



Energy Retailers Association
of Australia Limited

30 April 2010

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

By email: AERInquiry@aer.gov.au

Re: AER Retail Pricing Information Guidelines – Issues Paper

Dear Sir/Madam

The Energy Retailers Association of Australia (ERAA) welcomes the opportunity to provide comments on the Australian Energy Regulator's (AER) issues paper on retail pricing information guidelines.

The Energy Retailers Association of Australia (ERAA) is the peak body representing the core of Australia's energy retail organisations. Membership is comprised of businesses operating predominantly in the electricity and gas markets in every state and territory throughout Australia. These businesses collectively provide electricity to over 98% of customers in the NEM and are the first point of contact for end use customers of both electricity and gas.

When the AER and Australian Energy Market Commission (AEMC) were established there was a clear distinction made in their respective responsibilities: the AER would be responsible for the economic regulation of gas transmission and distribution networks, and enforcing the national gas law and national gas rules; the AEMC would be the rule maker and developer for the nation's energy markets. The ERAA therefore questions the AER's role in the drafting of the pricing information guideline given that the purpose of the paper is to develop a guideline, or rule, in relation to the information provided to energy customers.

As a principle, the ERAA supports the creation of regulations where there is demonstrated market failure. In the case of the creation of this guideline, the ERAA does not believe there is evidence of a market failure. While there are similar instruments in relation to provision of information which currently exist in some jurisdictions, there is insufficient justification for the establishment of the guideline at the national level.

The ERAA maintains the view that there are a number of instruments available to customers to inform themselves about the products offered by retailers. These include: general information provided on websites by governments, regulators and ombudsmen; comparative information on private sector price comparator websites, and specific information about offers from the retailers in their jurisdiction. The ERAA believes that the use of such tools by customers are always going to be far more helpful to customers than the generic information that retailers would be required to provide in the proposed guideline.

As well as this, the ERAA is concerned that the proposed guideline may restrict retailers in the way they structure their tariffs in order to make it easier for customers to compare the price of products from

different retailers. It is important to note that this emphasis in the guideline on 'standardisation' will come at the cost of product innovation, which will lead to retailers competing only on price. While it is accepted that price is an important factor in the customer's decision making process when choosing a retailer, the ERAA is concerned that non-tariff benefits such as rebates, loyalty schemes and non energy offers, will not be factored in to the customer's decision.

Finally the ERAA believes that the current requirements on retailers when signing customers up to new offers is sufficiently complicated; the requirement on retailers to provide the additional information outlined in the proposed guideline will simply add to customer confusion rather than assisting customers. Should the AER proceed with implementing the guideline the ERAA would like to see clear evidence as how the above concerns will be addressed.

The remainder of this submission provides the ERAA response to questions raised in the Issues Paper. Should you wish to discuss the details of this submission further, please contact me on (02) 9241 6556.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Cameron O'Reilly', written in a cursive style.

Cameron O'Reilly
Executive Director
Energy Retailers Association of Australia

<u>Options for the medium of presentation</u>	
Question 1 – Stakeholder views on forms of advertising the AER should target in this guideline?	The ERAA’s view is that the AER should not target any forms of advertising under this Guideline. Advertising is already regulated by other means, such as the Trade Practices Act. As well as this specific types of marketing which retailers engage in such as door-to-door sales are already heavily regulated by state and federal legislation. If advertising is regulated under this Guideline, then the ERAA would like to see a clear rationale for why this is necessary. Currently, there is no clear market failure that would warrant regulation and therefore this should not be targeted by the AER under this Guideline.
Question 2 – to what extent should the AER be less prescriptive in the presentation of pricing in mass media platforms?	The AER should not prescribe how prices are presented on mass media platforms. It is difficult to envisage <i>how</i> the presentation of pricing information on billboards would be prescribed so that it is fair to all retailers and representative of the different ways they offer products.
Question 3 – Should a template be published?	If the AER decides to investigate publishing a template then there needs to be extensive stakeholder consultation. In particular, there should be a detailed cost benefit analysis which makes the case clear why it is pertinent that a template is required. Imposing regulations on retailers increases the administrative costs and compliance burden that retailers face and this needs to be taken into consideration when developing the Guideline.
<u>Standardised unit pricing approach</u>	
Question 4 – stakeholder views on effectiveness of using standardised unit pricing?	Standardised unit pricing has the advantage that it is consistent with how pricing is reported on bills. The difficulty with standardised unit pricing is that it involves additional calculations when discounts/rebates/fees/and other contract terms are included. Furthermore, not all retailers offer their prices in the same way. There is also a trade-off between offering customers meaningful comparisons but at the same time increasing the calculative complexity of understanding their bills. Any assessment of an energy offer must consider all aspects of the product and too much emphasis on price may mislead customers in making the most appropriate decision for each individual.
Question 5 – Stakeholder views on discounts/rebates/fees, etc being disclosed separately?	Variations on pricing such as discounts, rebates and fees should be disclosed separately from actual energy prices. However, contingent/future discounting (e.g. discounts on bills if paid on time) should not be included as it could be misleading for customers.

<p>Question 6 – Is standardised unit pricing likely to become too complex when bundled offers/complex tariffs are disclosed in the proposed formats?</p>	<p>Standardised unit pricing will become increasingly complex under the proposed formats when bundles offers/complex tariffs (e.g. time of use pricing) are included.</p>
<p>Question 7 – General views on the formats presented in these tables?</p>	<p>The formats are suitable for consumption based products but not all types of products. If the AER is to be prescriptive in setting a format then these must be continually reviewed in order to keep up with the ways in which retailers offer products and make offers. This further pushes the case for less prescriptive formats.</p>
<p>Question 8 – What units might be most effective and what format is likely to be most useful for customers?</p>	<p>The ERAA does not want the units of standardised unit pricing further regulated. Different retailers offer prices in different ways and this needs to be taken into account. Standardised unit pricing may be misleading to customers as a retailers’ product may involve billing using different units such as quarterly supply charges as apposed to a \$/day fixed charge under unit pricing.</p> <p>In regards to different units:</p> <ul style="list-style-type: none"> • c/kWh is generally accepted as fine for standardised unit pricing. • \$/week is meaningless as it is variable on many different characteristics. • “cents per kilowatt hour of electricity” should be avoided so that the information given is as condense as possible.
<p><u>Annual cost approach</u></p>	
<p>Question 9 – stakeholder views on the effectiveness of using annual cost methods?</p>	<p>Having accurate annual cost estimates for every type of consumer is impossible. It depends on: region, consumption patterns, appliances, number of residents, and many more. The more information that is provided to customers becomes overwhelming and they will not be bothered to use the information usefully. This adds to the administrative burden and the data requirement cost which makes it difficult for informative annual cost estimates to be justified.</p>
<p>Question 10 – how might the AER develop consumption bands?</p>	<p>If consumption bands are to be used they should be national rather than jurisdictional in order to reduce the administrative burden. With a move to time of use pricing customers needs to be conditioned as to the importance of managing the time at which they use electricity more so or inconjunction with the</p>

	actual consumption. Too much focus on annual consumption in any comparator should be avoided.
Question 11 – consumption bands for small businesses?	The ERAA does not see it necessary for the AER to regulate pricing for small businesses. The data requirements and estimates to produce consumption bands for small businesses are too complex to be feasible.
Question 12 – how to display discounts?	Discounts need to be considered in the total product.
Question 13 – pointer questions?	It is impossible to sum up different consumer characteristics into a limited number of pointer questions that would lead consumers to accurately determine their own bill estimates. Simple pointer questions, such as state/territory of residence, number of residents, type of water heater, etc, could potentially help but consumers will feel misled when their bills are more than expected. The best indication for a consumer is their previous bills.
<u>Time of use tariffs</u>	
Question 14 – how to include time-of-use tariffs?	A load profile will not necessarily give a consumer a good idea of their energy consumption patterns over a period as many customers do not know which periods they consume most of their energy in. If it is to be implemented, there should be a uniform profile for simplicity and ease of use
Question 15 – other methods?	The ERAA cannot foresee a simple and appropriate method for doing this.
Question 16 – different load profiles?	The ERAA would not support the use of the Net System Load Profile (NSLP) as the basis for comparison of consumption. The NSLP includes customers much larger than domestic and small electricity users and as such, any reliance on it to reflect an average customer’s behaviour will be misleading. To illustrate, the NSLP is likely to include greater off peak consumption than that of a typical residential customer. Furthermore, the NSLP may eventually be abandoned if the Australian Energy Market Operator (AEMO) moves to global settlement in a node of the National Energy Market that has significant interval meter penetration, rendering it unnecessary. The appropriate consumption data that should be used for comparison purposes should be the interval stream of a median residential customer in a relevant jurisdiction. Distribution businesses will have access to such data as the Meter Data Provider. It is not necessary to create seasonal profiles as an annual load profile captures seasonal variation. For the sake of consistency, it would

	be appropriate for the AER to publish, with retailer consultation, one national load profile relevant to all residential customers.
Question 17 – how often should the load profile be updated?	A load profile should be reviewed but not necessarily updated regularly. If it is to be updated then this should be done no more often than once every few years.
<u>Combination approach</u>	
Question 18 – stakeholder views on the effectiveness of using a combination of both the annual cost and standardised unit pricing methods?	As mentioned previously the assessment/evaluation of an energy product needs to encompass all components of the product to determine the true value for a particular customer. Standardised pricing using both annual cost and unit pricing may lead the customer into a price only consideration. For example a retailer could have a very low unit price and a low annual cost but a very high contract exit fee. The ERAA is of the view that the case has not been substantiated for this level of price disclosure to be introduced, particularly as it would also require changes to retailers’ systems to implement.