Consultation on Version 5 AER Retail Pricing Information Guidelines

Submission by Dr Martin Gill

The new guidelines include several improvements, especially in the area of simplifying the language used in offers and on electricity bills. It is suggested defining more terms to describe both existing and new tariffs would help reduce ambiguity and increase transparency.

Summary of submission

The proposed enhancements to the retail pricing guidelines are generally a positive development for consumers.

This submission notes further work is required by the AER

- Clarifying terms associated with Fixed tariffs (flat, inclining/declining block, etc)
- Defining terms relating to cost reflective tariffs including Demand Tariffs and Peak Time Rebates
- Ensuring the Comparison Price table can be used by the majority of consumers by including separately metered usage and solar systems.
- A slight rewording of Clause 95 to clarify the desired outcome

The submission questions the need to split existing tariff fact sheets into two plan documents. Most consumers fail to read one document so the split appears to provide a further disincentive to consumers.

It also suggests the requirement ALL advertising, including third party advertising, reference the "retailer website" may not be in the interest of developing a competitive tariff comparison market.

Introduction

The Australian Energy Regulator (AER) has released a draft of the Retail Pricing Information Guidelines for consultation.

The key amendments included in Version 5

Table 1 Key amendments in Version 5

Amendment	Description
Requirement for two plan documents	Current requirement for retailers to provide an Energy Price Fact Sheet for each offer replaced with obligation to have two plans documents available – the *Basic Plan Information Document* and the *Contract Summary*.
Use of EME ID number	Retailer (and third party) sales and customer service agents must have access to the plan ID number and be able to refer to it to identify plans.
Removing ability for retailers to create plan documents	Retailers are no longer able to generate their own plan documents. All documents will be generated through Energy Made Easy and retailers will be required to link to these.
Application to third party marketing activities	Requirements to provide Basic Plan Information when marketing or providing information about generally available plans are extended to any third party acting on a retailer's behalf.
Generally available and restricted offers	Clarification that generally available plans include all those plans available to small customers, except where specific restrictions apply.
Language requirements	Some terminology relating to tariffs prescribed for greater consistency and customer comprehension.
Comparison pricing	A comparison pricing table – setting out an estimated bill for each plan for three consumption profiles – is included on the Basic Plan Information document for most residential plans.

The following provides commentary on the Key amendments.

Two plan documents

Without providing examples concerns are raised at the separation of the retailer offer into two separate documents. The majority of consumers find reading one document daunting. Forcing consumers to read two documents appears to complicate, rather than simplify, the comparison of retail electricity plans. As an alternative would one document with an Appendix be possible?

It is acknowledged creating one document presenting key information in a far simpler format would be beneficial. The importance of encouraging consumers to view the simplified document is considered important. For example the primary links should lead to the simple summary. Far less prominent links should be offered to the second (more detailed) document.

Use of Energy Made Easy (EME) Plan ID number

Wider use of the EME Plan ID number is supported.

Retailers have always "been able to" refer to the plan ID but choose not to

95. Retailers must be able to make reference to the plan ID in communication with customers.

The above is not worded strongly enough. Specifically retailers are always 'able' to do something, however when it is not in their interest they choose not to do so. The clause should be amended to ensure the desired outcome:

95. Retailers must make reference to the plan ID in all communications with customers.

Specifically retailers must reference the plan ID on all electricity bills sent to consumers. This is necessary to simplify tariff comparisons using Energy Made Easy (EME). The importance of having a starting point for all tariff comparisons is discussed in Dr Gill's two submissions to the ACCC retail price enquiry[1].

It is noted the change should be supported by the Energy Made Easy (EME) tariff comparison website. During planned upgrades to EME a new option should be added allowing consumers to optionally enter the EME ID. Entering the EME ID provides simple access to the two plan documents (hopefully one with appendix). It should also then include this tariff in any subsequent tariff comparison (required because the EME ID might be a restricted tariff).

Removing ability for retailer to create plan documents

This is potentially a positive improvement.

It is assumed the retail plan documentation generated by the AER will use a standard format. Once consumers are familiar with the new layout they can easily locate the figures they wish to compare. Retailers are currently able to use different layouts and even different terms intended to complicate consumer tariff comparisons.

Another benefit is the change places the onus on the retailer to check they have correctly entered the tariff details into EME. Sometime ago Dr Gill was using EME to review available tariffs, unfortunately finding one tariff result which was wrong. The problem was raised with the AER who blamed the retailer for having incorrectly entered the tariff details. The proposed change forces the retailer to use EME generated documentation, encouraging them to check the validity of information entered into EME.

This does suggest one additional clause in the guidelines: A clarification retailers are responsible for the accuracy of the Basic Plan Information Document (even though it has been generated by the AER).

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[1] ACCC submissions can be downloaded from
http://www.drmartingill.com.au/wp-content/uploads/2017/07/Consumer-Education-required-to-make-the-market-work.pdf
and
http://www.drmartingill.com.au/wp-content/uploads/2017/11/Simplifying-Tariff-Comparisons-Submission-to-the-ACCC-by-Dr-Martin-GIll.pdf

Application to third party marketing activities

While the lack of clarity of third party marketing activities are a major concern for consumers most of the issues fall outside the current discussions. For example retailers forming relationships with some third party marketers who then offer the preferred retailer tariffs ahead of (cheaper) alternatives.

Concern is expressed over the wording shown in Clause 91:

91. If a retailer or its agent markets generally available plans that reference prices, discounts, or the value of existing or potential plans for customers on mass media channels including magazines, the internet, newspaper or billboards, a retailer must include the following statement in any advertisements in clear and easily readable text:

   a. 'A Basic Plan Information Document for this plan is available at **[insert retailer website]**' or

   b. 'Basic Plan Information Documents are available at **[insert retailer website]**.'

Of particular concern is the "[insert retailer website]". The inevitable result of the above would be to encourage retailers to place highly attractive headline offers on their "inserted retailer website". These attractive headline offers would be intended to entice consumers to select an offer directly from the retailer, rather than from third party marketer who placed the original advert.

There is a large incentive for retailers to hijack third party marketers' advertising. Retailers pay third party marketing companies around $250 to $300 for every customer they sign up. The clause rewards successful third party marketing by sending consumers directly to the retailer website. Hence the requirement risks acting as a disincentive for tariff comparison services.

Retailer discounts deserve special attention. The correct language for the majority of discounts is "the penalty applied for late payment". Retailers do not use this language because it is not an attractive headline in advertisements (and it might lead to questions from regulators who do not allow them to charge late payment fees).

More positively Clause 94 appears to ensure a fixed web-address is available for the BPID

94. A link to the BPID must be provided for any marketing of generally available plans on third party price

It would be preferred if the statement specifically required a fixed web-address for all BPIDs. Currently to avoid the use of web-crawlers designed to search retailer websites for their tariffs, some retailers are constantly changing the web-address of their tariff documents. The tactic is intended to complicate third parties finding the cheapest tariff offered by a retailer. Clause 94 should therefore clarify retailers must provide a fixed link to each BPID. This has the potential to assist the development of independent tariff comparison services.

Third Party access to EME database of tariffs

The Productivity Commission consumer Data Right is generating a great deal of interest at the moment. It will hopefully result in consumers being able to give third parties access to their meter data, significantly improving the accuracy of tariff comparisons.

The Productivity Commission also suggests Government controlled databases 'of benefit to consumers', be made available. The EME database of tariffs, while of considerable value to consumers, is not currently available to any external parties. This topic was discussed in Dr Gill's article Government Ineptitude hinders tariff comparisons[2]

Generally available and restricted offers

Restricted offers have previously been identified as a major problem for consumers. Specifically EME does not include the results of restricted offers in the list of tariffs. For example at the end of the NSW Solar Bonus Scheme a

[2] The article is available from http://www.drmartingill.com.au/wp-content/uploads/2018/02/Government-ineptitude-hinders-tariff-comparisons-v01.pdf

restricted offer was made to consumers affected by the end of the scheme. While the offer provided a highly attractive headline it actually increased electricity costs for the average household by just under $200 a year[3].

6 c/kWh	12 c/kWh
Solar Credit : **$45.60**	Solar Credit : **$91.20**
Annual Fee : **$0**	Annual Fee : **$240**
Solar benefit : **$45.60**	Solar benefit: **-$148.80**

The typical Sydney household is $194 *worse off* every year they choose the higher feed in credit

The failure to list the restricted offer in the EME results ensured consumers were unable to review the offer. This leaves consumers vulnerable. The loop hole needs to be addressed.

The suggestion is while EME is being upgraded consumers should be able to enter an EME Plan ID. Once entered the plan is included in the list of results, even if it is a restricted offer. Consumers can then quickly determine if the restricted offer will lower or raise the electricity costs.

The other advantage of allowing consumer to enter the EME Plan ID shown on their electricity bill is it proves a simple and quick check if changing tariffs could lower their energy costs.

Language requirements

A review of the often deliberately confusing language used by retailers is long overdue. It is emphasised the new language must also be utilised on consumer electricity bills. For example the author was reviewing a bill showing “separately metered usage” (hot water), which was then added to domestic use and charged at the same rate. It was hardly surprising the consumer was unable to understand how the bill had been calculated.

A number of terms are missing from Table 2.

Fixed/Block Tariffs

Over 95% of Australian consumers are on a fixed tariff. There are multiple different types of fixed tariff which are not adequately explained in Table 2. The main types are flat, inclining block and declining block.

This is a genuine concern. Recently Dr Gill found retailers quietly moving consumers from declining block tariffs to flat tariffs. Without the use of a standard language these consumers were unaware of the fundamental change to how they now paid for their electricity use. In one case the change increased the consumer’s electricity costs by 30% and in another by almost 50%!

The potential ambiguity leaves consumers vulnerable to exploitation. Providing standard definitions to describe the different fixed tariffs would be a step in the right direction.

The next issue is how the retailer intends to calculate any block tariff. To highlight the problem the following considers an inclining block tariff described as “20c/kWh for the first 10kWh per day and 25c/kWh for all other use”. Historically consumers had an accumulation meter so the retailer multiplied the 10kWh/day by the days between readings, e.g. 90, giving the first block size of 900kWh. The first 900kWh was charged at 20c/kWh and General usage above 900kWh at 25c/kWh.

The problem is the AEMC’s mandated smart meter rollout which means retailers will be increasingly able to apply the stated ***daily*** block size. Continuing to use the above assumed inclining block tariff on assumed electricity use of 15kWh per day for 45 days and 5kWh per day for another 45 days. Total use over 90 days is 45x15+45x5=900kWh. Using the accumulation method the bill for general electricity use is 900*0.2=$180. If instead the block size is applied daily then the bill becomes 45x(10x0.2+5x0.25)+45x(5x0.2)=$191.25.

[3] The article is available from http://www.drmartingill.com.au/wp-content/uploads/2016/10/Misleading-online-Solar-Advice-v01.pdf

The example is used to show stating the block size "per day" is ambiguous. The tariff statement should clearly explain how the retailer intends to apply the stated block size(s). Note this will also remove the same ambiguity for EME tariff calculations.

Separately metered usage

Clarification of the term "separately metered usage" seems appropriate. Of particular concern is the proposed change loses the important message of whether this separately metered usage is controlled.

Not all separately metered usage is controlled, for example the hot water system mentioned above continues to be separately metered, but since it is not controlled the retailer then charges it at the same rate as General Usage.

This becomes more complex if *controlled* separately measured usage offers a Boost button. The Boost button is offered to some consumers to allow them to turn on the controlled load for short periods of time outside the off-peak period. A consumer offered exactly the same rates may want to choose the plan then the flexibility to control the separately metered usage, e.g. using a Boost button.

Of course in the never ending list of complications some retailers choose to charge electricity used during the Boost period at the separately metered rate and other choose to use the General Usage rate. So for tariffs offering consumer control of the separately metered usage, the contract should provide unambiguous language so consumers can determine which rate will be used should they choose to control their load.

This is not only a historical problem. While it is true the use of electrical off-peak hot water heating is declining and Boost buttons are largely a historical relic, there is another large electrical load on the horizon.

Uncontrolled charging of Plug in Electric Vehicles (PEVs) has the potential to significantly increase network charges (needed to increase network capacity) unless the charging is coordinated. Controlled charging of PEVs will also help address potential network stability issues. Consumer use of their vehicles will require them to be allowed the freedom to choose to when to charge the vehicle, hence the situation is the modern day equivalent of the Boost Button. While most times the consumer is able to accept utility control of when the vehicle is charged there will be occasions where they will need to charge the PEV during peak times, for example so it can be used for an early evening trip. The language used to describe these plans needs to be unambiguous.

Finally there appears to be a missing concept. Several years ago one retailer (temporarily) offered a tariff charging a separate fixed daily charge for PEVs. All separately measured usage (for PEV charging) was then included in this fixed daily charge. The use of a Daily Supply Charge for separately metered usage in addition to a Daily Supply Charge for General usage does not appear to have been considered.

Other Tariffs

Retailers will soon be introducing demand charges (this is discussed in more detail in the section Cost Reflective Network Tariffs show below). The language required to describe these tariffs requires considerable work.

Peak Time Rebates

During the summer 2017/2018 a number of trials have been undertaken to assess the effectiveness of offering consumers bonus payments to reduce their demand. Table 2 does not describe the terms used by these tariffs.

In particular there are at least three different Peak Time tariffs:

- the rebate is paid just for agreeing to participate (with no validation requirements)
- a fixed rebate is paid for meeting a set target (validated)
- the payment is proportional to the amount of demand reduction (validated)

All are equally a valid Peak Time tariffs suggesting a language needs to be developed to clearly identify each tariff.

If the rebate is paid for meeting a target it is also necessary to describe how that target is set, for example an average of the same time for the past 4 weeks or for the past 4 working days or ???

For the validated tariffs it is also necessary to describe how the consumer's energy use during the peak period will be measured. For example the total amount of electricity used during the defined period or the largest amount of electricity measured during the period (this is discussed under cost reflective tariffs).

Finally Critical Peak Pricing, where customers are charged a price above the peak price for a number of limited periods each year. Early trials showed these tariffs are equally effective at reducing network demand, admittedly they are also highly unpopular with consumers, however they should be considered for inclusion in Table 2.

Solar Feed in Tariffs

The Victorian Government has introduced Time of Use solar feed in tariffs. This suggests the need to develop guidelines to ensure there is no confusion with General Use Time of Use Tariffs. For example can the solar peak, semi-peak and off-peak times differ from those used for General Use? Can a consumer on a General Use Time of Use tariff choose a fixed solar feed in tariff? Can a consumer on a fixed General Use tariff choose a solar Time of Use feed in tariff.

Solar and Separately Measured

Early discussions of implementations of the Productivity Commission Data Right for energy consumers have suggested consumers should be given access to their net metered solar AND (were available) their gross metered solar data. It is not suggested any changes be made at this time, but developing terms for net metered solar and separately metered solar may be required in the future.

Comparison pricing

The idea of providing comparison pricing is supported, however the accuracy of generic price estimates is highly questionable. This is particularly true as regulators move to introduce far more complex tariffs (e.g. demand tariffs).

There may also be an unintended consequence from this requirement. Specifically careful tariff design based on average/typical profiles intended to minimise the presented comparison price. Actual household electricity use results in higher electricity costs (e.g. refer to the earlier calculation showing the difference when an inclining block tariff is applied to average daily use and actual daily use).

The proposal suggests using usage profiles based on the number of occupants.

105. The Comparison Pricing Table will include estimated bills for three household usage profiles: 1-2 people, 3 people and 4-5+ people.

The first issue is there are huge variations in electricity consumption between households with the same number of occupants. It is therefore suggested the titles be changed to reflect energy use for example "light energy use", "average energy use" and "heavy energy use". This offers the additional advantage of allowing greater separation between the average kWh values used in each category, say 10kWh, 20kWh and 30kWh per day respectively.

It is reported over 20% of Australian households have chosen to invest in a solar system. The solar system changes the general usage profile and will affect the comparison results.

A large percentage of households continue to have separately metered usage which should be included in the comparison results.

The above suggests the table should have more rows.

Plan	Light Use (10kWh/day)	Average Use (20kWh/day)	Heavy Use (30kWh/day)
Household Use Only	$1000	$2000	$3000
Separately Measured Hot Water	$1200	$2300	$3400
Solar System	$700	$1500	$1800

The deemed profiles used for the above (suggested) groupings should be regularly updated using the meter data from the AEMC mandated smart meter rollout.

Other Commentary

Cost Reflective Network Tariffs

An AEMC rule change forces distributors to offer cost reflective network pricing. The rule change will affect retail tariff plans. For example the AEMC analysis of claimed consumer benefits looked at demand tariffs[4].

Demand Tariffs

Fundamentally Demand Tariffs are complex and poorly defined.

The Demand Charge is the simplest term and is expressed in $/kW.

Critically, for consumers, there is no standard definition of how the retailer is required to measure/calculate 'demand'. For example it can use ONE 30 minute interval or an average of some number of 30 minute intervals. Using ONE interval can increase the demand charge by 20% compared to averaging over a number of intervals. This situation will become even more problematic when the AEMC's 5 minute settlements come into effect.

There is no standard definition of when the Demand measurement should be made. It is supposed to coincide with network peak demand, generally falling sometime between 4pm and 6pm on working days, but this differs. For example with/without daylight saving and where there is a high penetration of domestic solar.

The demand charge generally applies for the billing period, so the charge is based on the highest demand measured during the billing period. It is also possible for demand to be calculated monthly, so over the typical quarterly billing period three separate demand charges are shown. This can become more complex if the "monthly" demand is not measured over a calendar month. Tariff comparison services using consumer interval data (possibly including the enhanced EME) will need to determine how demand is calculated. Developing a common description will be a necessary first step.

Given the high level of ambiguity it is suggested the AER add the Demand Charge to Table 2 and work commence on defining the other demand terms for inclusion in a latter draft of the guidelines.

Tariff Renewal Notices

When a consumers' current tariff is updated by the retailer there should be a requirement for the retailer to highlight the changes. The following table was included in the submission to the ACCC retail price enquiry:

	Original Contract	New Contract	Next Bill
Discount	22%	18%	5% higher
Daily Charge	86.44c	92.4c	**7% higher**
Usage Charge	20.22c	26.16c	**30% higher**

The renewal was brought to Dr Gill's attention by the consumer over concerns their discount had been reduced. Analysis showed the discount was only one of a number of changes. Fundamentally the entire structure of the tariff was being changed from a declining block to a flat tariff. The change increasing her electricity bill by 30%. The problem was none of the changes where highlighted in the tariff renewal notice.

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[4] The author's analysis found 80% of consumer would be worse off on AEMC demand tariffs. See http://www.drmartingill.com.au/wp-content/uploads/2017/03/What-the-AEMCs-demand-tariffs-mean-for-consumers-v01.pdf

Is it possible for the Guidelines to address retailer tariff renewal notices? It is suggested when retailers are sending tariff renewal notices they should be required to tabulate a summary of all changes. For example as shown in the above table.

Aligning with Version 5 all tariff renewal notices must include the EME Plan ID of the new plan. It is suggested the renewal notice should also show the original EME Plan ID (it is correspondence with the consumer should arguably this is already supported in Version 5). Then using the earlier suggestion EME be upgraded to allow consumers to enter the EME Plan ID: While slightly cumbersome, consumers use EME twice allowing them to compare the estimate costs on both plans (revealing if the renewal is hiding significantly higher fees).

Clarification: It is not suggested EME be upgraded to support the entry of two EME Plan IDs! Upgrading EME to allow the entry of one Plan ID is required to ensure the tariff is shown in the list of results, even if the offered tariff is a restricted tariff.

Conclusion

The proposed enhancements to the retail pricing guidelines are generally a positive development for consumers.

This submission notes further work is required by the AER

- Clarifying terms associated with Fixed tariffs (flat, inclining/declining block, etc)
- Defining terms relating to cost reflective tariffs including Demand Tariffs and Peak Time Rebates
- Ensuring the Comparison Price table can be used by the majority of consumers
- A slight rewording of Clause 95 to clarify the desired outcome

The submission questions the need to split existing tariff fact sheets into two plan documents. Most consumers fail to read one document so the split appears to provide a disincentive to read the documentation. It also suggests requiring ALL advertising, including third party advertising, reference the “retailer website” may not be in the interest of developing a competitive tariff comparison market.

This submission also suggests several enhancements fall outside the scope of the guidelines. The AER is currently planning enhancements to EME suggesting it is opportune to address future issues:

- Enhancing EME to allow consumers to search for the EME Plan ID
- Clarifying language so EME can accurately apply block tariffs and demand tariffs when using consumer data

Comments or Questions?

The author is happy to receive comments or questions about this submission. He can be contacted at martin@drmartingill.com.au.

Citation

Please accurately attribute all quotes and references to this submission. It would be appreciated if references also included the author’s website drmartingill.com.au.

About Dr Martin Gill

Dr Martin Gill is an independent consultant specialising in the provision of consumer advice based on a deep understanding of the Australian energy industry and strong analytical skills. As a consultant he has prepared advice for consumer advocates, government regulators, electricity distributors, electricity retailers, asset operators and equipment vendors.

He currently represents the interests of consumers on a range of Standards Australia committees including metering, renewable power systems, battery storage, electric vehicles and demand management.

Dr Gill is a metering expert. During the National Smart Metering Program he facilitated the development of a specification for Australian smart meters. Innovative metering products developed by his teams have been externally recognised with the Green Globe Award, NSW Government's Premier's Award and Best New Product by the Australian Electrical and Electronics Manufacturers Association.