



30 April 2010

General Manager
Markets Branch
Australian Energy Regulator
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Melbourne VIC 3001

Email; AERInquiry@aer.gov.au

Dear Sir/Madam,

RE: AER RETAIL PRICING INFORMATION GUIDELINE- ISSUES PAPER

Origin appreciates the opportunity to comment on the Australian Energy Regulator's (AER) Retail Pricing Information Guideline Issues Paper. The Issues Paper presents a wide ranging review of the various price disclosure models in Australia and overseas together with some acknowledgement of improved customer awareness of energy retail markets in Australia.

In Origin's view, existing regulation covering price disclosure for energy products in Australian jurisdictions is frequently out of proportion to the instance and risk of market failure. Virtually all members of society currently make sophisticated decisions in relation to the purchase of everyday items. In doing so, they regularly demonstrate their ability to assess quality and value. These decisions shape markets for goods and services. Further, a myriad of general consumer protection mechanisms in federal and state law protect consumers from inaccurate or misleading product information. Origin strongly encourages the AER to base its deliberations on *available evidence* of market failure, rather than simply presupposing that market failure may be implied by the existence of price disclosure regimes.

In this context, Origin also raises a more general query as to why energy markets should be considered subject to different and generally more onerous provisions than other markets, particularly given the level of government oversight of energy pricing and the relatively small percentage of household expenditure on energy.

A key learning from the AER's international review, which is most likely to apply equally in the Australian context, is that customers in general are seeking simplicity over complexity of information when considering such a "low involvement" purchase as energy. It is, in our view, a trap to simply add new and more elaborate requirements just to appease all views, without holistic consideration of the overall impact on the average consumer - simple information, understood - is far better than complex information that ends "in the bin".

Origin believes it is also essential that the AER takes into consideration the evolution of the national energy market towards more efficient energy use and greater accountability



for pricing on the basis of true costs via smart meters, smart grids etc. prior to setting guidelines on pricing disclosure that reflect traditional models of energy pricing.

The Issues Paper contemplates the standardisation of various units of measure and the manner in which prices should be presented. However, Origin is concerned that this Issues Paper has failed to investigate and determine the core failure(s) in the Australian market that the price information guideline is being developed to address. While it is understood that the AER will have an obligation to produce a pricing information guideline under the National Retail Law and National Energy Retail Rules, more emphasis should be placed on re-assessing the Australian competitive energy market (where some jurisdictions have experienced the highest rates of customer churn in the world) to ensure the price information guideline is suitably scoped and designed to address the needs of the Australian market. The Issues Paper appears to simply set the scene for establishing a guideline that captures everything that has been introduced in Australia in the past and internationally and apply it in Australia without understanding the particular market structure that this regulation will operate in and seek to support.

Specifically, the Victorian Essential Service Commission's (ESC) Energy Price and product Disclosure Guideline was amended to address perceived concerns by government and consumers to support the transition to retail price deregulation.

At this time (January 2009) the following market conditions existed or were deemed to exist:

- the availability of private sector energy comparator websites was minimal;
- the government had received consumer complaints that retailers' websites were difficult to navigate and source market offers from;
- a reasonable proportion of the market (circa 40%) had not participated in the contestable market;
- from 1 January 2009 all retailers (formerly only incumbent retailers) were required to offer standing offer contracts to customers where the retailer was the Financially Responsible Market Participant (FRMP) for a site;
- the Victorian Price Disclosure Guideline had been subject to an accelerated review period whereby retailers were required to comply to a draft version of the guideline before it was finalised in May 2009. Consequently this guideline is an adaptation of the former guideline and suffers from ambiguity and a lack of clarity on many of the requirements and
- the ESC developed and implemented a comparator website (yourchoice) in parallel with changes to the guideline, in a hastened manner. Subsequently this website and the manner in which it was originally populated and updated is suboptimal, causing many ongoing errors to exist.

Nevertheless, some aspects of the existing Victorian Guideline are worthy of consideration in the national market but the context for the Victorian Guideline needs to be understood. Similarly the AER's Price disclosure Guideline should not seek to simply encompass price disclosure obligations from around the world without understanding why they were introduced and then determine what is required for the Australian market today.



For instance, there is merit in the Victorian model which requires each retailer to provide one generally¹ available market offer to the regulator for comparative purposes, rather than requiring each retailer to provide all their market offers to the regulator. This encourages retailers to submit a competitive offer for comparison purposes but also does not discourage them from having other innovative offers available for target markets.

Any price information guideline should provide a suitable balance between the additional information some customers need to participate in the market and the ability of the market to develop and thrive without regulatory constraints.

Specific responses to the questions raised in the Issues Paper.

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

Origin concurs with the AER's preliminary view that suggests that it is "unlikely that billboard, radio or television advertising would be used to provide detailed pricing information" and that that the guideline should not apply in these mediums where the Trades Practices Act readily applies.

For door to door, telemarketing, website and brochures the following questions should be considered:

- what are the market failures that we are trying to address?;
- is it the case that retailers' websites are still difficult to navigate with regard to sourcing energy pricing?;
- have third party private sector energy comparator services developed to such an extent that energy consumers can now readily source and compare energy prices using these services. Origin notes there are now several comparator services available²;
- with the increased customer awareness of competitive energy markets is there a continuing need to impose energy specific regulation over door to door activities?; and
- what is the trade-off between detailed information, and customer's ability and/or willingness to read through this?

¹One generally available market offer is required to be provided under Guideline 19 in Victoria for use on the yourchoice website.

²Energy Comparator Services - www.energywatch.com.au, www.switchselect.com, www.switchwise.com.au



In the absence of any further evidence in relation to the above questions Origin suggests that a template should be avoided, as it could constrain the development of pricing products and this would not be in the best interests of the market. Moreover, as this will be a national guideline, any template would be complex and struggle to reflect the many different pricing structures that currently exist as well as those that will prevail in the future with the move to smart metering and complex time of use and demand based pricing in some jurisdictions. The approach currently taken in South Australia is supported whereby only the information requirements are prescribed. In the event that some form of product sheet is required Origin prefers that it be named a **Product Information Sheet** as energy offers are progressively being structured around full product offerings rather than a price only offering. For instance the value of an offer can include many components such as:

- green energy;
- type of green energy;
- bonuses;
- bill payment or bill smoothing features;
- discounts;
- term of the agreement; and
- provision of additional non energy items.

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

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

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

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

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”)?

In the current competitive market retailers require the flexibility to develop tariffs and pricing offers in a multitude of structures. Any regulation of unit pricing should not constrain this flexibility or restrict how each component is billed³ and hence be misleading for customers.

Independent parties offering comparator services are best placed to adequately align retailers' product offerings for these purposes. Their ongoing existence is predicated on their ability to provide suitable methods of comparison for customers. Retailers should not be forced to present similar products in a uniform manner as this is contrary to the ongoing viability and nature of a vibrant, effective and competitive energy market where customers have been given the opportunity to select their choice of retailer and energy product.

If unit pricing is considered for the core pricing components, then at a minimum, the guidelines should retain sufficient flexibility that they do not impinge on the structure of

³A quarterly supply charge may be billed as such not as a \$/day supply charge that may be presented in a regulated pricing template.



various associated product features. For instance, Origin has found that a \$1/week offer for additional green component in a product has been a powerful way of engaging customers in the concept of green energy and provides much greater clarity to the customer of the cost to them of this commitment than would (say) a message of 14.3c/day).

- 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.*
- 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?*
- 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?*
- 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?*
- 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?*

Further customer research should be undertaken regarding the success of mandated consumption band estimations provided by retailers. Do customers actually relate to their annual consumption of energy presented by retailers?

Most importantly, will these consumption bands be relevant in jurisdictions that move to time of use metering and where the shape of demand becomes more important than the annual volume? Existing annual cost methodologies require an estimate of the average customer profiles and therefore could misrepresent the customer's actual profile and annual price. Energy comparators encourage customers to input their historical consumption providing a far more accurate method for the assessment of different energy products than annual cost methods.

In the future interval metering will facilitate a more widespread introduction of time of use pricing whereby customers need to control the time at which they use energy as well as their total consumption. Origin suggests that customers will need to be preconditioned for this new regime and any expansion in the application of regulations that continue to focus on total annual consumption will not be in the long term interests of customers.

Origin agrees that creating meaningful annual cost consumption bands for small businesses will be problematic due to the vast array of business types and appliance mixes within these businesses. Moreover, any such approach again ignores the changes to pricing structures driven by policy makers, retailers and distribution businesses towards effective time-of-use and demand based tariffs. Annual usage will in the future, have much more limited correlation with a business's total bill.



Origin suggests that where small businesses use a reasonable amount of energy that they would be better served by more specific energy management and consulting advice that many retailers and independent intermediaries readily provide to this sector of the energy market.

Equally, since the guideline will be a national guideline, consumption bands may not be meaningful across different climate zones. A large residential user in northern Queensland is likely to be in a different consumption band from a large residential user in Victoria. This could create further confusion for customers.

Origin is also concerned that the AER may not recognise that the more customers are provided with information to them that may appear like a “forecast” of their demand or their bill, the more difficulty this creates for the both the retailer and the consumer whose expectations are bound to be “disappointed”. Residential consumption - and bills - show a high degree of variability even within a state, based on year on year weather variations alone.

Q14. 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?

Q 15. What other appropriate methods could be considered?

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

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

Origin agrees that comparisons between retailers will become difficult as the use of interval data and different pricing structures (of which time of use is just one) become more commonplace. However, Origin 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. However, again we reiterate the dangers of creating “expectations” in a customer’s mind about future bills particularly as they will be subject to significant variation depending not only on the total demand, but the timing of that demand. Considerably more research into the variability of bills on TOU pricing (over time and between customers) is required before any specific guidelines are contemplated.



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?

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. Origin 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.

Should you have any questions regarding this submission please do not hesitate to contact Randall Brown on 03 9652 5880.

Yours sincerely

A handwritten signature in black ink, appearing to read "B J Hughson". The signature is written in a cursive, flowing style.

Beverley Hughson
Regulatory Relationships Manager