

30 April 2010

Mr Tom Leuner
General Manager
Markets Branch
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3000

By email: AERInquiry@acr.gov.au

Dear Mr Leuner,

Issues Paper: AER Retail Pricing Information Guidelines (March 2010)

The Consumer Utilities Advocacy Centre Ltd (CUAC) is an independent consumer advocacy organisation. It was established to ensure the representation of Victorian consumers in policy and regulatory debates on electricity, gas and water. In informing these debates, CUAC monitors grass roots consumer utilities issues with particular regard to low income, disadvantaged and rural consumers.

We welcome the opportunity to comment on the Issues Paper: Australian Energy Regulator (AER) Retail Pricing Information Guidelines (March 2010) (Issues Paper).

Diverse customer needs

We are pleased to see that in the development of this Issues Paper, the AER has acknowledged the importance of customers being able to readily compare standing and market offer tariffs offered by retailers.

CUAC believes it is also important to recognise the differences in the operation of the energy market across jurisdictions and the impact this may have on the pricing information needs of consumers. In CUAC's experience, consumers generally have difficulty navigating the energy retail market. The information needs of various segments of consumers also vary. The customer base includes people from a wide variety of socio-economic groups including people on low incomes, pensioners, customers from culturally and linguistically diverse (CALD) and Indigenous communities. Many small businesses are also not well informed about energy offers.

Complex market

The Victorian energy market is highly complex. In Victoria, there are network service charges (supply charges) which vary across postal codes, smart meter rollout costs and, on top of that, complicated retail tariffs (plus anticipated time of use tariffs arising from the smart meter rollout). Many energy offers are also 'linked', that is, both electricity and gas costs, are included in one offer. This makes it particularly difficult for consumers to compare a 'linked' offer with an exclusive electricity or gas offer by other retailers.

Anecdotal evidence suggests that, while consumers have taken the opportunity to seek cheaper offers in the competitive market, they are overwhelmed by the extent of choice and complexity. From a small consumer's perspective, energy is a homogenous product. The energy they receive from one retailer is indistinguishable from the next. Through CUAC's interaction with consumers and their representatives, it has become clear that consumers are frustrated that in order to find a better deal for this homogenous product they need to compare an amazing array of complex offers that are accompanied with incomprehensible fine print detailing terms and conditions. Not only is this an information asymmetry that limits consumers' ability to make the right choice, it also imposes significant search costs (a transaction cost) that reduces the attractiveness of switching. CUAC strongly supports the development of pricing information guidelines that reduce both the information asymmetries and transaction costs that are a feature of the current energy retail market.

CUAC notes that transaction costs and information asymmetries are a threat to the competitiveness of markets. Appropriate regulation, including price disclosure guidelines, can lead to the more competitive functioning of markets. For consumers to fully realise the benefits of retail market competition, they need free access to pricing information which must be presented in a manner which allows easy comparison across energy retail offers. The development of the Retail Pricing Information Guidelines (Guidelines), present the opportunity to effectively regulate the retail energy market to ensure the effective participation of consumers to their benefit.

We believe that there are some **key principles** which should be taken into account in the development of the Guidelines:

1. We support a 'layered' approach to information provision. The basic pricing information tool should be easily understood by all consumers and allow informed choice to be made. Consumers who require more detailed information can be directed to other resources such as additional information on a website or a contact point. CUAC suggests that the AER conducts consumer focused groups across different socio-economic groups in the jurisdictions to identify the most effective information tools.
2. Pricing information should be transparent. Therefore, fixed charges and consumption charges should be distinguished.
3. CUAC suggests that the AER undertake further research and the use of consumer focus groups to find out how information on rebates, discounts, product vouchers, loyalty schemes, fees (for example: exit fees, late payment fees, reconnection fees)

should be listed so that consumers are best able to compare offers. CUAC is concerned about the complexity of this information and that consumers should not have to undertake a range of separate calculations in order to understand the offer and/or compare it with others. Information on concessions and rebates must identify the source so that customers are aware from whom they are receiving the concession or rebate.

4. We agree with the AER that there must be standardisation in any price disclosure regime which is adopted. For any price disclosure regime to be meaningful, customers must be able to compare like-for-like.
5. We note that section 205(7) of the proposed National Energy Retail Law (NERL) requires the AER to publish the standing offer prices on its website after notification by the retailer. We also note that section 219 obliges the retailer to present details of its market offer prices “in the manner and form required by the [Guidelines].” We believe that there should be a website provided by an independent broker (that is, an entity which does not receive a fee for customers switching) where information on all standing and market offers can be presented and to which customers can be directed (for example, via links from a retailer’s website) so that they can easily compare their existing energy contract with other offers. For example, as the regulator, the AER could develop an independent repository of pricing information on all standing and market offers.
6. Governments and regulators have a responsibility for increasing consumer understanding of energy. (We note that the Government has played a significant role in increasing financial literacy amongst the general population.)

The development of the Guidelines should take into account complementarities with the new national consumer laws and the marketing provisions in the proposed National Energy Customer Framework (NECF). In the development of the Guidelines, the AER should note that the manner in which network tariffs are passed onto customers can increase its complexity to customers. In Victoria, retailers are able to pass network charges onto consumers in any form. We support the AER investigating the manner in which network charges are passed onto customers in a retail market with unregulated pricing.

Our response to the questions raised in the Issues Paper is as follows:

Q 1. [What are stakeholder views on the forms of advertising that the AER should target with this Guideline?](#)

We agree with the AER’s preliminary view that the Guidelines should apply to internet presentation of energy offers and any leaflets or written information that is given to customers (including potential customers and door-to-door marketing) that relates to the prices and/or the terms of a proposed or existing energy offer. The Guidelines should apply to any medium/media whereby prices are given to customers.

- Q 2. To what extent should the AER be less prescriptive in the presentation of pricing information on mass media platforms (such as billboards) as opposed to door-to-door sales, brochures and websites?

The AER should be prescriptive in the presentation of pricing information, which should be provided in a manner which allows easy comparison by customers to reduce complexity. There should also be high standards for presentation of pricing information on mass media since some customers rely on mass media for pricing information. In addition, the Guidelines should not merely apply to just door-to-door sales but any type of marketing activities where pricing information is presented to customers, including telephone marketing.

- Q 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 (i.e. the Price Disclosure Statement or Price Information Sheet or another name)? Do stakeholders have any views on what type of format?

Consumers need simple mechanisms to receive pricing information when they seek price savings, especially in a competitive market. We support requiring a template for the presentation of pricing information in whatever medium (including web, print etc). Tariffs structures are complicated in themselves, and difficult for consumers to understand. A consistent format for the presentation of standing and market offers, would facilitate publication on the AER website, retailer's website and easier understanding by consumers. A consistent format helps consumers to compare their current energy contract with other offers available. We suggest that any deviations from the template must be subject to the AER's approval.

We recommend that the template be called a 'Price and Product Information Sheet' as consumers are more likely to review a document entitled as such while looking for pricing information on the relevant websites.

- Q 4. What are stakeholder views on the effectiveness of using standardised unit pricing as a way of presenting prices?

We note that standardised unit pricing is now used in other sectors such as in supermarkets. We support standardised unit pricing in principle. We acknowledge that presenting prices using standardised unit pricing will be useful where there is a flat tariff. However, it might not be the best method where there is a complex tariff structure, for example, where there is a five part time of use tariff or inclining block tariffs. We suggest that the AER investigate innovative ways to develop unit pricing information in the presence of complex retail market offers.

- Q 5. What are stakeholder views on discounts/rebates/fees etc. being disclosed separately from the actual price of energy?

Please refer to key principle 3. We note, however, that separately disclosed discounts/rebates/fees may make it more difficult for some customers to compare prices because it relies on the customer calculating whether one offer (with all the discounts,

rebates, fees factored in) is better than offers (with all the discounts, rebates, fees factored in) from other retailers.

Q 6. Is standardised unit pricing likely to become too complex when bundled offers/complex tariffs are disclosed in the proposed formats?

Please refer to our answer to Q4.

Q 7. What are general views on the formats presented in these tables?

Please refer to our answer to Q4 and Q5.

Q 8. What units might be most 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”)?

We support the continuation of using c/kWh or c/mJ and suggest that information and education be provided to assist consumers to understand this measure of consumption.

Q 9. 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.

We agree with the limitations outlined by the AER in using the annual cost method as a means of standardising the presentation of prices. That is, this approach by itself is merely indicative (rather than reflective) of each customer’s individual consumption. The approach also relies on the ability of customers to place themselves on the appropriate consumption band.

As to the method of presenting pricing information, please refer to our answer to Q8.

Q 10. 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?

We note that the Commonwealth has undertaken significant work on the cost of the carbon reduction scheme on households. This provides a good starting point to analyse potential bands and classes of customers.¹ However, we are concerned that if used as a price disclosure tool, consumption bands may add to the complexity of information. Consumption bands may be more useful in the development of policy rather than to facilitate consumer decision making. We note that past consumption levels will provide the most accurate guide to consumption (provided that the customer’s circumstances remain the

¹ Department of Climate Change and Energy Efficiency, Carbon Pollution Reduction Scheme: Australia’s Low Pollution Future (2008), Volume 2, Chapter 17:
<http://www.climatechange.gov.au/publications/cprs/white-paper/cprs-whitepaper.aspx>

same). However, the impact of new offers and network or retail tariffs needs to be taken into account.

Q 11. 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?

We suggest that the AER consult with peak bodies such as Australian Industry Group (AIG) and the Victorian Employers' Chamber of Commerce and Industry (VECCI) if there are to be a range of bands developed to reflect consumption levels of small businesses. However, as mentioned in our answer to Q10, we have concerns about the use of consumption bands.

Q 12. 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?

Please refer to our answer to Q5.

Q 13. What assistance or additional guidance in the form of 'pointer questions' could be provided to assist customers to place themselves in the appropriate consumption band?

Taking into account our concerns about the use of consumption bands (answer to Q10), this is a complex matter requiring further research by the AER.

Q 14. 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-tariff* 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?

Q 15. What other appropriate methods could be considered?

It is difficult to comment at the present time because we do not yet have any information on the shape of the time of use tariffs which will be offered by retailers. However, we believe that any methods to determine how retail offers are to be presented should take into account the key principles which we have outlined on pages 2-3 of this submission.

With the potential introduction of time of use tariffs, the Victorian Government has indicated that it will be launching pilot trials including issues around consumer information and consumer response. We recommend that the AER engages with the Victorian Government on this.

Q 16. Should different load profiles be created for each jurisdiction or season?

As noted in the Issues Paper, there are limitations on the use of load profile data. CUAC supports more research on this matter including how load profile data can help in presenting pricing information to customers.

Q 17. How often should the load profile be updated?

As a general principle, load profile data should be updated monthly or seasonally.

Q 18. 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?

Please refer to our response to Q8. We are concerned that with the higher compliance costs which may arise from a combined approach, retailers could pass on higher costs to consumers.

If you have any queries on the above, please do not hesitate to contact the undersigned.



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