

30 April 2010

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

By email: AERInquiry@aer.gov.au

Dear Mr Leuner

Retail pricing information guidelines issues paper

Integral Energy welcomes the opportunity to comment on the retail pricing information guidelines issues paper (the Issues Paper) released by the AER in March 2010.

Integral Energy is the second largest state owned energy corporation in New South Wales, serving some of Australia's largest and fastest growing regional economies. It provides distribution network services to almost 860,000 customers or 2.1 million people in households and businesses spanning 24,500 kilometres in Greater Western Sydney, the Blue Mountains, the Illawarra and Southern Highlands.

Integral Energy supports the basic principle that retailers should transparently disclose their prices to small market customers. However, it has a number of concerns with some of the options put forward in the Issues Paper.

Rationale for an industry-specific scheme

The Issues Paper outlines the existing State-based schemes and proposes a new national scheme to replace them in disclosing pricing information to small customers. However, Integral Energy notes that there has as yet been no serious analysis conducted to determine whether mandating such a scheme either has resulted or would be likely to result in tangible net benefits to customers or the wider economy. An industry developed and voluntary scheme may in fact provide a more cost effective alternative.

Indeed, no clear rationale has been provided to support the introduction of a scheme specific to the electricity industry when, as the Issues Paper notes:

- the consumer protection provisions of the *Trade Practices Act 1974* arguably suffice; and
- a specific scheme has not been found necessary for the telecommunications retail market.

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Mandating a standard pricing format will add to retail costs. This will act as a barrier to entry for new retailers which could stifle competition and thereby reduce customer choice. Focussing solely on price will also be likely to diminish the availability of non-price offerings such as magazine subscriptions, 13th month free, prize draws or affinity programs. Such offerings have become important tools for attracting and retaining small customers. This also raises the question of how compliance would be managed given the frequent changes to such offerings were they to be factored into standardised price disclosure material.

Scope

Despite the above, were a national scheme to proceed, Integral Energy would agree with the AER that:

- it would be inappropriate to require the provision of standardised pricing information for mass market channels such as billboards, radio and television advertisements; and
- newspaper, magazine and other print advertisements that contain energy prices should only be required to provide a website reference rather than include details within the advertisement itself.

Integral Energy also agrees that some form of standardised price disclosure statement may be appropriate for a website and door to door sales but not for outbound telemarketing calls.

The objective in mandating the provision of such information is to assist customers in making comparisons between offers. However, it should be noted that doing so with respect to door to door sales and outbound telemarketing calls is of itself unlikely to enable customers to make such comparisons on the spot. The more probable outcome is that customers will take that information away and compare it with the prices of other retail offers, most easily via the internet. This suggests two important things:

- that, as with print advertisements, it may be more appropriate to require that material provided as part of doorknocking simply refer back to a website rather than set prices out in a standardised format itself; and
- that the more effective approach for customers who undertake price comparisons is via a single, centralised, government-operated website rather than requiring customers to navigate their way through multiple business sites.

For those customers who are unable or perhaps unwilling to use the internet for comparison purposes, there may be value in offering an inbound call service comprising a standardised verbal summary of prices.

Presentation

Integral Energy notes the various advantages and disadvantages set out in the Issues Paper of using a unit rate versus an annual (banded) typical bill approach. Integral Energy agrees that an important principle in selecting which of the two is preferable is the tradeoff between the complexity and meaningfulness of the information provided.

The Issues Paper raises the specific challenge of doing so in relation to time of use (TOU) tariffs. The option to adopt TOU tariffs is likely to become more prevalent in the future given the rising costs of supply in peak periods as well as growing concerns about improving overall energy efficiency.

The Issues Paper suggests that one way of avoiding complexity in setting out TOU tariff pricing information may be through the use of typical load profiles. However, the typical load profile may in no way reflect the customer's individual circumstances. For example, customers who remain at home during the day (including the unemployed and pensioners) tend to have significantly different profiles to those who work during those times. Therefore, choosing a retail contract based on this information may not be in the customer's best interests.

Assuming that some form of mandatory national scheme was to proceed, Integral Energy notes that it already provides a unit rate-based pricing disclosure statement as part of its Queensland door to door marketing. A decision to alter that approach, including any move to an annual (banded) typical bill version, would need to take into account the costs to current retailers of doing so.

Subject to these matters, Integral Energy is broadly ambivalent regarding whether a unit price or typical bill approach should be adopted.

Finally, Integral Energy endorses the submission put forward by the ERAA on these matters.

Integral Energy looks forward to further participating in the AER's process for settling the guidelines. If you have any questions with respect to this matter, please contact Mr Erik Beerden, Regulatory Affairs Manager, on telephone number (02) 9853 6904.

Yours faithfully



Michael Martinson
Manager Network Regulation