tariffs. Further, the guideline should not be overly prescriptive in saying "Must build a pricing wizard", "must use tables", must use minimum of two colours".

As noted previously, the AER should also consider whether different levels of regulation are appropriate to apply to the presentation of standing and market offer tariffs, with a less prescriptive approach adopted for market offer tariffs to ensure that the guideline does not stifle diversity and innovation in potential offers.

3. should a template be published? Under what circumstances should retailers be required to present prices following that template? What should the template be called? Do stakeholders have any views on what type of format?

ActewAGL does not consider it is appropriate for the guidelines to take a prescriptive approach following a fixed template for the presentation of energy offers.

ActewAGL offers a number of standing offer tariffs that may be appropriate to a particular customer depending on their circumstances. These include four residential tariffs with "green" options and some with controlled load options as well as variety of non-residential tariffs with similar options. Any requirements in the guidelines should consider the variety and complexity of existing standard offer and market prices. ActewAGL would support the AER's alternative suggestion that a less prescriptive approach is taken which sets out certain minimum information requirements, however these information requirements should only apply to the relevant forms of media (discussed in questions 1 and 2) where a customer is able to make use of the information. This would provide price transparency without imposing unnecessary additional costs on retailers.

For the presentation of market offer tariffs, ActewAGL suggests the guidelines adopt a less prescriptive approach. ActewAGL believes that limitations of the form of these offers can limit the scope of possible offers. Offers can include service bundling and even non-price based incentives such as memberships and subscriptions. It would be difficult for a template to adequately address this diversity without limiting scope of innovation of service offers. The guidelines could however set some minimum information requirements as done in South Australia, for the presentation of market offers.

Options for the presentation of retail prices

The AER sets out three possible approaches for the presentation of prices:

- standardised unit pricing
- annual cost
- a combination of the above

Standardised unit pricing approach

Questions asked:

- 1. what are stakeholder views on the effectiveness of using standardised unit pricing as a way of presenting prices?**

Standardised unit pricing used on its own does not help most customers to make a comparison between retailers without performing detailed analysis or calculations. It is too difficult for most customers to compare different fixed charges, variable charges, and block levels. Furthermore, the effect of market offers would have a small or insignificant value proposition on standardised unit pricing in measures such as c/kWh.

- 2. what are stakeholder views on discounts/rebates/fees etc being disclosed separately from the actual price of energy?**

ActewAGL does not support presenting information on market offers aside from the headline offer as this is competitive information and to maintain competition in the energy sector for these offers, retailers must be able to maintain the commercial sensitivity.

- 3. is standardised unit pricing likely to become too complex when bundled offers/complex tariffs are disclosed in the proposed formats?**

It would be extremely difficult to accurately calculate standardised unit pricing for tariffs such as time-of-use tariffs. Comparison between tariffs is also difficult when tariffs are not structured in the same way, such as flat and time of use tariffs.

4. what are general views on the formats presented in these tables?

Of the formats provided and presented in Appendix A by the AER, Example 1 is the preferred format. The format presented is clear and easy to understand, however it does not help the customer to compare prices between different retailers, or necessarily assist customers to compare different types of tariffs where fixed charges and variable block amounts may not match up.

5. what units might be more effective (i.e. cents/day or \$/week) and what format is likely to be most useful for customers (i.e. c/kWh or “cents per kilowatt hour of electricity”)?

Any charge in terms of cents/“time” for a variable charge is essentially using the annual cost component mentioned later in the document.

A format which is easy to understand and a concept that the customer can relate to is important when determining an effective format. Therefore ActewAGL recommends a monthly, quarterly, or annual price – depending on a typical bill cycle with which the customer would be familiar. It should be pointed out that using a price that is not based on an annual approach could be misleading due to seasonal factors which can influence the customer’s energy consumption pattern from time to time.

Annual cost approach

Questions asked:

1. The AER would like to obtain stakeholder views on the effectiveness of using the annual cost method as a way of standardising the presentation of prices and enabling ease of comparison between offers for small customers

The use of the annual cost method would be the most effective method of standardising the presentation and comparison of prices between retailers for standing offers. In order to be effective, all retailers would need to adhere to the same set of average electricity consumption statistics applicable to the jurisdiction(s) or geographic regions they operate in.

Providing optional regional statistics (state and territory) would assist potential customers to more accurately determine their annual cost due, particularly in regions with significant season variations in weather. Regional statistics should be a secondary display options in mediums such as retailer websites or comparison website. The AER would need to provide clear guidelines and statistics on the presentation of the annual cost method both nationally and regionally.

A preferred written media system would provide the customer with a standardised annual cost in conjunction with a per unit cost, so different customers with different needs can make the calculations they require to make an informed purchase decision.

- 2. The AER seeks views on how it might develop consumption bands that would reflect appropriate consumption levels of small customers – both residential and small business – and whether these levels should be differentiated to accommodate differences between NEM jurisdictions?**

As a general comparison, it would be simple enough to set a low/medium/high case of figures that are required to be presented by the retailer, with the option of the retailer adding any additional bands that they may choose. This allows for a standardised comparison level between retailers and offers, but still allows a retailer to market a specific product that may have benefits un-seen at the set levels. e.g. a discount after the first 12,000kWh/year which may not fit into one of the prescribed bands.

- 3. given the significant variations in consumption levels by small businesses (and limited data availability), what would be the best method to determine an approximate range of bands that can be used to reflect consumption of both electricity and gas by small businesses?**

Again as per the previous question, as a general comparison it would be simple enough to set a low/medium/high case of figures that are required to be presented by the retailer, with the option of the retailer adding any additional bands that they may choose. This allows for a standardised comparison level between retailers, but still allows a retailer to market a specific product that may have benefits un-seen at the set levels.

- 4. the AER seeks views on how discounts should be displayed. For example, is it appropriate that the discounts are disclosed separately from the annual cost of an offer? If not, how else should they be displayed?**

Again, as mentioned above, ActewAGL does not support presenting information on market offers aside from the headline offer.

5. **What assistance or additional guidance in the form of 'pointed questions' could be provided to assist customers to place themselves in the appropriate consumption band?**
- How much did you spend on your last electricity or gas bill?
 - How much energy did you use on your last energy bill (include time frame)?
 - Post code
 - Dwelling size
 - Number of occupants
 - Number of TV / Computers in use
 - Heating (electric or gas)/ air conditioning
 - Water heating installation (electric or gas)
 - (For business) High energy industrial equipment

Time of Use Tariffs

Questions asked:

1. **The AER seeks comment on the possible methods put forward for determining how retail offers should be presented given the potential for the development of more time of use offerings from retailers. In particular, what are stakeholder views on using the load profile data as a method for creating an assumed distribution of usage over time to enable comparison using the annual cost approach?**

Using the load profile data as a method of creating an assumed distribution of usage over time to enable comparison using an annual cost approach would only be effective where you can separate residential load from load derived from small to medium enterprise and large market consumers. If it is not possible to separate these consumer types, the load profile will inaccurately represent average residential consumption. For instance, residential load is highest in the morning and evenings where business load is highest during business hours.

2. **what other appropriate methods could be considered?**

We consider that adopting any other methods will impose unnecessary additional costs on the energy retailer, in particular if it requires a customer to enter specific information in order to estimate their annual energy consumption.

3. should different load profiles be created for each jurisdiction or season?

Retailers would need to adhere to the same set of National average electricity consumption statistics derived from load profiles to ensure consistency. Provision of regional statistics should simply be an ancillary display option (where appropriate) to assist consumers in obtaining a more accurate comparison, particularly in areas that are affected by significant weather variations between seasons. Varying load profiles by season or location could also allow the possibility for the misrepresentation of prices during a comparison either intentionally or by error.

4. how often should the load profile be updated?

Annually to coincide with price variations at each new financial year. As mentioned previously, varying the load profile by season (or any frequent amount of time) could allow for errors or mis-representation with the information being changed too frequently, and when facing possible delays in transfer from retailer to media source. However, as there is the potential for a network company and/or retailer to change their pricing structures once every 6 months, this becomes an additional regulatory and cost burden on all retailers operating in the particular market which would, by necessity, be passed through to the end consumer. This is especially true for web-based tools that may require significant redevelopment if load profile calculations were to change dramatically.

Combination approach

Question asked:

1. What are stakeholder views on the effectiveness of using a combination of both the annual cost and standardised unit pricing method to present price information?

The combined approach allows for the most accurate presentation of prices, by showing the standardised units along with the application of these prices in an easy to understand annual cost approach.

In print, using a combination of both the annual cost and standardised unit pricing method to present price information could potentially overload the customer with information. Utilising this combination to display price information could prove to be "to daunting" or cause confusion. As such, it would need to be formatted so that the information is very clear.