

30 April 2010

**By email: [AERInquiry@aer.gov.au](mailto:AERInquiry@aer.gov.au)**

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

Dear Mr Leuner

### **Issues Paper – AER Retail Pricing Information Guidelines**

The Brotherhood of St Laurence welcomes the opportunity to comment on the above issues paper.

The Brotherhood of St Laurence is an independent non-government organisation with strong community links that has been working to reduce poverty in Australia since the 1930s. Based in Melbourne, but with a national profile, the Brotherhood continues to fight for an Australia free of poverty, guided by principles of advocacy, innovation and sustainability. Our work includes direct service provision to people in need, the development of social enterprises to address inequality, research to better understand the causes and effects of poverty in Australia, and the development of policy solutions at both national and local levels.

The Brotherhood believes that all Australians have a right to fair and affordable access to basic services, including energy services. Fair and affordable access to essential services helps disadvantaged and low-income people by enabling them to be part of Australia's mainstream society, and by ensuring corporate, government and community sectors all take responsibility for addressing social problems.

As part of our wider efforts to promote social inclusion, the Brotherhood develops and demonstrates effective financial capability and asset building programs for disadvantaged people to address financial and market exclusion. Given this area of expertise, this submission seeks particularly to give a voice to the experiences of low-income people as consumers in the market for energy services.

### **Myth of informed consumers**

The Brotherhood's experience is that many consumers are misinformed in their dealings with energy providers, including in relation to price. The level of complexity in the offers of retailers, combined with low levels of literacy, mean that it is very difficult for consumers to assess pricing information and readily compare across energy offers.

## *Complexity*

The Brotherhood is increasingly concerned with levels of complexity in the energy market. Retail competition has resulted in a significant increase in retailer marketing, and high-pressure or misleading conduct by door-to-door marketers is widespread. For clients of the Brotherhood, the decision to switch at the door is a difficult one, and can have impacts upon existing payment arrangements. Many of the clients that contact us for an affordable small loan, for example, have had marketers interrupt their existing Centrepay or smoothed payment arrangements, resulting in multiple bills and confusion. Many disadvantaged consumers sign up to these contracts under pressure, resulting in irregular and large bills. High or irregular billing can result in financial hardship, adverse credit records and even disconnection from supply, all of which prevent disadvantaged people from participating in mainstream economic life. It can also impact their ability to access other services, such as loans and savings programs.

The Brotherhood is also concerned about the potential use of time of use tariffs that may be offered through smart metering technology. Complex time of use tariffs impose a new level of complexity in the energy market, making price comparison more difficult. There is already a level of suspicion in the community about these new technologies and their impacts on prices and tariffs, so pricing information should clearly inform consumers of their rights to alternative tariffs where these are available.

The Brotherhood believes that in any presentation of prices and tariffs, consumers should be informed of their right to simple or basic tariffs (where this is available), as well as their right to use Centrepay (if they are eligible) or smoothed payment arrangements that may assist with budgeting.

## *Literacy levels*

In finalising its retail price information guidelines, the AER should also be aware of the literacy levels across the Australian community that may impact consumers' ability to interpret retail energy pricing information.

The ABS Adult Literacy and Life Skills Survey measures:<sup>1</sup>

- prose literacy: the ability to understand and use information from narrative texts, including newspapers, magazines and brochures :
- document literacy: required to locate and use information in job applications, payroll forms, transportation schedules, maps, tables and charts
- numeracy: required to manage and respond to the mathematical demands of diverse situations
- problem solving: goal-directed thinking and action in situations for which no routine solution is available.

The final three are particularly relevant to considering a retail energy offer, including pricing information – document literacy to understand the pricing tables; numeracy literacy to determine what the pricing information means for a final bill; and, problem solving literacy to determine which offer out of a number is the most suitable. The ABS found that between 7 and 10 million Australians have literacy levels in each of these three areas below the "minimum required for individuals to meet the complex demands of everyday life and work in the emerging knowledge-based economy".

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<sup>1</sup> Australian Bureau of Statistics, 2006, *Adult literacy and life skills survey, summary results*, Cat. no. 4228.0, ABS, Canberra.

In 2008, the Brotherhood with Griffith University undertook research with consumer credit borrowers about the barriers to their understanding of credit contracts.<sup>2</sup> The findings of this research could equally apply to energy contracts, including pricing information. That research found that the major barriers to understanding were:

- Language and literacy – consumer information is often provided through complex, non-visual methods, meaning that those with low literacy levels have difficulty interpreting it;
- Length of documents – long documents generally overwhelm consumers and inhibit clear decision-making; and
- Information overload – when overwhelmed with lots of information, normal consumer response is to ignore information completely.

These findings on literacy levels and consumer information underscore the need for retail energy pricing information to be simple and easy to understand.

## **AER proposals**

Given the above, the Brotherhood supports an approach which would provide a clear simple overall estimate of an energy offer (along the line of the annual cost approach), supported by easily accessible detailed information through standardised unit pricing which would provide transparency to those who want more information. It would be important for the energy offer to indicate the overall price according to household type (i.e. low/medium/high user). Further information should be provided to help people identify which type of household they belong (i.e. single person in an apartment would be low user).

Where possible, retail price information should be supported by clear colours and visuals to allow a consumer to easily identify the type of household to which they belong. To facilitate this, the Brotherhood supports a standard template for retail price information. Such a statement should clearly state an annualised price comparison but direct consumer to further information about detailed tariffs. Any non-price incentives should also be disclosed on the standard template.

Consideration should also be given to whether consumers can be informed of the fortnightly and quarterly cost (i.e. not just annual). As described above, low-income households generally budget on a fortnightly basis and would be interested as to how the energy offer impacts their budget.

## **Consumer testing**

Before finalising the retail price information guideline, we encourage the AER to undertake consumer testing of its proposed approaches. This consumer testing should include testing with vulnerable and disadvantaged groups, to ensure the approach proposed is sufficiently simple and clear so that all in the community are able to understand and participate in the market.

## **Summary**

In summary, the Brotherhood recommends:

- That a clear annual cost comparison be featured on a standard price information template, directing people to further detailed standardised unit price information should they require it.
- That the standard template make use of colours and visuals to assist those with low literacy.
- That the AER's preferred approaches be consumer tested to ensure that a wide range of consumers can effectively use and interpret the information.
- That retail pricing information should be accompanied by information about a consumer's right to Centrepay and smoothed payment arrangements;

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<sup>2</sup> Sheehan, G, Wilson T & Howell, N 2008, *Coming to grips with credit contracts*, Brotherhood of St Laurence, Fitzroy, Vic.

Should you have any questions about this submission, please contact me on 03 9445 2425.

Yours sincerely

A handwritten signature in black ink that reads "Gerard Brody". The signature is written in a cursive, flowing style with a prominent initial 'G'.

Gerard Brody  
Senior Manager Financial Inclusion