



## AER Retail Pricing Information Guideline – Position Paper

QCOSS Submission

October 2010

## **Response to Position Paper: AER Retail Pricing Information Guideline**

Queensland Council of Social Service (QCOSS) is the peak body for over 600 welfare and community sector organisations in Queensland. For over 50 years QCOSS has worked to promote social justice and exists to provide a voice for Queenslanders affected by poverty and inequality. We act as a State-wide Council that leads on issues of significance to the social, community and health sectors. We work for a Fair Queensland and develop and advocate socially, economically and environmentally responsible public policy and action by community, government and business.

QCOSS has been funded by the Department of Employment, Economic Development and Innovation for an energy consumer advocacy project in Queensland. The purpose of this project is to advocate on behalf of Queensland consumers and particularly vulnerable and low income households in relation to energy.

QCOSS welcomes the opportunity to comment on the draft Retail Pricing Information Guideline, and congratulates the AER on the proactive approach it is taking to preparing for its new retail functions under the National Energy Customer Framework. Except where stated otherwise below, we support the draft guideline.

### **Rationale for regulating price disclosure**

QCOSS agrees with the comments made by the AER regarding the need to address information asymmetry in energy retail markets. We consider that ensuring consumers have access to information that allows them to readily understand and compare energy offers is essential to the development of an efficient energy market, and believe that the proposed guideline will assist in achieving this goal. However, QCOSS does not believe that promoting effective competition is the only function of price disclosure. It is also necessary that consumers are able to understand how much they should expect to pay for their energy consumption, assess the effect on their household budgets, and take appropriate action to manage their costs and consumption. The ability of consumers to take these actions is also important for the development of efficient markets. QCOSS considers that this function should also be taken into account in developing the Retail Pricing Information Guideline.

### **Possible AER price comparator service**

While we note that the AER will conduct further consultation on the development of a price comparator, QCOSS supports suggested requirements for price disclosure statements, advertising, and notifications of changes in tariffs to refer to the price comparator. We also recommend that the AER consider the following features for the price comparator:

- Option for users to enter either their consumption in kilowatt hours or mega joules, or their average expenditure in dollars
- Inclusion of both standardised unit pricing and cost estimates
- Estimates of annual, quarterly, monthly and fortnightly cost included
- Links to further information, including contract terms and conditions, additional fees and charges, payment methods, and incentives provided

## Preliminary approach to presenting energy prices

QCROSS agrees that standardised unit pricing offers an effective method for consumers to compare prices between offers with similar tariff structures, and avoids the risk of misleading consumers about the actual costs of their energy consumption. However, the decision to use this approach alone assumes that consumers only use price information to choose between energy offers. The findings of the Wallis Consulting Group report, and the Colmar Brunton report commissioned by the Essential Services Commission of South Australia, suggest that this is not the case. The Wallis Consulting Group report notes that when asked to create their ideal price disclosure statement, most respondents included both unit prices and annual costs, and examples of energy usage by common domestic appliances.<sup>1</sup> The recommendations of the report also state that all respondents wanted an easy way of understanding what the price per unit means for them.<sup>2</sup> Colmar Brunton found that out of those residential consumers who indicated they would require information about pricing to make a decision about changing providers, more than half (53%) wanted information about approximate costs per quarter, while 40% wanted information about approximate annual costs.<sup>3</sup> Almost one-third (32%) of residential consumers indicated they would need information about minimising their energy usage to assist them in making a decision about changing providers.<sup>4</sup> These findings suggest that consumers also want to know what their costs are likely to be under a particular offer, how this will impact on their budget, and in some cases may want to consider options for managing their costs as an alternative to changing providers. The standardised unit pricing approach does not address these needs, and requires that consumers make complex calculations to estimate their likely costs.

QCROSS acknowledges the concerns that have been expressed regarding the annual cost approach, but we consider that it is important that consumers are able to access estimated costs. While we support the use of standardised unit pricing on fact sheets, QCROSS believes that further consideration should be given to ways in which consumers might also be provided with information about their approximate costs when they are considering energy offers. Requiring price fact sheets to refer customers to the AER price comparator may offer a partial solution, if the price comparator provides estimates of costs. However, many low income or vulnerable customers do not have internet access and would need to be able to access cost information by other means. We also expect that retailers may be reluctant to refer customers to a source which provides information on competing offers, and are unlikely to display information about the price comparator prominently unless the guidelines prescribe the manner in which details of the price comparator are to be included. In light of these concerns, and the disadvantages of the annual cost approach, some other options could include:

- Requiring that retailers provide an unconditional, personalised quote, including annual and quarterly costs (or costs based on other payment frequencies where applicable), on request
- Where in person marketers engage a customer to the extent that they are willing to provide consumption information, requiring the marketer to complete a form calculating approximate annual and quarterly costs (or other frequency) along with providing a price fact sheet, without any obligation on the customer's part
- Requiring retailers to provide a bills calculator on their websites, and to send a printout of estimated costs on request

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<sup>1</sup> Wallis Consulting Group (June 2010), *Australian Energy Regulator Retail Pricing Energy Guidelines*, p. 29.

<sup>2</sup> Ibid, p. 32.

<sup>3</sup> Colmar Brunton Social Research (August 2010), *Essential Services Commission of South Australia. Monitoring the Development of Energy Retail Competition in South Australia and Consumer Preference for Market Contract Information*, p. 87.

<sup>4</sup> Ibid, p. 84.

- Requiring price fact sheets to include a statement that a customer can obtain an individual estimate of costs by contacting the retailer on a telephone number provided

QCOSS is not proposing that the AER adopt any particular one of the above suggestions. However, we strongly believe that customers should be able to access an estimate of their costs under energy offers, without a requirement to enter into a contract first. We make the above suggestions to show that there are a number of options which could be included in the Guideline as an alternative to presenting annual cost estimates on price fact sheets.

### **Changes in tariffs**

QCOSS believes that the Guideline should supplement requirements on retailers to notify customers of any variations to their offers.

On the information available at the time of preparing this submission, QCOSS believes that the National Energy Retail Rules will require retailers to notify customers of variations to the prices applying under market contracts, but will permit retailers to provide notification as late as the bill following the price change.

As the AER would be aware, the Queensland Competition Authority (QCA) recently conducted a review of provisions in the Queensland Electricity Industry Code (the Code) relating to requirements for prior notice of price changes under market contracts. It concluded that allowing retailers to increase prices retrospectively removes the incentive for retailer to efficiently manage their costs so as to be able to offer competitive prices and shifts retailers' risks onto customers, and as such is not conducive to the promotion of a competitive market outcome for either customers or retailers.<sup>5</sup> Amendments were made to the Code requiring retailers to notify market customers of price changes at least 10 business days before the changes took effect, either by individual written notification or via a newspaper advertisement, provided that other conditions were met including giving information to the customer in a bill message prior to the change of when and where further information would be available, and providing full details of how the change affects the customer in an attachment to the next bill following the change. The QCA also proposed amendments to the Code setting out the minimum information to be provided to customers in an attachment to their bill and on the retailer's website, based on a modification of existing price fact sheets.<sup>6</sup> However, the proposed clause detailing the minimum information required was not approved by the Minister and consultation on this issue is continuing.

QCOSS agrees with the QCA's view that permitting retrospective price changes does not promote an efficient energy market. We believe that the Guideline should require customers to be alerted to impending price changes before they take effect. QCOSS refers the AER to clauses 4.12.6 and 4.12.7 of the Queensland Electricity Industry Code and recommends that similar provisions be included in the Retail Pricing Information Guideline.

In relation to the type and format of information provided to customers about price variations, QCOSS doubts that simply providing an updated price fact sheet with the next bill, as suggested in the Position Paper, would provide adequate information to customers about the impacts of price changes. During the QCA's review, financial counsellors who provide advice to the QCOSS energy project raised concerns about consumers' ability to comprehend the impact of a price variation when it is presented as a change in unit prices. It was felt very strongly that notices of price

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<sup>5</sup> Queensland Competition Authority (March 2010), *Final Decision: Amendments to the Electricity Industry Code requiring prior notice for price changes*, p. 4.

<sup>6</sup> *Ibid*, p. 11

variations needed to include examples of the impact of price changes in dollar figures. The options that were proposed in submissions to the QCA review included an individual notice to customers containing a statement indicating how much their last bill would have been at the new prices, or providing a generic table showing the change in costs based on a starting amount in \$50 increments.<sup>7</sup> QCOSS recommends that the AER consider these options, and the others suggested above as alternative means of providing information to customers about estimated costs, in relation to notices of price variations.

If the AER chooses to limit requirements on retailers to the provision of an updated price fact sheet when tariffs change, QCOSS believes that this would necessitate including annual cost estimates, or references to an alternative source of information about estimated costs, in the price fact sheets. While a price fact sheet showing only the new unit prices would allow consumers to compare their current contract against other offers, it would not meet the other, arguably more important function of providing customers with information to enable them to assess the impacts of price changes on their budget and take appropriate action. QCOSS also recommends that if the AER decides that retailers should not be required to provide anything more than an updated price fact sheet to customers when tariffs change, there should still be a requirement to provide an individual notice including personalised cost information to hardship customers.

In submissions to the QCA review, QCOSS recommended that information provided to customers about price variations should include details of how customers can obtain information about reducing their energy usage, and the amount of any penalty that would apply for early termination of the contract. We make the same recommendations to the AER.

### **Presentation of information**

QCOSS agrees with the AER's position on presentation of information. However, it is not clear from the Position Paper or draft Guideline whether the AER intends that prices should be shown as amounts before or after any discount. Inconsistency in the way discounts have been dealt with in prices used in the QCA price comparator has been an issue which makes it difficult to effectively compare offers. QCOSS believes that the Guideline should stipulate whether prices shown on price fact sheets should be inclusive or exclusive of any discounts. While we recognise that different conditions for receiving discounts may make it difficult to determine the most appropriate way of displaying prices, inconsistency between price fact sheets may result in customers being misled about the differences between offers.

Some tariffs currently available in Queensland provide for a minimum amount rather than a separate supply charge. QCOSS believes that tariff information should be presented on price fact sheets in a way that makes clear whether fixed charges are incurred in addition to consumption charges or as a minimum consumption charge.

QCOSS also notes that during the stakeholder forum on 6 October, suggestions were made that some fees and charges, such as late payment fees, should not need to be included on price fact sheets. Although we agree that fees and charges that are relatively unusual are not necessary on price fact sheets, QCOSS believes that information about commonly incurred fees should be provided. This includes payment processing, dishonoured payment and late payment fees.

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<sup>7</sup> See submissions by QCOSS, Financial Counsellors Association of Queensland, and Credit Commercial and Consumer Law Program (QUT), published at <http://www.qca.org.au/electricity-retail/industry-code/RevMinTCRetailCon.php>.

**Draft Guideline**

While we remain concerned about the issues discussed above, QCOSS supports the other elements of the draft Guideline. However, we believe that the section entitled 'General Requirements' should clarify that a price fact sheet must be provided prior to a contract being signed, and that a customer is not required to agree to a contract in order to obtain a price fact sheet from a marketer.