



**SUBMISSION IN RESPONSE TO AUSTRALIAN ENERGY REULATOR'S
RETAIL PRICING INFORMATION ISSUES PAPER**

**Prepared by
National Policy Office
COTA Australia**

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INTRODUCTION

COTA Australia - Council on the Ageing - is the national policy arm of the eight State and Territory Councils on the Ageing in NSW, Queensland, Tasmania, South Australia, Victoria, Western Australia, ACT and the Northern Territory. COTA Australia has a focus on national policy issues from the perspective of older people as citizens and consumers and seeks to promote, improve and protect the circumstances and wellbeing of older people in Australia.

COTA welcomes the move to have pricing information guidelines and the opportunity to provide input into the development of these retail pricing guidelines. The introduction of competition into the energy retail markets has meant that people now have to make a conscious decision as to which retailer to use for what is in today's society an essential service. For many older consumers this is not something they are comfortable with. COTA has not seen any conclusive data on this but our impression is that many older consumers only consider switching for the first time after they have been directly approached by retailers, through door to door sales, telephone contact or other means. Therefore we think it is incumbent on the retailers, who are trying to persuade people, to provide information in a way that gives people a good chance of making the right choice for them in terms of their best interest.

It is also possible that with the provision of better comparative pricing information consumers may become more active in the retail market and start initiating changes which could increase competition and have a beneficial impact on the total cost of energy for consumers.

RESPONSE TO QUESTIONS

Medium of presentation

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

COTA believes that the AER should target websites and written information. The guideline should be more prescriptive and require detailed information on retailers' websites and written information in the form of brochures, fact sheets etc that are provided to customers. This written material is provided through door to door sales or when consumers contact a retailer to require about pricing or the possibility of switching to that retailer.

Retailers should be required to have the information in written form that can be provided to consumers and not rely totally on their website as many older people do not access the internet. As shown by ABS data in 2008-9 69 per cent of people 65 years or above did not use the internet from any location compared with only 6 per cent of people aged from 15 to 17 years (*ABS Household Use of Information Technology 8146.0 2008-09.*)

Pricing information on mass media platforms, billboards, TV advertisements etc, could be less detailed but would need to have something which encouraged people to access the more detailed pricing information and where to obtain it. This could be along the lines of the insurance industry which tells people to look at the product disclosure statement-either in writing or a voice over.

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?

COTA believes there is merit in having a template that retailers are required to use as it removes ambiguity and allows for quicker and better comparisons by consumers. One example of this is that the Commonwealth Treasury has been doing some work on product disclosure statement for specific financial products and they have designed a standard template for the industry to use for those products. These product disclosure statements could form a useful model as they provide layered information, with what is considered the essential information being provided in the initial document and then references and links to more detailed information are provided for people who want to know more.

COTA does not have strong view on the name but it needs to be clear and obvious so Price Information Sheet would seem to be appropriate. This could be road tested as part of the market research AER is doing.

Presentation of prices

4. What are stakeholder views on the effectiveness of using standardised unit pricing as a way of presenting prices?
5. What are stakeholder views on discounts/rebates/fees etc. being disclosed separately from the actual price of energy?
6. Is standardised unit pricing likely to become too complex when bundled offers/complex tariffs are disclosed in the proposed formats?

Standardised unit prices are very useful for comparison purposes and the least open to misunderstanding and misinterpretation so should be the base line for any information.

Standardised unit pricing also has the benefit of separating out the actual cost of the good i.e. energy, from other incentives retailers might offer e.g. magazine subscriptions, COTA believes this is important as price and consumption are clearly linked and the offer of these other goods simply confuses that basic mechanism so that people may end up paying more for their energy without fully realising that is the possible outcome.

Discounts and rebates should then be set out separately with clear information as to how and when these apply.

Fixed fees/charges should be clearly identified as part of the pricing structure with the statement showing a total cost calculation.

There should be information on fees for breaking contracts, disconnection, etc as well

as any standing charges that are applied although this could be included as a separate table rather than putting it in with the standardised unit pricing.

For standardised unit pricing to work consumers would need to be encouraged to keep their bills and work out what their annual and seasonal consumption patterns are-to see if they are getting a better deal by switching. There would need to be some community education or awareness raising about how to use the information.

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

All the formats are clear and address the needs of the consumer. We particularly like the format in Figure 1 as a clear way of presenting all the information that people need to make an informed decision about who is to provide their electricity.

COTA favours cents per kilowatt hour of electricity over the abbreviated version as it is clearer and people don't have to know what they mean or look it up in a footnote or something like that. Even if the retailer chooses to bill in some other way the tariff should be explained in a uniform manner.

Standard charges should be presented on a weekly dollar basis as many people are budgeting on a weekly or fortnightly basis and so this fits in with how they manage their money.

Annual cost approach

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.
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?
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?

On first glance the annual cost approach can be quite appealing as it seems to give consumers an easy way of comparing retailers and showing savings without them having to do any calculations.

The simplest and most accurate way to present this is by average consumption in kwh, in bands so that people can look at their previous consumption and work out which band and then see what the annual cost would be. It has been suggested that people do not know their previous consumption and because most energy bills are not annual (either quarterly or monthly) consumers are reluctant to do the calculations. COTA believes this may have been

overstated as a problem and that many older people, particularly the over 70s, have had a lifetime of budgeting and have a good understanding on where their money goes and would be willing to take the trouble to look at previous bills if that is all they had to do.

The alternative approach of having a range of representative households is fraught with danger. The variables that effect how much energy is consumed are numerous, including size of household (including impact of temporary but regular visits e.g. of grandchildren) , age composition of household, size of house, number of appliances (including possible health equipment), lifestyle and income. There would need to be a number of bands or example households combining the key characteristics in ways that reflect the actual population.

We are concerned that the energy consumption patterns of older people would not be adequately reflected in these average households. Older people have higher energy needs for heating and cooling as they are less able to cope with extreme temperatures. In addition many of them are no longer in the paid workforce and so they are at home for longer periods which also could increase their energy consumption. They may use fewer appliances but they may be older and less energy efficient.

The suggestion in the Issue paper of having four annual consumption bands simply would not work; the margin for error in terms of people putting themselves in the wrong band is too high without extensive information on the characteristics of that band.

COTA believes that the annual cost method could be quite misleading for consumers and would only support it if it used average usage bands and was accompanied by retailers providing annual usage as well as current billing period usage on all bills so that people can easily see their usage patterns.

Any annual cost approach would need to also include information on other costs such as connection and disconnection, direct debit discounts, penalties for non-payment, exiting early etc.

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?

The offer of discounts is often what influences consumers decision to change retailer and so they need to be reflected in any annual cost calculations. The best way to deal with this would be to have two annual cost calculations, one with and one without the discount so consumers can see the impact of the discount. This is particularly important if the discount is time limited so the consumer can see the longer term effect and see if in the longer term-everything else being equal they could benefit from changing retailer.

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?

The number of pointer questions would be need to be significant if it was to reduce that margin for error and it would be getting closer to give a personalised estimate. The danger of that would be that people are more likely to take it as an accurate personal assessment and so want to take action against the retailer if their actual consumption and actual savings did not match the estimate.

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?
15. What other appropriate methods could be considered?
16. Should different load profiles be created for each jurisdiction or season?
17. How often should the load profile be updated?

COTA believes there is a lack of understanding in the community about how time of use tariffs operate and that there needs to be substantial community education on what they are and how they work.

Where time of use tariffs are in operation they need to be clearly explained in both the standardised unit price model and the annual cost. In the unit price model it would require tariffs to be presented in time bands reflecting the tariffs.

Once time of use tariffs are introduced COTA believes the annual cost approach will be extremely difficult to use, even if our suggestion about it being based on bands of usage is adopted at least until people have been on such a regime for at least one year. This is because of the reasons for moving to time of use tariffs is to change consumer behavior in terms of when they use energy and so any annualisation of based on past behavior simply would not reflect that. COTA would not support the approach suggested in the paper of using current load profile data.

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?

COTA believes that the combination of the two methods could be the way consumer can do reasonable comparisons but it depends on how the information for both the standardised and annual cost approaches is presented.

There is a possibility of creating greater confusion for consumers, particularly if they use both methods and get quite different outcomes, because of picking the wrong level of usage for the annual approach.

If the layered approach to information as outlined in the our response to Question 3 is adopted then the annual cost approach could be the first one that everybody gets with the information on standardised unit prices available for people who want it.

CONCLUSION

COTA believes that the pricing guidelines are critical to consumers being able to understand what is on offer and to make good choices for themselves about who supplies their electricity. We look forward to seeing the results of the market research that AER is conducting which will help inform the development of the guidelines and to our continuing participation in the process.