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31 October 2017

Ms Sarah Proudfoot  
General Manager - Retail Markets Branch  
Australian Energy Regulator  
PO Box 520  
Melbourne VIC 3001

Submitted electronically

Dear Ms Proudfoot,

### **Re: Customer Price Information**

Red Energy (Red) and Lumo Energy (Lumo) welcome the opportunity to respond to the Australian Energy Regulator (the AER) on the Customer Price Information Issues Paper (the issues paper).

Snowy Hydro recently participated in two roundtable meetings with the Prime Minister (the PM meetings). We made a number of commitments intended to improve outcomes for small customers, and appreciate the AER acting quickly to make changes to the regulatory framework to allow their implementation. We are also participating on the AER's pricing reference group, and look forward to working with the AER over the coming months to refine recommendations arising out of this consultation to ensure they meet the needs of consumers and retailers.

This submission will focus on recommendations to make Energy Price Fact Sheets (fact sheets) more user friendly and design principles that should be considered in the ongoing development of any reference price or comparison rate. We consider these two issues must first be resolved before any decisions can be made on the second two issues of: technology solutions to facilitate comparison and we can determine how customers who are not digitally engaged might access the market.

### **Energy Price Fact Sheets**

Fact sheets have been used since the implementation of the National Energy Customer Framework in July 2012. Over the last 5 years their value has been questionable. Red and Lumo consider the fundamental problem with the current version of the fact sheet is the volume of information required to be presented. Existing fact sheets appear to be trying to be everything to everyone. We believe that this results in them not achieving any purpose, and it seems likely they are actually disengaging customers from the switching process.

For that reason, we strongly support a radical change to the existing fact sheets, refocusing them to achieve one specific purpose: to improve consumer confidence when making a choice between energy offers.

Utilisation analysis of our website suggests that consumers don't consider they need the depth of information contained on the current fact sheets. While consumers do seek out fact sheets, our analysis suggests this isn't to undertake a comprehensive review of all offer terms contained in them. While we don't have data that shows what consumers do once they open a fact sheet, we do know that when obtaining a quote, consumers appear to be generally satisfied by knowing the rates and the key elements

of the offer (such as the discount and applicable fees). Our data suggests consumers don't generally click to view Price Fact Sheets before clicking 'select this plan' or giving us a call.

### **Recommendations for fact sheet changes**

Given the above information, Red and Lumo suggest updated fact sheets should focus on comparison of offers based on price, rather than a detailed comparison of terms. In addition to general price and key offer information, we consider inclusion of a reference price (discussed below), and a mechanism to allow consumers to visualise whether the offer is suitable to them, may be of value. We have included a very rough mockup of how this may look in Appendix A.

If it is determined that the depth of information currently provided on fact sheets needs to be included in any repurposed version, we recommend a click through link be included on the fact sheet that takes consumers to a separate document. This separate document could contain the key terms and conditions of the offer including things like price variation clauses, information on how to view terms and conditions and additional fee information.

### **Comparison rates and reference prices**

Following on from the PM meetings, a commitment was made to work with the AER on development of a comparison rate to aid consumers when comparing offers. During these meetings we welcomed the notion of assisting customers to compare offers, however cautioned that hasty implementation of a fulsome comparison rate, without at least understanding the limitations and risks may lead to poor consumer outcomes. These risks become more apparent when offers with tariffs other than the simplest flat tariffs are compared. We will discuss shortcomings and methods of mitigating these below.

We note the AER's clear distinction between what is meant by a comparison rate, and a reference price. We agree with this distinction.

Red and Lumo prefer a reference price for flat tariff offers over a comparison rate. We consider that trying to simplify all elements of the market into a single price is fraught, and will likely increase customer confusion. This notion was confirmed by the recent decision in the UK to remove the Tariff Comparison Rate (TCR) from bills, as it was considered to be increasingly misleading in the evolving energy market, and didn't consider any of the value added components of an offer. Interestingly, consumer research suggested that most consumers didn't relate to the TCR because they didn't see their consumption as 'typical'.

If a reference price is to be implemented, there are a number of key elements that should be reflected to aid comparison.

1. Depictions of usage differences need to be tested and clearly understood

A reference price needs to differentiate between usage profiles to allow consumers to self-select the price most relevant to them. Various methods could be implemented to allow this: depictions of people, house size, low/medium/high, or by providing a consumption band. All of these have limitations and require a degree of estimation from a consumer that may in fact lead to poor decisions if they make an incorrect assumption.

2. Discounts and fees need to be accounted for

Given the variance of discounting methodologies and fees amongst retail offers, it is critical that any reference price takes these into account. For

example, costs for a low user will be significantly impacted by a discount that is only off the usage. Fees are also critical. If an offer includes fees for paper billing, late payments, or certain payment methods a consumer is likely to pay significantly more over a year than if they chose an offer that didn't charge these fees.

3. Reference prices should only be implemented for flat tariff offers  
With more volatile pricing, the risk of misleading consumers heightens. We consider that irrespective of the number of disclaimers and caveats placed around a reference price, consumers will believe the pricing provided is in some manner reflective of the price they will likely pay. With a flat tariff offer, this is plausible. If a consumer knows roughly how many kWh's they use each year, they can pretty accurately estimate their bill using a reference price. This is not possible with a time varying price, a demand tariff, or in the worst case scenario: a critical peak price.

Significant effort is needed to develop a methodology that will allow a useful reference price to be developed for tariffs other than flat. This will take time and should not be rushed in order to meet arbitrary deadlines. Given most customers in the NEM are currently billed on flat tariff offerings, delaying implementation of a complex reference price to allow appropriate research and analysis to be undertaken before more cost reflective tariffs become prevalent seems prudent.

### **Technological options to facilitate comparison**

Red and Lumo consider that it is critical for any changes to fact sheets and reference prices to be finalised and implemented before any recommendations are made regarding technological options to facilitate comparison.

The technological solution is merely a vehicle to deliver benefits to consumers. Making decisions on what this vehicle should be prior to clearly understanding the end position would be premature. As the AER is aware, technological enhancement is very costly, and given its fluidity, is highly likely any solution implemented would either be quickly superseded, or not utilised as expected by consumers. This was the case in the UK, who required retailers to implement QR codes on energy bills to provide tariff and consumption information, yet only 7% of customers had ever used it.

We support further engagement post implementation of updated fact sheets and any reference price to consider options to utilise technology cost effectively, in a manner desired by consumers.

### **Customers who are not digitally engaged**

We strongly support ensuring that customers who are not digitally engaged are able to access the benefits of competition in the energy market. In saying that, we would be concerned if online solutions that assisted the majority of consumers were avoided so as to cater for the relative few who are not digitally engaged.

When considering this issue, there appears to be a number of factors that will determine the necessity to develop non-digital solutions:

1. How do non-digitally engaged consumers engage in the market today?
2. How would non-digitally engaged consumers be impacted by not having access to this technology?
3. Can the benefits of this technology be recreated in a non-digital form?

It must be noted that consumers who are not digitally engaged are more likely to seek to use phone services for comparison and information than those who are. It seems unlikely that these consumers would call and ask for a set of fact sheets to allow them to make their own comparisons, but rather that they would work with a consultant over the phone to determine the best decision for them. This option is available today, with third parties and retailers themselves able to provide comprehensive advice to customers seeking to switch.

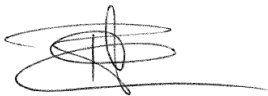
We consider that our suggested simplifications of fact sheets would further assist non-digitally engaged customers. The ability to use a fact sheet to easily see the key information, with a simple reference price, would enable direct comparison that wouldn't need to be digital. Additional contract information that might be provided as a click through link will also be provided to customers upon signing up to new offers, and if sought prior to contracting would be able to be advised over the phone or provided in hard copy.

### **About Red and Lumo**

Red and Lumo are 100% Australian owned subsidiaries of Snowy Hydro Limited. Collectively, we retail gas and electricity in Victoria, New South Wales and South Australia and electricity in Queensland to over 1 million customers.

Red and Lumo thank the AER for the opportunity to respond to this consultation. Should you have any further enquiries regarding this submission, please call Ben Barnes, Regulatory Manager on 0404 819 043.

Yours sincerely

A handwritten signature in black ink, appearing to be "Ramy Soussou", written over a white background.

**Ramy Soussou**

General Manager Regulatory Affairs & Stakeholder Relations

**Red Energy Pty Ltd**

**Lumo Energy Australia Pty Ltd**

Att.



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## Living Energy Saver

Estimated annual bill - Does this price suit me?				
My household	Average usage	Annual base charge	With all discounts and no fees	With no discounts and all fees
	2000 kWh per year	\$845.70	\$761.13	\$845.70
	4000 kWh per year	\$1246.10	\$1121.49	\$1246.10
	6000 kWh per year	\$1646.50	\$1481.85	\$1646.50

Does this offer suit me?		
Solar	✓	8c/kWh feed in tariff
Electric hot water	✗	Need to select a two rate tariff
Off peak usage	✗	Need to select a time of use tariff
Greenpower	✓	100% for 5.3c/kWh
Free Text		50 words of offer's best feature

Offer comparison - all prices include GST	
Peak usage	20.02c/kWh
Off peak usage	Not applicable
Daily charge	\$1.22 per day
Energy prices	Variable
Price guaranteed until	1/3/18
Discounts	10% pay on time off total bill
Fees	None
Contract term	Ongoing
Tariff type	Single rate

Further information is available at [www.redenergy.com.au](http://www.redenergy.com.au).  
 All energy offers can be viewed at [www.energymadeeasy.gov.au](http://www.energymadeeasy.gov.au).

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