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Submitted by email to AERInquiry@aer.gov.au

31st October 2017

Response to *Customer price information: Issues paper*

The Australian Energy Council welcomes the opportunity to make a submission to the Australian Energy Regulator's (AER's) Issues Paper *Customer price information*. Please see the attachment to this letter.

We support the AER's work in this area, including its marketing reference group.

Given the relative importance of revising the Energy Price Fact sheet template and of addressing comparison tools, we have focused this response on those issues only.

This does not lessen the importance of considering technological and non-technological approaches to facilitate informed consumer choice, as discussed in the Issues Paper. We look forward to future discussions through the AER's reference group.

Any questions about this submission should be addressed to Tess Fitzgerald on (03) 9205 3115.

Yours sincerely,



Sarah McNamara
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Australian Energy Council

Response of the Australian Energy Council to the Australian Energy Regulator's *Customer price information: Issues paper*

1 Introduction

The Australian Energy Council and its members support the AER's intent as discussed in its Issues Paper, which is to provide consumers the information they need to:

- prompt them to investigate the energy market;
- help them compare plans and providers; and
- choose the best deal for them.

We also note the surrounding policy context on these issues regarding the eight retailers' commitment to the Prime Minister's office, including that retailers will:

- market offers in dollar terms, rather than as percentage discounts;
- produce clear, user-friendly fact sheets on terms, late payment penalties, early termination payments and to work with Government and the AER on key components such as a comparator rate; and
- work with the Government and the AER on the implementation of information technology, namely QR codes or equivalent, to assist in third party engagement for customers.

We are working with the Government and the AER on these and other matters, both through the AER's reference group and through separate discussions.

We also acknowledge the recent Victorian Thwaites Review which contains recommendations for marketing in dollar terms, standardised marketing material, and offer comparisons via annual dollar amounts. The Victorian Government is currently considering its response to the recommendations.

Please note that this submission only addresses the Energy Price Fact Sheet template and comparison approach, but that we will work with the AER on all the issues through its reference group. The matter of supporting consumers through technology such as QR codes and OCR (and supporting consumers who do not have access to the requisite technology) is vital, and we look forward to further engagement with the Government and the AER.

2 The Energy Price Fact Sheet purpose and design

An Energy Price Fact Sheet (EPFS) needs to provide information to consumers that is simple and fit for purpose. The problem we appear to have experienced to date is that the purpose of the EPFS is itself not clear.

We identified two key purposes to be served by an EPFS, where these are to provide consumers with:

- standardised price/cost information about an offer to allow easy comparison with other offers; and
- the key non-price information pertinent to the offer.

It would appear that these two purposes cannot readily be met in the one document. For a consumer seeking to find an easy means of understanding the key points in order to compare prices, the current

EPFS template is not easily comprehensible either in substance or appearance. The template is dense and provides more information than is required. If a consumer was looking for non-price information, they would be bogged down in pricing detail. They would also find the same information in other material provided by the retailer.

In our view, an EPFS should prioritise the provision of single offer information to enable a consumer to easily compare prices across offers (that is, using other offer EPFSs). It is in this way that an EPFS adds genuine value to the consumer's experience, and provides information that is not otherwise available.

It is worth noting that as per the AER's first objective to prompt consumer investigation of the market, it might be suggested that the EPFS should itself be a means of creating consumer interest in the market. In contrast, our view is that consumers accessing an EPFS will already be engaged, because they are considering and reviewing actual offers. This engagement will have been set in motion by a variety of likely sources, including messages from government, retailers and trusted third parties, as well as the usual triggers such as price changes and discussions with family and friends. The EPFS then assists the consumer to make a decision. The challenge with the EPFS is not to engage otherwise disinterested consumers but to *keep* interested consumers engaged; that is, to not alienate consumers with poorly targeted or poorly designed documents that do not meet the consumer's needs.

Question 1

What information should be included on an EPFS? Is there some information currently included that could be omitted, or provided in another way?

To support our view that an EPFS should prioritise the provision of single offer information to enable a consumer to easily compare prices across offers, we note with interest the UK approach of using a Tariff Information Label to express basic pricing information. A document following a similar structure could be created for Australian purposes; we have called this an *offer information label* for our purposes.

We assessed each element of the EPFS as provided in the AER's Issues Paper, as shown in Figure 1 on the next page. This shows the two pages of the EPFS in question, with the different elements that our members consider are most relevant to the offer information label identified and shown in orange.

Figure 2 then shows the orange elements from the EPFS in Figure 1 compared with an UK Tariff Information Label. This figure also shows some suggestions for the Australian offer information label to consider based on the UK approach.

Finally, Figure 3 shows the allocated substance for the new offer information label. Note that we have added a place for a comparison rate/reference price, as discussed in the next section of this submission. A more complete mock-up is provided in the Appendix. The approach needs to be tested with consumers; this may usefully be undertaken by BETA for the AER as part of its work.

Of course, consumers need more information than we have proposed here if they are to make an informed choice. Work will need to be undertaken to develop a means of providing consumers with access to *all* the necessary (regulated) information, at the right time and in the right place. It would make sense to lead with the offer information label for consumers who are shopping around, with a clear point of access to the remaining information for when a consumer wants to know more, such as clicking through via relevant web pages.

It must also be remembered that the Rules require retailers to issue a disclosure statement and the contract itself as part of the customer sign-up process. If we consider this full range of information, there is an argument to not find an alternative home for the EPFS material that we have left out of the proposed offer information label. In our view, the disclosure statement and contract should in principle serve the purpose of addressing the relevant non-pricing information.

Fuel: Electricity Economy 7
 Payment method: Quarterly Direct Debit
 Your tariff information

About your Electricity tariff		
Supplier	npower (Npower Northern Limited)	Title information
Tariff name	Cleaner Energy Fix October 2019 Elec DD Economy 7	
Tariff type	Fixed	Consider adding
Payment method	Quarterly Direct Debit	
Day unit rate	16.128p	Electricity pricing information
Night unit rate	7.875p	
Standing charge	22.6065p	
Tariff ends on	31 October 2019	Consider adding
Price guaranteed until	31 October 2019	
Termination Fee	Not applicable	Fees [each individually named]
Discounts and additional charges	Not applicable	Conditional discounts
Additional products or services included	Not applicable	Solar feed-in tariff options [and other additions]

VAT is included in all of the charges where VAT is applicable and this may differ from how they are displayed on the bill. Estimated costs include VAT and are based on current prices for the tariff shown above.

Figure 2: UK example with comparable EPFS elements shown

OFFER INFORMATION LABEL

Retailer
Tariff name
Payment method
Electricity pricing information
Tariff end date
Fees
Discounts
Additional products and services
Comparison rate/reference price
Contact details
Caveat

Figure 3: Suggested content for the offer information label to replace the EPFS

Question 2

How should the information on an EPFS be set out to most effectively highlight price and key contract details? How should information be prioritised?

Question 3

Is the **language** currently used to describe offers easy to understand? If not, how could it be improved? Are there **other ways** (graphics, images) to present information that would be more effective?

We believe that the EPFS template (and any replacement) needs a radical visual overhaul.

First, there is current repetition of terms, where certain elements have a headline statement then repeat this in slightly more detail immediately below. Figure 4 shows this in an extract of the EPFS from the AER's Issues Paper. These example rows could be easily simplified by removing the repeated information. On this same point, there is also repetition about network fees – the disconnection and reconnection fees do not need to be shown separately from the 'additional fee information' section about distributor pass-throughs. (In our view no network costs should be on the EPFS/offer information label, as these will be the same per customer.)

Other fee	Fixed rate - \$1.75 \$1.75 (incl GST) applies for each paper bill.
Disconnection fee	Fixed rate - \$93.19 A \$93.19 (GST Incl) fee may apply when your property is disconnected (including when you move). This fee is passed through from your distributor and may vary. Please visit your distributor's website to find out the current fee.
Credit card payment processing fee	Percentage of bill - 0.37% A 0.37% fee (GST Incl) may apply to payments made by VISA or MasterCard.

Figure 4: Extract from EPFS in the Issues Paper

Second, the current EPFSs as generated by Energy Made Easy are dense and the use of thick black headings reduces the visual appeal of the document. The format of the EPFS template requires change to create more white space, larger fonts and more appealing graphics overall. We support this work being undertaken for the AER by specialist graphics designers in collaboration with BETA.

Third, we support the general approach shown in the Issues Paper on page 11 (and as shown in the circled element of Figure 5 below) where there are a number of examples provided regarding use. There is a history of using representations of people/households in this way. The nature of the numbers next to the visual representation relate to the comparison approach discussed in the next section.




ACME Power – Power Saver 15 Plus			
Estimated annual bill			
My usage/my household	Base rate	Always pay on time	Always pay late
 Low	\$960	\$782	\$1040
 Med	\$1440	\$1198	\$1520
 High	\$2000	\$1510	\$2080

Figure 5: AER Sample presentation of an annual reference price, including a late-payment rate

Finally, we note that chosen approach would also need to be readily amenable to staff providing data inputs, for systems and for printing.

We have provided a mock-up offer comparison label in the Appendix, which includes standardised costs that can be used for price comparison (as discussed next). This incorporates some of the detail provided by BETA in the AER's reference group. There are several ways the information could be provided, and our approach to the detail of explaining usage, and to showing GST and conditional discounts, is just one perspective (and not necessarily the preferred approach of all retailers).

Again, the actual preferences of consumers must be understood. There is also a need to be consistent with other customer communications: we must not unnecessarily confuse consumers when they review the same information in the offer information label against their disclosure statement and/or their subsequent bills.

Question 4

Would customers benefit from the inclusion of **other** information that does not currently appear on EPFS, such as information about available concessions, the expiry of benefit periods and/or impending price changes? How should this be presented?

We would be concerned if, having identified that the current EPFS template is too complex, we would then go on to add more information. However, as identified in the previous discussion, we have shown how some limited additional information might be provided.

3 Comparisons

There is currently an appetite across Australian jurisdictions and across various stakeholders for some form of energy retail price comparison approach for retailer marketing, including price fact sheets. This is about standardising energy marketing to some degree, so that consumers can easily view the relative costs of different offers without having to use websites and input their consumption, and without undertaking complex calculations to compare offers with different tariff structures.

The AER has noted that there are two key options:

- a comparison rate where the overall cost of a product is presented on a per unit basis; and
- a reference price where there is a representation of the quarterly or annual cost.

Each option has some precedent. Comparison rates are used in banking for interest rates. The UK also used an energy Tariff Comparison Rate for several years. Reference prices are currently used for Australian price comparison services (where there is no personalised data), including the AER's Energy Made Easy website. The Victorian Thwaites Review also recommends that typical customer usage profiles should be used in standardised marketing material, where the annual energy costs for the standardised customer usage profiles are the points of comparison in marketing materials.

3.1 The UK Tariff Comparison Rate

As noted by the AER, the UK Tariff Comparison Rate (TCR) was a price-per-unit rate for every gas and electricity tariff. It also factored in daily charges and discounts. It was shown on certain regulated communications such as bills, anywhere the charges for supply and/or comparisons were displayed, and on retailer websites (accessible by inputting address/post code). A single price was used to represent all customers.

Following advice from the Competition and Markets Authority, Ofgem removed the TCR requirement in June 2017. This is because the Authority found that it was not working as intended. Ofgem noted through its own consultation that:

... evidence suggests that, of all the Clearer Information tools, the TCR has been the least useful to consumers. Evidence from last year's Consumer First Panel suggested that spontaneous

awareness of the TCR across all of the segmented groups was extremely low. Further, the majority of panellists thought the TCR would be of limited value to them as they did not consider their energy use to be 'typical'.¹

Further:

Stakeholders were near unanimous in their agreement that the TCR should be removed. Reasons cited included the limited awareness and understanding of the TCR by consumers, as well as the methodological limitations of the TCR (for example, that it is based on average as opposed to personalised usage). This is consistent with what stakeholders have previously told us when we have engaged with them.²

Ofgem also stated that the reliability of the TCR was significantly challenged by the introduction of more 'consumption-sensitive tariffs'.³

3.2 Considerations

We should remember that a comparison rate/reference price is a standardised means of providing a consumer with some sense of the costs associated with one offer compared with another. It is not customised based on the consumer's own consumption. As found in the UK, this fact itself led to under-utilisation by consumers, who did not identify with 'typical' or 'average' usage figures.

This may be able to be alleviated to some degree, perhaps with 'low', 'medium' and 'high' usage figures as suggested in the AER Issues Paper (page 11, also see Figure 5 of this submission). We would expect that a brief explanation of the basis of the 'low', 'medium' and 'high' allocations is required in addition to any household diagrams – consumers will need more information than just the number of people per premises.

In our view, the value of a comparison tool must be tested properly with consumers with a range of needs. As with the EPFS, this is a matter of both substance and presentation. We would support the AER procuring specialist advice on this matter. There will also be a need ensure that communications about comparison tools are appropriately presented to ensure that consumers are aware of the limitations of a comparison tool in any individual case.

Figure 6 shows some options for comparison tools. In each case, the numerator is cost. This seems logical given the priority of consumers to understand the effect on their finances, and is also consistent with policy discussions to this point. The denominator provides two main options: time and use. These correlate to the AER's reference price and comparison rate respectively (although the semantics might need to be flexible for different interpretations).

Figure 6 shows the different combinations that are possible, with the detail shown under 'Examples'. Some of these examples are crossed out as they seem particularly poor:

- cents per month and cents per year both seem bad choices as dollars would be more appropriate for longer periods of time;
- cents or dollars per bill do not seem workable in any simple way because of different billing cycles. Given that billing cycles can be monthly, two-monthly (gas) and quarterly, this would

¹ Ofgem (2016) *Helping consumers make informed choices – proposed changes to rules around tariff comparability and marketing*, August, p. 16. See: www.ofgem.gov.uk/system/files/docs/2016/08/proposed_changes_to_rmr_clearer_and_sales_and_marketing_licence_conditions_august_2016.pdf.

² Ofgem (2017) *Statutory Consultation: Enabling consumers to make informed choices*, January, p. 30. See: www.ofgem.gov.uk/system/files/docs/2017/01/statutory_consultation_informed_choices.pdf.

³ Ofgem (2016) *Helping consumers make informed choices – proposed changes to rules around tariff comparability and marketing*, August, p. 15. See: www.ofgem.gov.uk/system/files/docs/2016/08/proposed_changes_to_rmr_clearer_and_sales_and_marketing_licence_conditions_august_2016.pdf.

only be useful if shown for every billing option. If this was then used against multiple profiles (such as 'low', 'medium' and 'high' usage) we then would have a 3X3 matrix at the least.

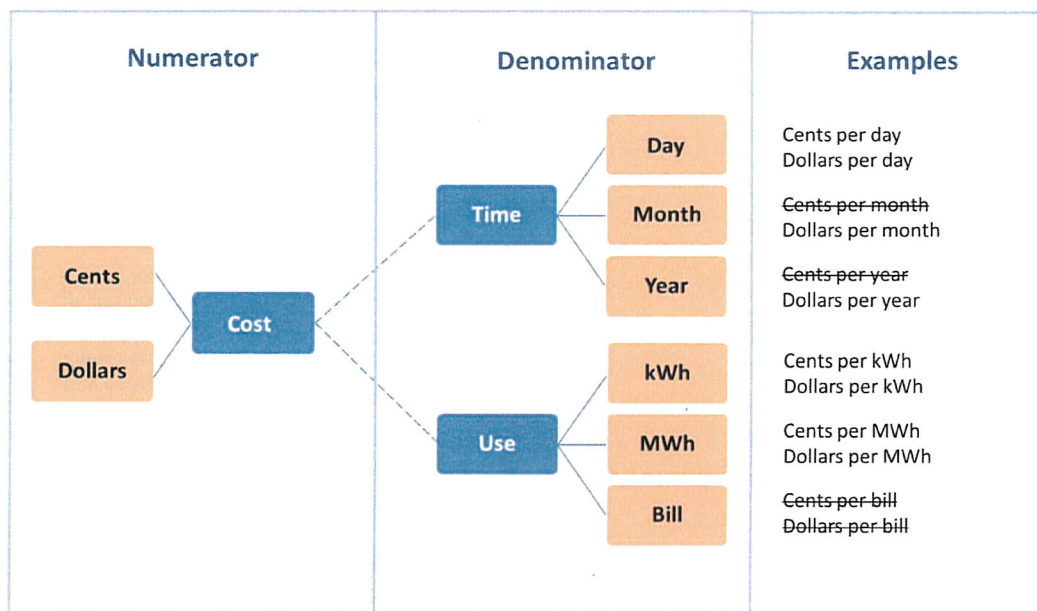


Figure 6: Comparison options

Question 5

Is a **comparison** rate or **reference** price an effective way to facilitate meaningful comparison of different energy offers?

Each can be a valuable means of providing customers with a better idea of how much different offers may cost. We note that there will be a dependence on averaging across customer and seasonal differences and so proper caveats will need to be placed around the accuracy of the comparison approach. Further, neither accounts for non-price benefits. It will be important for consumers to understand these aspects and also see value in the approach taken.

Points to consider include:

- A reference price – or in our terminology, a cost/time approach – is more in line with the intent of the recent discussions with the Prime Minister's office about marketing in dollars, and with the Victorian Thwaites Review recommendations. We have used this approach in our mock-up in the Appendix. Regarding the different cost/time options:

- Cents or dollars per day has some value, as it provides customers with a granular picture of what to expect. This will be easier to grasp than a yearly figure. Importantly, the number will have to be averaged: the daily figure would be the annual cost divided by 365. This means that the daily figure will not account for seasonality, and may also create customer confusion (and potentially drive complaints) if considered by the customer next to the cost/day information on their bill. This is not an insurmountable problem but requires clarification in communications.

If this approach is used there will be a need to establish the ideal number of digits to display after a decimal point – this is more relevant for dollars per day than for cents/day.

- Dollars/month has particular value for customers who are billed monthly (which will be an increasing number over time), as they can address this as a proxy for a bill. This will

also need to be managed carefully for a similar reason as the daily rate, because customers with monthly bills might be concerned about variations of their monthly bill amount against the monthly comparison amount. (The monthly amount would be the annual figure divided by 12.)

- According to a perspective of maintaining consistency with the Prime Minister's office discussions and the Thwaites Review, dollars/year would be the best. This approach also smooths out seasonal differences and so runs less of a risk of misrepresenting use for any given day or month. However, the resulting annual numbers might be too high for customers to have a natural grasp of what is being provided.
- There may be value in a cents/kWh approach, as this is consistent with how prices themselves are presented. While there is a valid argument that consumers might not inherently know or understand kWh as a consumption unit, it is arguable that this is not a material barrier as all the customers will value is relative numbers (where a higher number would indicate a more expensive offer, all other things being equal).
- The application of a cents/use approach generally might need to adjust for larger users who are more accustomed to seeing MWh. It is possible that if this approach is taken that small customers who use more than a certain threshold should see the comparison in dollars/MWh.

As noted already, we strongly recommend that the range of approaches is tested with actual consumers, and that this work is informed by BETA.

Question 6

What are the potential **benefits** and **risks** of each?

The potential benefit of each is that it adds to the sum of information in the market by allowing customers to compare the prices of offers. There is value in this even where a customer is not entirely sure which profile they may fit into, although it is better if a customer can select an appropriate profile.

Potential risks revolve around accuracy of the information given that averages are being used; more complicated tariff structures will also require additional assumptions and averages to be made about load and usage.

Question 7

When and **where** should a comparison rate/reference price be displayed? For example, on EPFS, retailer websites, media materials?

This depends on the purpose of the document in question and the need for (and space for) detailed caveats. It would make sense to include the information on the offer information label we discussed in the previous section. It may also be on all marketing material related to specific offers, although there should be a degree of flexibility on how this applies. Further discussion would be required about how it could be displayed in media materials, once an approach is decided on.

Question 8

Is there utility in enabling '**customisation**' of such a tool (ie allowing for customers to identify additional factors such as appliances or pools and have these reflected in the figure)?

There is value for this through certain channels like Energy Made Easy. However, it is difficult to see the difference between what might be suggested here and what is already possible through Energy Made Easy with actual consumption data providing a projected annual cost.

Question 9

What other **risks** or **considerations** should we be aware of?

We have addressed the main issues above. We would be concerned if the direction taken was not well tested with consumers and not informed by experts in consumer information processing (such as BETA) and by others' experience (such as the UK TCR experience).

Other considerations include:



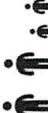
- **Suitability for complex tariffs:** We note that the more complicated a tariff structure becomes, the more additional assumptions are required. There will be a logical limit to how many assumptions can be built into a comparison approach before completely undermining its integrity. A simple flat tariff requires only an amount for usage and a cost. In contrast, a flexible tariff will require an amount for usage and an assumed usage profile that apportions use to different times (which have different costs). This is possible but relatively complex. Equally, demand tariffs will require assumptions about demand at different times. These matters require further discussion and analysis before attempts to proceed beyond flat tariffs in cost comparisons.
- **Consistency in assumptions:** it will be important that assumptions are clearly identified, understood, and applied consistently by retailers and third parties. The calculations to arrive at comparison figures must be transparent.
- **Application to non-competitive markets:** Given that the AER's jurisdiction covers areas with little to no competition, it will be important that consumers in those regions are not confused by messaging that indicates they have choice of retailer when, in fact, they do not.
- **Application to small business consumers:** Discussions to this point have not addressed SME customers. There are different challenges with profiling businesses on consumption to provide comparison rates or reference prices. Clearly the household approach will not be applicable.

OFFER INFORMATION LABEL

Key details

Retailer	ACME Energy
Tariff name	Super Saver ACM123456SS
Payment method	Direct debit only
Electricity pricing information	Daily supply charge: 50 cents per day (GST incl.) Usage: 22 cents per kWh (GST incl.)
Tariff end date	20 April 2018
Fees	Late payment fee: \$15 per late payment Credit card processing fee: \$2 per use
Conditional discounts	Additional 20% discount on pre-GST use for receiving all correspondence, including bills, by email
Additional products/services	Solar feed-in tariff: 9 cents per kWh exported, subject to eligibility
Our contact details	13 11 23 acme.com.au

The estimated cost of this offer

	Household size/usage	Estimated cost GST excl.	Estimated cost GST incl.
 Low Average consumption per [time period]: XkWh per [time period]	Small homes with 1-2 people that : <ul style="list-style-type: none">are rarely homedon't use much heating or coolingdon't have a gas connection	\$A [cost] per [time period]	\$A1 [cost] per [time period]
 Med Average consumption per [time period]: YkWh per [time period]	Small to medium homes with up to 4 people that: <ul style="list-style-type: none">are rarely home during work/school hoursregularly use heating and coolingdon't have a gas connection	\$B [cost] per [time period]	\$B1 [cost] per [time period]
 High Average consumption per [time period]: ZkWh per [time period]	Large families of 4 people or more that: <ul style="list-style-type: none">are home evenings, weekends and some daysuse multiple appliances every daydon't have a gas connection	\$C [cost] per [time period]	\$C1 [cost] per [time period]

Important points to note about this offer:

- The estimated cost shown above is indicative only and does not include conditional discounts. For a more detailed estimate and for comparing different offers you can go to the Australian Government's website www.energymadeeasy.gov.au, or call 1300 585 165.
- This offer does not have off-peak pricing.
- This offer does not have a controlled load option (relevant for pool owners).
- GreenPower is available up to 100%.