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Dear Mr Leuner

Ergon Energy Submission: Retail Pricing Information Guideline – Issues Paper

Ergon Energy Corporation Limited and Ergon Energy Queensland Pty Ltd (Ergon Energy) welcome the opportunity to provide comment to the Australian Energy Regulator (AER) on its *Issues Paper: Retail Pricing Information Guidelines* (Issues Paper).

Ergon Energy has provided a response to each of the questions raised in the Issues Paper for consideration as well as general comment on the scope of the Guideline's application.

Should you wish to discuss any aspect of this submission, please do not hesitate to contact Carmel Price, Group Manager Regulatory Affairs on (07) 4121 9545.

Yours sincerely


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c.c.: Carmel Price – Group Manager Regulatory Affairs

**Ergon Energy Corporation Limited
and
Ergon Energy Queensland Pty Ltd**

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

**Australian Energy Regulator
30 April 2010**

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This submission, which is available for publication, is made by:

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1 INTRODUCTION

Ergon Energy Corporation Limited (EECL) and Ergon Energy Queensland Pty Ltd (EEQ) welcome the opportunity to provide comment to the Australian Energy Regulator's (AER) *Issues Paper: Retail Pricing Information Guidelines* (Issues Paper).

This submission is provided by:

- EECL, in its capacity as a distribution network service provider in Queensland; and
- EEQ, in its capacity as a non-competing area retail entity in Queensland.

In this submission, EECL and EEQ are collectively referred to as 'Ergon Energy'. Ergon Energy has addressed each of the issues for consideration separately below and responded to specific questions raised by the AER.

Ergon Energy is available to discuss this submission or provide further detail regarding the issues raised, should the AER require.

2 PRICE DISCLOSURE MODEL

Ergon Energy believes that the Guideline's pricing information requirements should only apply to market offers that are made to customers defined as 'small' under the National Energy Customer Framework (i.e. all residential customers and, for electricity, business customers consuming less than 100 MWhs per annum). That is, regulated standing offers would be excluded for the disclosure requirements. This is consistent with the existing price disclosure models in South Australia and Queensland.

3 ISSUE - OPTIONS FOR THE MEDIUM OF PRESENTATION

Q1. *What are stakeholder views on the forms of advertising that the AER should target with this Guideline?*

Ergon Energy supports the AER's preliminary view that the Guideline should apply to internet presentation of energy offers and written information provided to customers.

Q2. *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?*

Ergon Energy believes that the AER should be less prescriptive in the presentation of pricing information on mass media platforms due to the purpose of these mediums and the practicalities of presenting pricing information. In terms of:

- Purpose – the purpose of many advertising mediums (e.g. billboards) is not to provide product details but merely to inform the public that such products exist, prompting them to search other media platforms (e.g. the advertiser's website) for further information.
- Practicalities – the practicalities of disclosing pricing information through a particular advertising medium will vary with the level of disclosure required. It would be impractical for many mediums (e.g. TV or radio) to include a disclosure more complex than a simple standardised cost in c/kWh.

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?

Ergon Energy believes a standardised template should not be imposed due to the:

- complexity of retail tariff structures and conditions impacting the end price payable by the customer. This includes the number and basis of charging components within a tariff and tariff structures which rely on customers' consumption behaviour (e.g. time of use and dynamic peak pricing). As the Issues Paper notes, the sophistication of tariff offerings are also only expected to increase over time with the increased penetration of interval and smart meters in the market;
- characteristics of supply networks and customers' installations in different jurisdictions and the resulting tariff structures being applied. For example, variations in the penetration of controlled loads, availability of gas, existence of feed-in tariff schemes and jurisdictional metering policies will constrain the development of a standardised template for use across jurisdictions; and
- risk that the imposition of a template will constrain the development of new tariff offerings, due to the emphasis on having the tariff 'fit' a specific template structure.

Ergon Energy supports the adoption of a less prescriptive approach under which a retailer would be required to satisfy a set of 'minimum information requirements' identified in the AER's Guideline. This would ensure that customers are provided with standard information while allowing retailers a reasonable level of flexibility in the development and formatting of marketing and promotional material.

However, the use of common terminology for the pricing disclosure information presented by a retailer is supported. Further to this, Ergon Energy believes that 'Price Information Sheet' or 'Price Information Statement' are appropriate names. This would be relatively self explanatory in terms of content, and would avoid confusion with terminology such as the 'Product Disclosure Statement' (PDS) used by insurance companies.

4 ISSUE - OPTIONS FOR THE PRESENTATION OF PRICES

Standardised unit pricing approach

Whilst it is not expected that customers would value the presentation of GST exclusive prices, the AER seeks comment on whether there are circumstances where this would be of value.

Ergon Energy does not believe that customers would value GST exclusive prices. Furthermore, GST exclusive prices should not be presented because:

- this would be inconsistent with the basis upon which prices are currently expressed. For example, section 8.2.4 of the Queensland Electricity Industry Code provides -

In any promotional or marketing information provided by a retail entity or on behalf of a retail entity to a residential customer, prices must be expressed as inclusive of GST.



- the presentation of GST exclusive prices (with or without GST inclusive prices) may lead to customer confusion or suggestions that the information is being presented in a way that fails to fully account for the price payable by the customer for the service and is therefore misleading; and
- GST exclusive prices can be derived from GST inclusive prices, should the customer believe this information to be of value.

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

Ergon Energy considers that standardised unit pricing is the most useful and effective method of presenting electricity prices. These should be in the form:

- \$/day (fixed charges);
- c/kilowatt hour (electricity consumption charges); and
- \$/kilowatt/month (electricity demand charges).

The above standardised prices would allow consumers to compare tariffs on offer and also calculate their anticipated bills under different retailers using the information from previous bills, regardless of the frequency of billing, i.e. monthly, quarterly or annually.

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

Discounts, rebates and fees should be disclosed separately from the energy price as these will not be applicable to all customers and their inclusion would complicate customers' ability to undertake a 'like-for-like' comparison of tariff offerings.

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

Standardised unit pricing would potentially become more complex under bundled or complex tariff offers. For retailers, it is expected that a requirement to 'unbundle' offers to allow pricing disclosure would appear to defeat the purpose of developing a bundled product in the first place. Consistent with the comment provided in response to issue 3, the requirement to provide pricing information and its format should not drive the development of tariff offerings.

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

The formats presented appear to only cater for basic flat rate tariff structures. As noted above in response to question 3, a 'standardised' template will necessarily fail to adequately capture more sophisticated tariff structures which rely on customers' behaviour (e.g. time of use, demand based, and dynamic peak pricing).

Ergon Energy supports the adoption of a less prescriptive approach under which a retailer would be required to satisfy a set of 'minimum information requirements' identified in the AER's Guideline.

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”)?

Ergon Energy believes the most effective units for electricity would be:

- \$/day (fixed charges);
- c/kilowatt hour (electricity consumption charges); and
- \$/kilowatt/month (electricity demand charges).

Annual cost approach

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.

Ergon Energy believes that the annual cost method would be ineffective for the following reasons:

- it relies on a range of subjective ‘standard’ assumptions to be developed (e.g. consumption bands, time of use, hours per day of hot water heating);
- it would be difficult for the method to appropriately reflect complex tariff structures and jurisdictional differences (e.g. different time of use periods, seasonal variations);
- due to different costs and tariff bands (which would be structured to reflect each retailer’s individual costs), an annual cost based on ‘standard’ assumptions would benefit some retailers and disadvantage others; and
- it may be difficult for small customers to determine the consumption category that best applied to them.

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?

If an annual cost approach was to be pursued (which is not supported by Ergon Energy), then consumption bands should be developed by the AER based on historical information, with bands set according to the average annual consumption levels of appropriately determined customer segments.

Careful consideration is required of ‘where’ and ‘how’ the necessary data will be derived and the costs that would be involved, e.g. whether the data would be derived by the AER via survey or similar means or whether the AER envisages relying on participants (i.e. retailers or distributors) to provide this information. Ergon Energy would not support a requirement for distributors to provide this data without the introduction of a legislated cost recovery mechanism.

There would also need to be differentiation in the consumption bands to accommodate geographic variations between jurisdictions (e.g. weather) and the availability and use of gas for heating and cooking. Differentiation of consumption bands at a local or climatic level should not occur as this would disproportionately impose costs on those retailers with a large geographic spread of customers.

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?

Separate bands would need to be developed for electricity and gas, with variation also at a jurisdictional level. The myriad of information and the complexity for customers that this presents highlights the difficulties of producing meaningful information for business customers under the annual cost approach.

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?

Discounts should be disclosed separately from the annual cost of an offer.

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?

Pointer questions related to household size and level of usage (supported by examples of appliances and factors materially impacting usage) would seem to be the most appropriate.

Time of use tariffs

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?

Ergon Energy believes that, using deemed load profiles as a method for creating an assumed distribution of usage would be administratively costly and burdensome for no clear customer advantage over and above an annual cost approach.

Q 15. What other appropriate methods could be considered?

Ergon Energy is not aware of any way in which tariffs for both accumulation and time-of-use consumption could be readily compared.

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

If the use of load profile data was to be pursued (which is not supported by Ergon Energy), then a different load profile would need to exist for each jurisdiction to account for variations in weather and temperatures (e.g. Queensland versus Tasmania).

Different load profiles should not be created for each season. This would result in:

- significant additional cost to retailers as a consequence of the need to produce promotional material that incorporates multiple comparisons – potentially for each tariff offering and tariff within the offering. Depending on the scope of the Guideline, this may also constrain the promotional and advertising media that a retailer is able to pursue by virtue of the volume of pricing information that needs to be presented; and
- a likely overload of information for the customer, reducing the customer's ability to interpret the information that is relevant to their circumstances. It is anticipated that detailed explanatory information would also be required to support customer analysis and comparison.

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

Any deemed load profile should not be updated more frequently than annually.

As with the concerns raised in response to question 16, the more frequently the profile is updated, the higher the cost to the retailer in revising and reproducing the pricing information and the higher the retailer's 'cost to serve' its customers. A retailer will ultimately need to factor any increase in its cost to serve into the level of its market offers and standing offers (to the extent that recovery is permitted through any price regulation existing in the jurisdiction).

Combination approach

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?

Ergon Energy does not support the use of a combination of annual cost and standardised unit pricing. As with the concerns raised in relation to the use of deemed load profiles, a combined approach would impose significant additional costs and administrative complexities on retailers and may reduce the effectiveness of the pricing information by virtue of the volume of information provided to the customer.

The expected effectiveness and value of a combination of methods also diminishes as the complexity of the tariff offering increases. As discussed above, Ergon Energy believes the most appropriate approach to adopt is standardised unit pricing.