seed

Seed Advisory

Better Bills Guideline – Retailer Cost Analysis

Report for Australian Energy Council

9 February 2022

Contents

1 Introduction

In December 2021, the Australian Energy Regulator (AER) released the draft Better Bills Guideline[1] for consultation. The Guideline is intended to simplify energy bills, helping consumers to compare offers and understand how much they pay for their energy. The implementation of the Guideline will necessarily require energy retailers to amend their billing systems, potentially other systems and processes.

By 31 March 2023, retailers must comply with the Guideline in preparing and issuing bills to a small customer.

The AEC has engaged Seed Advisory Pty Ltd (Seed) to assist in preparing this independent report to be provided to the AER as part of an AEC submission that analyses and assesses the high-level costs of implementing the AER's draft Guideline.

1.1 Key conclusions

Our analysis in this report highlights that:

- There are material overall implementation costs associated with the proposed AER changes.
- In aggregate the upfront costs to implement the changes suggested could be in the order of $2,700,000 per retailer with a wide range around that average cost.
- These costs do however leverage efficiencies that are available (approximately 45 per cent) if the AER was to implement the best offer changes consistent with the Victorian requirements.
- From an ongoing cost perspective, there may be material ongoing costs in excess of $500,000 per annum per retailer to implement the best offer requirement alone.
- There may also be further material annual operating cost increases of a similar magnitude relating to the plan summary and bill layout changes.

[1] AER Draft Better Bills Guideline - for consultation - 20 December 2021 PDF.pdf

2 Scope of work

The AEC requested Seed to analyse (at a high-level) the retailer costs and practical implications of implementing the AER's Draft Guideline.

This scope of work included the following areas

- Working with the AEC Secretariat to develop a simple spreadsheet that enabled retailers to provide information relating to the actual costs of implementing previous similar regulatory changes, and the predicted costs of the AER's changes, as they relate to the AER's proposed billing guideline.
  - This survey questionnaire included quantitative and qualitative data and is outlined in further detail in Section 3
- Analysing the retailer information received to
  - review the data provided to understand if it appears to respond to the questions asked; and
  - aggregate the results and undertake the analysis to ensure no individual retailer's data is identifiable in the results.
- Developing a draft report summarising the key findings.
- Finalising the report based on feedback from the AEC.

The scope excluded:

- Auditing or validating any information provided by the AEC or retailers our review was high level in nature and not an audit.
- Undertaking specific stakeholder consultation – our report and analysis was based on the results of the data provided and brief discussions with retailers to answer queries (if any).
- Developing any financial models or forecasts. Our assessment was be based solely on the data provided.
- Undertaking any policy, regulatory, IT or similar technical analysis.
- Undertaking a review of the AER's guideline or any related advocacy. This report is not intended to provide commentary or advocacy.

3 Methodology and questionnaire

Our approach involved developing an Excel spreadsheet to capture retailer information, both qualitative and quantitative.

The quantitative information mostly related to retailers' actual costs related to the implementation of the Victorian best offer legislation and the potential costs associated with implementing similar changes to other jurisdictions.

For most questions retailers were also able to provide simple commentary or rationale to support their responses.

Given the purpose of this engagement and the timeframes involved we requested high level cost information only, rounded to the nearest $100,000. We reviewed the information for reasonableness but did not validate or audit the any information provided by retailers. There were a couple of occasions where our review resulted in excluding a specific data point from our analysis to avoid potentially skewing the averages. This does not mean we dispute the response from the retailer. Where this has occurred it was noted in our report.

The Excel spreadsheet contained 12 questions grouped into four categories:

- **Context** – this was to assist in providing a better understanding of the drivers of cost, time and effort for retailers when undertaking a major change project.
- **Victorian best offer** – this was to better understand actual upfront and ongoing costs of implementing a major billing system project, the Victorian best offer changes that commenced in July 2019. This information was also used to understand the efficiencies (if any) available when implementing the AERs proposed best offer approach.
- **AER best offer** – this aimed to better understand the impact of replicating the Victorian best offer framework into the other relevant jurisdictions. In responding to this question, retailers were asked to assume the best offer framework in the AER's Final Guideline is structurally identical to the Victorian approach, other than potentially the frequency of the bill message appearing.
- **Other AER changes** – this sought to better understand the impact of implementing a standardised plan summary as described in section 3.1.1 of the Draft Guideline. It also was designed to better understand the materiality of the AER's proposal to require retailers to present bill information in a tiered manner, which may require retailers to move information that already exists on the bill to a new location.

3.1 Context

This category contained three (3) questions.

Question 1: components of billing changes

We asked retailers to estimate the approximate percentage effort for each item in a billing system change project similar to the AER scoped changes based on the identified categories below, noting the total effort had to add to 100 per cent.

The categories provided were:

- Tailored bill behavioural studies
- Review impact on billing / CRM systems

- Review impact on other customer facing systems (e.g. apps/portals)
- Design and development of new bills/systems
- Coding (i.e. development work for the above)
- Regression and other testing
- Interaction with Mail house vendors
- Third party changes
- Compliance assessments and procedures
- Staff Training
- Education (customer)
- Other (please specify)

Question 2: relative proportion of fixed versus variable costs for billing system changes

This question was designed to understand, based on the same categories used in question 1, the percentage of the level of effort that was fixed versus variable. In other words, the effort would be largely the same irrespective of the scope the change (fixed) or reduced by a smaller scope of implementation (variable). In this case, the fixed plus variable percentage for each category must total 100 per cent.

Question 3: key implementation considerations

This question asked retailers to rank seven (7) factors that may influence a retailer's costs and changes to a billing system. The factors were based on six (6) identified by the AER and one (1) that we added to the list.

The factors provided were:

- Length of implementation period (timing)
- Flexibility in timing
- Other concurrent developments
- Short term increases in complaints
- Scope and Nature of changes
- Economies of scale (Retailer size)
- Opportunity cost of delaying other internal projects

3.2 Victorian best offer

This category contained three (3) questions.

Question 4: upfront implementation costs

Where possible, we asked retailers to identify costs attributable to the implementation of best offer in Victoria in July 2019.

Where possible we also asked retailers to break the costs into billing system costs, other system costs and non-system related costs.

Question 5: implementation challenges

This question was seeking to identify what factors impacted retailers' costs provided in question 4.

Question 6: ongoing maintenance costs

To the extent attributable, we asked retailers to identify any ongoing maintenance costs to continue delivering the best offer message between 1 July 2019 and 1 July 2021.

These were similarly (where possible) broken down into billing system costs, other system costs and non-system related costs.

3.3 AER best offer

This category contained two (2) questions.

Question 7: upfront implementation costs

We asked retailers to provide their best estimate of the upfront implementation costs if it was assumed that the AER obligations were exactly the same as the Victorian obligations.

These were similarly (where possible) broken down into billing system costs, other system costs and non-system related costs.

Question 8: further detail and commentary

We asked retailers to provide commentary on their views if the build or maintenance costs would be higher if the AER mandated that the best offer message was to be on every bill rather than at least every three months as is the case in Victoria.

3.4 Other AER changes

This category contained four (4) questions.

Question 9: plan summary upfront implementation costs

We asked retailers to provide their best estimate of upfront implementation costs to implement the plan summary requirements.

These were similarly (where possible) broken down into billing system costs, other system costs and non-system related costs.

Question 10: further detail on plan summary implementation

We sought further information to understand the level of effort based on the three categories of information to be provided, plan charge details (e.g. unit costs), energy from renewable sources and benefit expiry date.

Question 11: other bill changes upfront implementation costs

We asked retailers to provide their best estimate of upfront implementation costs related to the bill presentation related changes.

These were similarly (where possible) broken down into billing system costs, other system costs and non-system related costs.

Question 12: other bill changes further detail

We sought information to understand if there were any specific items in the bill layout that would be impractical or have a material cost.

4 Key findings

We received eight (8) responses covering the three tier 1 retailers, some tier 2 (medium to large size) retailers and also some tier 3 (smaller) retailers. Noting also that not all retailers were necessarily able to provide the same level of detail for each question, and in some instances some retailers were unable to answer specific questions.

For the cost related questions, where we received a sufficient number of responses, we have provided results grouped by all respondents, the ''Big 3'' retailers (AGL, EnergyAustralia and Origin Energy) and the other retailers. These groupings provide further high-level insights into key differences between the largest retailers and other retailers.

4.1 Context: drivers of retailer costs, time and effort

Question 1: components of billing changes

We asked retailers to estimate the approximate percentage effort for each item in a billing system change project similar to the AER scoped changes based on the identified categories below, noting the total effort had to add to 100 per cent.

The categories provided were:

- Tailored bill behavioural studies
- Review impact on billing / CRM systems
- Review impact on other customer facing systems (e.g. apps/portals)
- Design and development of new bills/systems
- Coding (i.e. development work for the above)
- Regression and other testing
- Interaction with Mail house vendors
- Third party changes
- Compliance assessments and procedures
- Staff Training
- Education (customer)
- Other (please specify)

Retailers' responses to this question highlighted that three (3) of the identified categories required more than 50 per cent of the effort. These were:

- Design and development of new bills/systems
- Coding (i.e. development work for above)
- Regression and other testing

This is unsurprising and reflects the system intensive nature of billing changes. It also most likely implies that separating any billing related changes into multiple stages is unlikely to result in significant efficiencies as each stage will require the steps above to be repeated.

Some retailers also noted one further category as reasonably significant, third-party changes, for example mailhouses or other third-party providers. In this case this likely reflects the specific business model and structure of the retailer for example with significant outsourcing of key components of their end-to-end process.

The remaining categories generally had comparatively effort, typically less than 5 - 10 per cent for any one category.

There were only three instances where respondents added a further category (under ''other''). In those instances the relative effort for that category was generally minimal. This provides comfort that the original list as presented is a reasonably robust representation of how retailers undertake systems development and change management. Question 2: relative proportion of fixed versus variable costs for billing system changes

This question was designed to understand, based on the same categories used in question 1, the percentage of the level of effort that was fixed versus variable. In other words, the effort would be largely the same irrespective of the scope the change (fixed) or reduced by a smaller scope of implementation (variable). In this case, the fixed plus variable percentage for each category must total 100 per cent.

The response to this question was varied with no discernable pattern or trend. This likely reflects that each retailer has a unique structure and approach to billing system changes and that a one size fits all assumption on costs is not likely to be appropriate. In other words, for some retailers certain cost drivers are largely fixed, whilst for other retailers the same cost driver is largely variable.

Question 3: key implementation considerations

This question asked retailers to rank seven (7) factors that may influence a retailer's costs and changes to a billing system. The factors were based on six (6) identified by the AER and one (1) that we added to the list.

The factors provided were:

- Length of implementation period (timing)
- Flexibility in timing
- Other concurrent developments
- Short term increases in complaints
- Scope and Nature of changes
- Economies of scale (Retailer size)
- Opportunity cost of delaying other internal projects

Retailers provided a generally consistent view of the highest and lowest impacting factors.

On average retailers noted that the *scope and nature of changes* as well as *other concurrent developments* were almost always in the top 2 or 3 factors. This is not surprising and is consistent with the theme that larger changes would require more effort, and that changes undertaken concurrently can cause significant increases in work and effort required. Some retailers noted for example the consumer data right, or other large internal projects would compete for resources and drive up costs.

Conversely, *short term increases in complaints* and *economies of scale (retailer size)* were identified as the least important factors by all retailers. Again this is also unsurprising, as customer complaints are largely variable costs and can generally be managed on a case by case basis. Similarly there are unlikely to be significant economies of scale for a larger retailer as the effort is more dependent on the scope of the change than the retailer size, as evidenced in the responses to question 1.

4.2 Costs of Victorian best offer changes

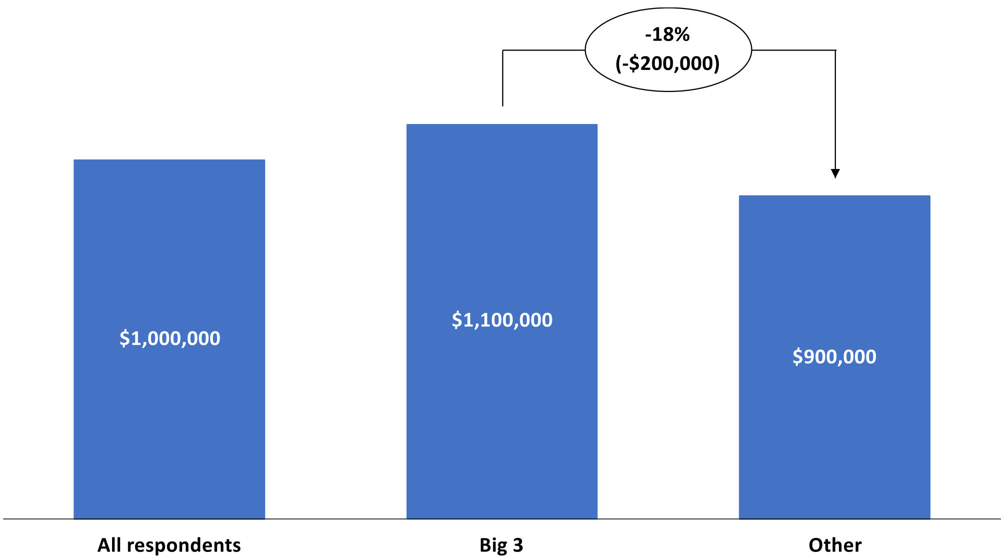
Question 4: upfront implementation costs

> Where possible, we asked retailers to identify costs attributable to the implementation of best offer in Victoria in July 2019.
>
> Where possible we also asked retailers to break the costs into billing system costs, other system costs and non-system related costs.

All respondents provided answers to this question, with the range of upfront costs spanning from below $500,000 to approximately $2,000,000.

The graph below highlights that the average cost for all respondents was relatively substantial, at approximately $1,000,000 in total. There was a $200,000 or 18 per cent difference between the Big 3 retailers at $1,100,000 versus other retailers at $900,000. The difference is not insignificant; however it is materially smaller than the customer size differences between the big 3 and the remaining respondents. This implies that the majority of costs are likely to be relatively fixed irrespective of the size of retailer. Which is not surprising given the responses to questions 1 and 3 that noted that the main drivers of costs were the scope of changes, the coding, testing and running changes concurrently and not the retailer size.

Figure 4.1: Upfront (implementation) costs, Victorian best offer changes by respondent group, $



On average approximately 60 per cent of the costs related to billing system changes, with 20 per cent related to each of other system and non-system changes. For any one retailer the split was not as consistent, which again reflects the varied business model and approach to implementing system changes for retailers.

Question 5: implementation challenges

> This question was seeking to identify what factors impacted retailers' costs provided in question 4.

Retailers noted a number of challenges and factors that impacted their costs, these included:

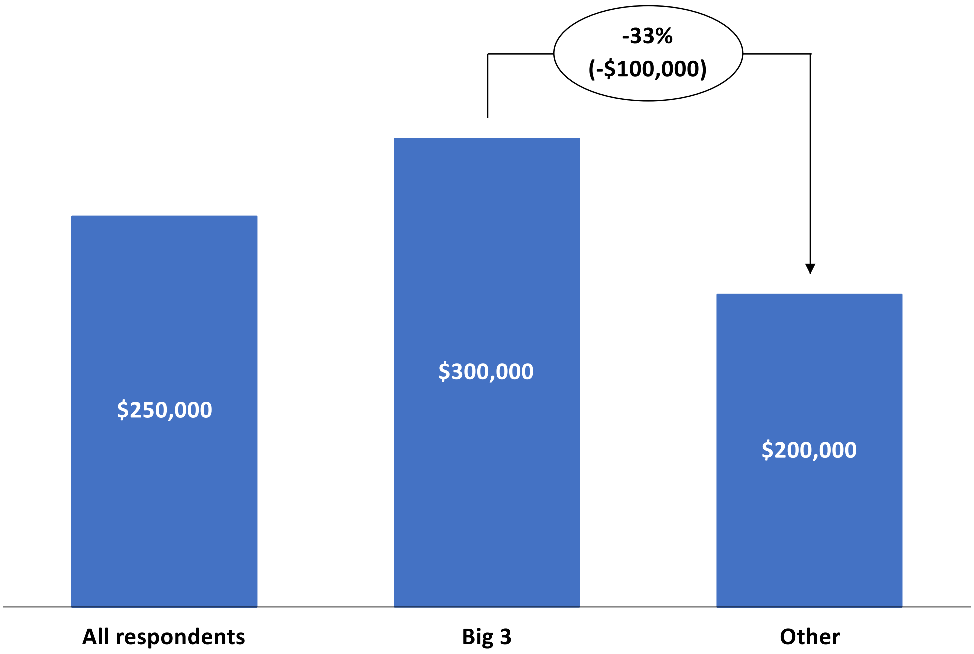
- It was a new requirement, which meant understanding the regulations and scope was costly and time consuming.
- There was complexity in designing and building the dynamic logic that was able to assess and select a best offer that is applicable for the customers contracted obligations and jurisdiction variables.
- Standalone solutions add complexity and costs, including from a compliance perspective.
  - Additional effort was required to maintain and develop varying bill templates, e.g. paper bill vs e-bill.
  - The best offer rules do not consider the added complexity of multisite agreements where the customer would be required to opt-out of their group arrangement and take up the best offer separately. This requires a separate solution and business strategy.
  - Retailers may be required to develop alternative solutions to meet the regulatory obligation to issue the best offer message every 100 days where there are bill issue delays.
- The timeline for implementation was relatively short.
- Extensive testing was required and undertaken to ensure all different customer types were accurate.
- Some retailer's noted that their best offer in market changes regularly which can cause confusion as the best offer the customer responded to may no longer be in market.

Question 6: ongoing maintenance costs

> To the extent attributable, we asked retailers to identify any ongoing maintenance costs to continue delivering the best offer message between 1 July 2019 and 1 July 2021.
>
> These were similarly (where possible) broken down into billing system costs, other system costs and non-system related costs.

Most, but not all respondents provided answers to this question, with the range of ongoing costs spanning from just below $200,000 per annum to $300,000 per annum.

Figure 4.2: Ongoing costs Victorian best offer changes by respondent group, $ p.a.



The graph above highlights that the average cost for all respondents was approximately $250,000 per annum. There was a $100,000 or 33 per cent difference between the Big 3 retailers at $300,000 versus other retailers at $200,000. The difference is relatively more material than the upfront cost differences. Retailers noted that many of these costs relate to factors such as offers changing in the market, system enhancements / changes, exceptions management and third party / mailhouse related costs.

This also highlights that the costs are likely to be related to customer numbers which adds more complexity, exceptions and maintenance costs.

4.3 Expected costs to implement AER best offer proposed changes

Question 7: upfront implementation costs

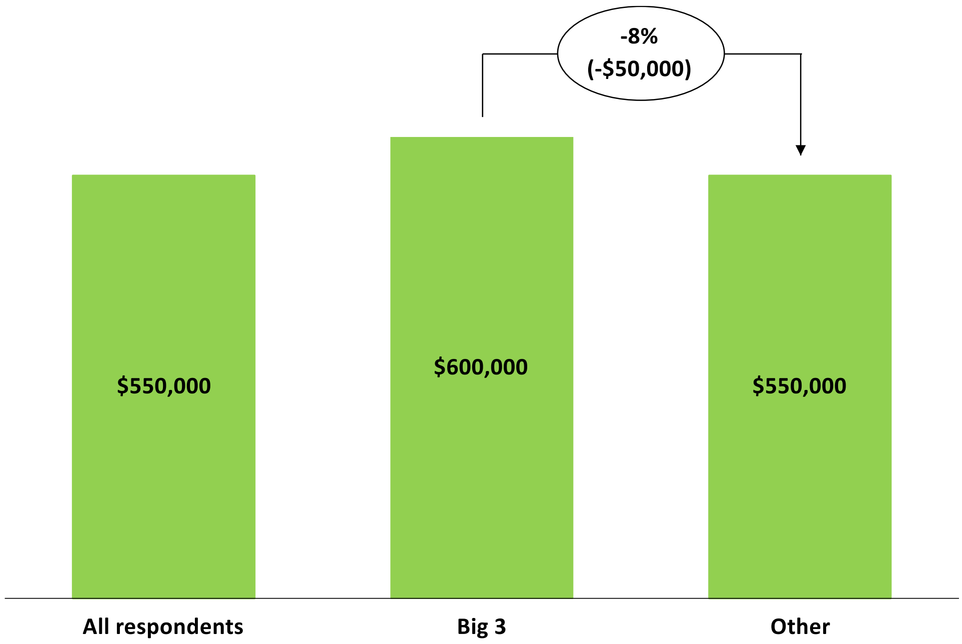
> We asked retailers to provide their best estimate of the upfront implementation costs if it was assumed that the AER obligations were exactly the same as the Victorian obligations.
>
> These were similarly (where possible) broken down into billing system costs, other system costs and non-system related costs.

All respondents provided answers to this question, with the range of upfront costs spanning from approximately $200,000 to over $1,000,000. Our averages below excluded one retailer which showed materially higher cost estimates than the others.

The graph below highlights that the average cost for all respondents was approximately $550,000. There was only a small $50,000 or 8 per cent difference between the Big 3 retailers at $600,000 versus other retailers at $550,000.

The relatively small difference between the Big 3 and other retailers again likely reflects the generally fixed cost nature of these types of system changes.

Figure 4.3: Upfront (implementation) costs, proposed AER best offer changes by respondent group, $

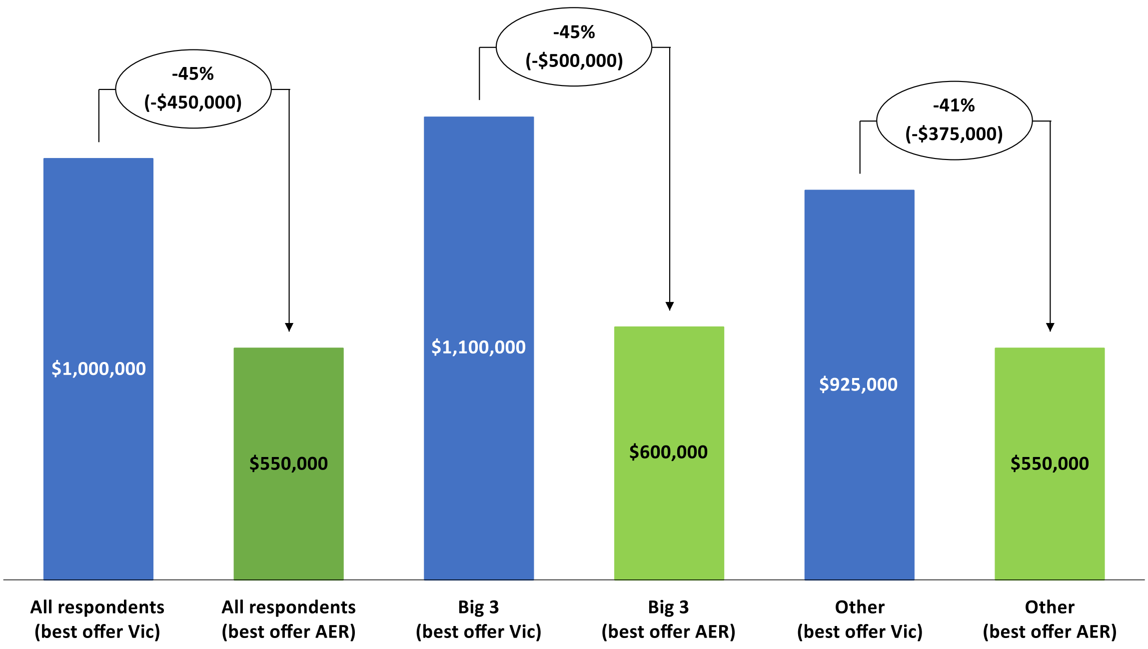


Consistent with question 4, on average approximately 60 per cent of the costs related to billing system changes, with 20 per cent related to each of other system and non-system changes. For any one retailer the split was not as consistent, which again reflects the varied business model and approach to implementing system changes for retailers.

Almost all retailers identified significant cost efficiencies or savings available if the AER changes were broadly consistent with the Victorian best offer requirements. This is unsurprising as many retailers noted that some degree of leverage or use of existing code and capabilities for Victoria was available for the other jurisdictions.

The degree of efficiency is highlighted in the graph below. It is evident that efficiencies of between 41 – 45 per cent for retailers, that does not materially vary by size of retailer. The level of efficiency savings did vary by retailer, with one retailer identifying little to no savings, and others up to 70 per cent savings.

Figure 4.4: Upfront (implementation) costs, comparison Victorian and proposed AER best offer changes by respondent group, $



Question 8: further detail and commentary

We asked retailers to provide commentary on their views if the build or maintenance costs would be higher if the AER mandated that the best offer message was to be on every bill rather than at least every three months as is the case in Victoria.

Some retailers said costs are expected to be higher if the AER mandated the best offer message was required on every bill for reasons such as:

- The code will need to be enhanced and tested to deal with additional scenarios
- Exception management and other best offer message requirements will increase
- The number of best offer calculations within billing systems on a daily basis ahead of invoice processing could cause fundamental performance issues and may require either significant investment in systems or may introduce a new risk relating to the ability to produce bills in a timely manner.
- No, implementation costs would not be impacted by change in frequency, but the system capacity and processing costs will be increased
- If requirements are different to Victoria (even slightly), we would expect to see costs increase to similar levels as the Victorian best offer implementation
- Inconsistencies between jurisdictions will provide more of a challenge and increased risk of errors.

In addition, one retailer noted that the ongoing maintenance cost for the best offer message to be available in other jurisdictions was approximately $500,000 per annum.

This is unsurprising as it is a function of the increased number of customers and jurisdictions. This is also consistent with the responses to question 6 where respondents noted that maintenance costs were more variable and the average costs also reflected this with the Big 3 having materially higher costs than the other retailers. Some respondents also noted that it mostly comprised of postage costs from sending standalone communications when the best offer cannot be calculated in time for a bill run for any reason.

Other retailers also noted that the AER solution will require more scenarios to be tested than Victoria due to multiple states.

4.4 Expected costs to implement other AER proposed changes

Question 9: plan summary upfront implementation costs

> We asked retailers to provide their best estimate of upfront implementation costs to implement the plan summary requirements.
>
> These were similarly (where possible) broken down into billing system costs, other system costs and non-system related costs.

All bar one respondent provided answers to this question, with the range of upfront implementations costs ranging from below $200,000 to above $1,750,000.

The average cost for all respondents was approximately $1,100,000.

For this question, we do not believe it is appropriate to calculate the average for the Big 3 and other retailers separately. The justification for this decision is based on the observation that the costs seem to vary materially between respondents, not due to their size, but rather due to other factors, such as whether their existing billing system and capability can more readily cater such a change.

Consistent with this justification, and unlike the answers to questions 4 and 7, the average split between costs related to billing system changes, other system and non-system changes was approximately 30 -35 per cent for each.

This split seems to indicate that retailers need to rely more heavily on complementary systems than they do for other changes such as better offer, which reflects an increasing complexity and provides some insight as to its relatively high cost.

Question 10: further detail on plan summary implementation

> We sought further information to understand the level of effort based on the three categories of information to be provided, plan charge details (e.g. unit costs), energy from renewable sources and benefit expiry date.

Retailers' views on the level of effort for the three categories of information to be provided: plan charge details (e.g. unit costs), energy from renewable sources and benefit expiry date was mixed. There was no clear pattern or trend in this information, with each retailer having their own views about what was a high degree of effort versus low.

Respondents noted the following:

- One retailer has a plan summary on their bill, so their view was it was relatively low effort.
- The cost estimates do not include any costs associated with layout changes. They only include cost for the provision of additional data to be included and some testing costs.
- The costs are primarily comprised of mailhouse vendor costs associated with inserting a new section / table in the bill
- The costs include agent training and cost of increased volume and/or length of customer calls to query new data elements.
- The assumed information for the plan summary is based only on the customer's current plan and prices. It does not allow for any previous plan and prices that may also have been applicable during the billing period, for example where the customer changes their energy plan. Estimated costs would increase significantly if a bill must display all summary info relating to all plans applicable in a billing period.
- Some queried what alternative solutions may be required in the event the information is not available to populate the bill at time of invoicing. For example, is there any need for a separate provision of the plan page summary from the bill. In this instance there would be additional costs.
- The assumption for the cost estimate relating to renewable energy source assumes only relevant information to be shown is GreenPower percentage and / or carbon neutral applicability. There is an assumption that there is no need for more general information on the renewable sources within a retailer's generation portfolio.
- Some of the information required in the plan charges (peak/off peak times) isn't necessarily included in all retailers' billing systems.
- There may be specific complexities for embedded network customers as it would impact how the bill is presented and would require bill designs or templates to be rebuilt.

Question 11: other bill changes upfront implementation costs

> We asked retailers to provide their best estimate of upfront implementation costs related to the bill presentation related changes.
>
> These were similarly (where possible) broken down into billing system costs, other system costs and non-system related costs.

Most respondents provided answers to this question, with the range of upfront implementations costs ranging from approximately $500,000 to above $2,000,000. We note that the respondent who noted it was a significant cost suggested this change would require a complete rebuild of their billing system and design.

The average cost for all respondents excluding the retailer noted above was approximately $1,050,000.

Given the need to exclude a retailer and the reduced response rate from 100 per cent, we do not believe it is appropriate to calculate the average for the Big 3 and other retailers separately. The justification for this decision is based on the limited sample sizes for the sub-categories.

Consistent with question 4, on average approximately 60 per cent of the costs related to billing system changes, with 20 per cent related to each of other system and non-system changes. For any one retailer the split was not as consistent, which again reflects the varied business model and approach to implementing system changes for retailers.

Question 12: other bill changes further detail

We sought information to understand if there were any specific items in the bill layout that would be impractical or have a material cost.

In response to better understanding if there were any specific items in the bill layout that would be impractical or have a material cost, respondents provided general perspectives as follows:

- The cost assumptions were developed based on leaving the digital assets and e-bill summary email unchanged. Cost estimates would materially increase if these were in scope.
- For some retailers they noted that the costs for these changes will require the creation of a new bill (as opposed to moving the order of current bill items).
- Further consideration will need to be taken on how consolidated bills and unmetered supplies will adhere with the Guideline. In addition, there may be complexities and further consideration needed for the costs relating to embedded network customers who have more than one service on a bill.
- There may be further complexities and practicalities not readily considered by the AER in the Draft Guideline, such as:
  - Moving/changing information requires other supporting material such as bill explainers, webpages, agent scripting and documentation referencing the old bill layout to be changed.
  - Changes to automated processes and processes which use software robots that refer to specific screens/sections within the Customer Relationship Management system will need to be updated as those screens will change to reflect the new bill format.
- Retailers also noted that the ongoing costs of requiring a plan summary could be material (between $150,000 to over $500,000 per annum), for example:
  - The additional bill page that will be required to accommodate the plan summary as well as additional exception monitoring and management and the additional calls anticipated due to customer confusion over new information such as planned benefit end dates. These costs assume that alternative solutions to send out separate communications will not be required.
  - If there is no designated area on the first page of a bill to announce important account information, retailers may to include bill inserts.
  - The establishment of the information in a particular order is likely to add an additional page, and in some circumstances (e.g. multiple properties on one bill) multiple pages. Each additional page costs approximately 7 cents.

4.5 Conclusions and indicative overall costs

Our analysis of retailer responses has highlighted that:

- There are material overall implementation costs associated with the proposed AER changes.

- In aggregate the upfront costs could be in the order of $2,700,000 per retailer with a wide range around that average cost, refer table below for further detail.
- There are cost efficiencies available (approximately 45 per cent) if the AER was to implement the best offer changes consistent with the Victorian requirements.

Table 4.1: Upfront implementation cost summary, AER changes, all respondents, $

Cost category	Average cost all respondents ($)	Indicative cost range ($)
Best offer	$550,000	~$200,000 - $1,000,000+
Plan summary	$1,100,000	~$200,000 - $1,750,000+
Other bill changes	$1,050,000	~$500,000 - $2,000,000+
Total	**$2,700,000**	N/A

On average approximately 60 per cent of the costs above relate to billing system changes, with 20 per cent related to each of other system and non-system changes.

Respondents also noted that from an ongoing cost perspective, there may be material ongoing costs in excess of $500,000 per annum per retailer to implement the best offer requirement alone. This is based on the Victorian experience of approximately $250,000 per annum and noting these costs are more directly related to customer numbers and number of jurisdictions.

There may also be further material annual operating cost increases of a similar magnitude relating to the plan summary and bill layout changes.

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