

Mark Feather
General Manager, Policy and Performance
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001

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AER Draft Better Bills Guideline

The Australian Energy Council ('AEC') welcomes the opportunity to make a submission to the Australian Energy Regulator's ('AER') Consultation on its Draft Better Bills Guideline (*the **Draft Guideline***) and accompanying Notice of Draft Instrument (*the **Draft Instrument***).

The AEC is the industry body representing 20 electricity and downstream natural gas businesses operating in the competitive wholesale and retail energy markets. These businesses collectively generate the overwhelming majority of electricity in Australia and sell gas and electricity to over 10 million homes and businesses.

Energy bills are an important engagement tool in today's energy market. For most consumers, the bill is the sole piece of collateral from their energy retailer that they will engage with, but even then, it is unlikely that this level of engagement is material when compared with other aspects of a consumers 'life admin'. Consumer research conducted by BETA¹ as part of the development of the Draft Guideline found that most customers receive their bills via email and paid by direct debit – suggesting a relatively low level of direct engagement with bills today. For customers that do engage with the bill, BETA found that 77% of customers looked at the bill to find out how much to pay, 65% to find out how much energy was used, and 58% to check how the bill was calculated. Other elements on the bill were only used by a smaller percentage of consumers – likely to solve a once off need.

Given this context, the AEC does not consider the AER's Draft Guideline has delivered upon the policy goals stated by the Australian Energy Market Commission (AEMC) in making this rule. These policy goals expected that regulating the development of a billing guideline would result in:

- simplifying energy bills, for example by allowing some bill information to be delivered digitally (if a consumer so chooses) and ensuring effective, easy-to-understand information is included (for instance, to help consumers use energy efficiently)
- a regulatory framework that is adaptable over time
- a regulatory framework that protects consumers while enabling innovation and competition
- billing provisions that reflect the variety of offers and consumer preferences in the market
- promoting cost and usage information on bills that helps small customers use energy efficiently, engage in the market and consider investing in self-supply options such as solar and batteries.

At a high level, the Draft Guideline delivers a bill that has more information than is required on existing bills, with all information required to be presented in a single format. The draft guideline sets out to reduce flexibility in the choices retailers and customers can make, only allowing a customer to choose how they view their bill, but not how they obtain information more specifically. Significantly the bill as required by the draft guideline will be at least three pages long, at least one page longer than most bills issued today.

Each of these outcomes are sub-optimal, and do not appear aligned to the rule changes intent, nor the desired outcomes of consumers as identified by BETA.

¹ BETA, Improving Energy Bills – Final Report, October 2021

Costs of delivering the Draft Guideline

To assist the AER in making a determination of the overall costs and benefits of the Draft Guideline and its components, the AEC commissioned Seed Advisory (Seed) to undertake a cost benchmarking exercise to identify and publish retailer's early cost expectations in a deidentified manner. Seed's [Final Report](#) is attached to this submission.

Seed found that the upfront costs to implement the key changes as proposed in the Draft Guideline could be in the order of \$2,700,000 per retailer, noting that there would be a wide range of cost outcomes around that average cost. Seed identified that smaller retailers may have lower implementation costs for some elements of the Draft Guideline, for other key elements such as the best offer obligation, the costs were largely fixed, with no proportionate decrease in costs for smaller retailers as compared to large. This is a concern given the number of authorised retailers that will be required to comply with the final Guideline.

Given the high costs that will result from this Draft Guideline will ultimately be recovered from consumers, the AER must consider whether its proposed changes remain efficient, and will in fact deliver net benefits to consumers over time. The AEC does not consider that the Draft Guideline or Instrument provides a clear enough identification of potential consumer benefits for that assessment to be made at this time.

Meeting the needs of consumers

The BETA research found that most consumers were able to identify important information and comprehend a broad range of well-designed energy bills. Short bills were no better than longer bills, the manner in which information was presented (in particular how energy charges were presented) did not deliver enhanced comprehension, and while plan summaries helped customers to understand their current deal, they didn't increase the likelihood that they would seek to engage in the market and switch.²

For the most part, consumers use the bill to find out how much to pay, find out how much energy they use, and checking how the bill was calculated. It is important to note that current bills present this information very clearly, and these elements are not intended to be changed by the Draft Guideline. At a minimum, BETA found that bills should include the amount due, the due date, the billing period, discounts, how to pay, a detailed charges table, and key contact details. BETA identified that this information should mostly appear on the front page of the bill.³ The Draft Guideline requires retailers to present the amount due and due date, how to pay, and key contact details on the front page. The billing period, discounts, and the detailed charges table are required to be presented but are not allowed to be on the front page of the bill.

Of customers surveyed, only 13% of customers found current energy bills difficult to understand (of which only 2% found bills to be extremely difficult to understand).⁴ The AEC considers this represents a high bar for the AER to meet if it proposes to make significant changes to existing bills, given the costs identified by Seed. If the objective of energy bills is to present information in a manner that customers can understand, and only 13% of customers find bills confusing today, any benefits in delivering an improved energy bill need to be significantly discounted. The BETA research shows that 87% of customers would not obtain a direct benefit on this metric from a changed energy bill.

The key outtake of the BETA research is that if bills are well designed, the length and layout is largely irrelevant to customer comprehension. This suggests that the AER should focus its efforts on its proposed design principles, rather than trying to develop and mandate a 'perfect' energy bill.

² BETA Final Report, Page 3

³ BETA Final Report, Page 2

⁴ BETA Final Report, Page 15

Simplifying the energy bill

While noting that the BETA testing did not indicate that a longer bill greatly diminished comprehension, the AEC does not consider the long list of items required to appear on the bill in the Draft Guideline aligns with the policy goals noted above. The list of items is longer than the current list in rule 25A of the NERR, with only benchmarking not required. In its place, retailers are required to present more information including best offer information, a plan summary table with renewable energy information and fixed benefit information, and information about solar usage (rather than export).

The new Rule 25A required the AER to consider whether some information might be better delivered through alternative means, in particular through digital channels. While the AER has enabled retailers to opt to deliver the 'bill' through an alternative means (that is, other than as a traditional paginated bill), it does not allow retailers to issue multiple communications to the same customer, instead requiring all information on the bill itself. In effect, the AER seeks to create a bill that meets the needs of every customer, rather than enabling retailers and customers to seek to develop bills that align with their own engagement preferences. This approach results in a clunky bill that will be longer than the vast majority of customers want or value, so as to ensure a small percentage of customers who want to see everything in a single place are able to.

The AEC continues to encourage the AER to genuinely assess whether information is needed on the bill to undertake the tasks that the BETA research found customers used the bill for. If it is not needed, it should be removed from the mandated list.

Tiered approach to laying out the bill

The BETA research clearly found value for customers in a well laid out bill, based on good design principles. Given this, the AEC agrees with the AER's intent to ensure that the most prominent information should appear first on the bill.

However, the AEC considers that the overall benefits of mandating a strict tiered approach as envisaged are minimal, over and above the design principles illustrated in section 14 and 15 of the Draft Guideline. The AEC has undertaken a desktop review of a number of retailer bills and considers that by and large, retailers present at least as many pieces of the BETA identified key information as is required in tier 1 obligations, and in many instances more of this information than the draft guideline requires (for example, many retailers present the billing period and discounts on page 1 of the bill).

Given this, the benefits to implementing a tiered approach to laying out the bill appear limited to the benefits that come from *removing* items off the front page, in turn generating more white space. The AEC acknowledges this objective and agrees that a simpler page 1 should result in greater comprehension of key information.

In publishing an exhaustive list of information that can appear on page 1, the AEC is concerned that the AER is limiting the ability of retailers to comply with the design principles. For many customers, specific bills will perform different functions. This might be due to the nature of a particular bill, or the pertinent features of the offer that customer has signed up to. The AEC is concerned that not allowing retailers to present important information that is not listed in tier 1 or 2 until page 3 of the bill or beyond will inhibit the ability of retailers to effectively communicate with their customers through its main communication channel. There are several examples that are pertinent to this scenario. For customers who are closing their account and either switching retailers or moving premises, it is most important to know that a bill is a final bill. Today, retailers publish this information prominently on page 1, yet would be prohibited under the Draft Guideline to present that notice until after all tier 2 information is presented. Similarly,

retailers commonly include short messages to their customers on page 1 that are immediately pertinent. This message might include advice about the availability of payment support during a pandemic, or how to submit a self-read if a bill was estimated. Again, the prescriptiveness of the tiered approach means this information would need to either be presented at the end of the bill, or retailers might opt to provide bill inserts, increasing costs. Neither approach enhances customer experience.

The AEC considers that if the AER is committed to implementing tiered energy bills, it must allow retailers flexibility to deviate from the exhaustive list if doing so would better deliver upon the design principles.

Tier 2 information and other information is noted by the AER (and other than for a few pieces of information is largely reiterated by the BETA research) as less critical for all customers. Given the presence of design principles that require the most prominent information first, the AEC does not see any additional value in prescribing that other information must be presented after all tier 2 information is presented. Similar to the issues noted above regarding the prescription in tier 1 information, the draft guideline will likely result in a bill that does not link information intuitively for particular customers, in particular those with non-standard energy products. An example of this might be for a customer who has opted into a demand response type product not being able to receive information about demand response events in the same place as information about the costs or savings that came from participating in that event. This limitation could be easily avoided by not prescribing the placement of other additional information and relying on the broader design principles.

Costs of implementing the tiered approach

In undertaking its Retailer Cost Analysis, Seed Advisory asked retailers to provide anticipated costs to 'reshuffle' the bill. This question disregarded the extent to which individual retailers already presented bill information in the appropriate tiers, but rather sought to identify the costs of a large scale, mandated redesign of the placement of information on the bill. Retailer costs varied quite significantly, but on average, the costs would be approximately \$1,050,000. Overall, retailers expected costs would be in the range of \$500,000 to \$2,000,000 depending on the flexibility of their existing systems.

Design principles

The AEC supports the development of a range of good design principles to assist retailers in developing bills that meet customer needs. Overall, the AEC considers these principles deliver the majority of the benefits of the guideline, with the more specific elements effectively prescribing a single approach to achieving compliance with the design principles.

That being said, the AEC does not consider the drafting of the design principles in the draft guideline to be of sufficient clarity to act as regulatory obligations at this time and raises concerns about the ability of retailers to comply with them. The design principles are necessarily high level, with little clarity as to what particular behaviours constitute compliance, yet are presented as 'must' obligations. The AEC seeks further information from the AER as to how it would seek to enforce compliance with these principles as currently drafted. For example, who or what should retailers refer to when seeking to utilise text that is of an 'appropriate' colour and size? While this appears to be suggestive that the AER would likely take a common-sense approach to enforcement, this is not in itself clear. This will be particularly pertinent where common sense is less obvious. For example, while it may be clear that using dark font on a dark background might limit visibility, whether size 12 or 14 font is considered acceptable in the circumstances might be dependent on the retailer deeming a particular item as more or less pertinent.

In order to make compliance easier, the AEC encourages the AER to reframe obligations using clearer language, with obligations only placed on outcomes within a retailer's control, rather than those that rely on another party's interpretation.

Further comments on each of the design principles is provided below:

Use simple language

The AEC is comfortable with placing the onus of compliance with this design principle on the retailer. However, greater clarity is required to assist retailers in presenting bills that avoid certain terms, in particular jargon, uncommon terminology, and acronyms. Language specifically related to energy is not commonly used in conversation, however, are commonly used on energy bills. For example, controlled load is a technical term, yet retailers are required to use that term in its marketing and commonly use the term in billing. Similarly, a unit of energy on a small customer bill will be referred to as a kilowatt hour or abbreviated to kWh. While both are commonly used in energy, they are jargon and an acronym respectively. The AEC seeks greater clarity on how the AER might regulate this obligation, noting that we do agree with the overarching intent of the principle, and support an obligation on retailers making bills and language as simple as possible.

Make the bill easy to understand

The AEC is concerned with the framing of this obligation as an obligation on a retailer to enhance customer comprehension. It is outside of the control of a retailer that a customer's comprehension would increase, and in the context of the draft guideline, might be an obligation better placed on the AER. That being said, we are comfortable with the subpoints listed in section 13, and consider that the outcome sought could be achieved simply by shifting the subpoints to section 12, and deleting the words "a bill must enhance customer comprehension through the use of".

Make the most important information most prominent

The AEC supports this design principle, but notes the concerns raised above about the AER providing further guidance in the Guideline illustrating how it might enforce this obligation.

Order the bill to make it easy to make it easy to understand

The AEC supports this design principle, considering it largely delivers the same outcomes as the tiered approach, albeit in a more flexible manner.

Design

The AEC does not support the section 18 obligation as drafted. The principle requires retailers to apply *proven* practices to enhance customer protection, suggesting that to comply with this principle, retailers will need to undertake consumer research on bill design, language, and accessibility. The AEC considers that this task is the role of the AER. If retailers must comply with a relatively prescriptive Guideline, which has been informed by consumer research and consultation, what additional benefit is there to customers in mandating to retailers that they must again undertake research to identify approaches that will enhance comprehension and make information readily understandable?

The AEC considers this design principle will increase costs to consumers as all retailers in the market, including new entrants, will need to undertake formal research or testing to identify if its proposed bills meet the design principles. Even if the AER considers this cost was efficient, there remains questions as to what retailers should do if their consumer research and testing identified problems with the approach prescribed by the AER in the guideline.

If the AER is committed to retailers utilising research and testing to comply with the design principles, the AEC believes that the AER should undertake and publish common research that a retailer would be able to utilise should it not wish to undertake its own research. This approach will minimise costs significantly, with one regulatory body undertaking research rather than approximately 150 currently authorised retailers undertaking that research individually. This approach would also make compliance and enforcement of the Guideline easier, as the AER could use its testing as a baseline, with retailers who

opt to deviate from the AER's research being required to illustrate that their own research resulted in an alternative outcome.

Understand your bill table

Broadly, the AEC supports this obligation. Providing standardised usage and cost information will assist customers and was identified in the BETA research as highly pertinent information. Similarly, clear presentation of this information should make it easier for third parties and others to develop support materials for customers that improve comprehension.

However, the AEC does not consider the table itself needs to be prescribed. While it is not clear in the guideline if this was the intent of the AER, it is presented in the draft guideline in a specific format. As highlighted by BETA in its research, provided the information was available, there was not a format that performed better than existing 'invoice style' approaches.

Finally, the AEC understands that 'Solar Usage' is information that is not readily available to retailers or recorded in current meters. Most meters in the National Electricity Market only record solar export, with in home consumption only identifiable by subtracting that exported volume from total generation. Total generation is not always captured, and where it is, it is most commonly captured on an onsite inverter or monitoring device rather than a market facing meter. This obligation should be deleted from the list of tier 2 information on page 13 in Draft Final Guideline.

Standardised Plan Summary

The AEC does not support the proposed standardised plan summary (the *plan summary*). The information presented in the plan summary is duplicative, and while it received some support from consumers and is noted as increasing comprehension in the BETA research, an increase of 3% (from 39% to 42%) is minimal.⁵

Hypothesis 1a & 1b (plan summaries). We found that providing a brief summary of plan characteristics helped consumers to better understand how their bill was calculated. Thus we confirmed Hypothesis 1a. The result was statistically significant however the effect size was modest: comprehension on 4 questions increased from 39% to 42%.

We found a null result for Hypothesis 1b, indicating that there was no evidence that the plan summaries assisted people in identifying the best deal. We suspect this is because it was straightforward to identify the best deal even without the plan summary because the Energy Made Easy website prominently displays what the bill would have cost under each plan⁶

The Draft Instrument suggests that the plan summary is intended to assist customers to ensure their bill conforms with their customer retail contract, as required in rule 25A (3)(b) of the NERR. Given the results from the BETA research, it seems difficult to suggest that the inclusion of a plan summary is an effective and proportionate response to achieving this aspect of the billing objective.

Broadly, the plan summary includes three pieces of information retailers provide to customers in other forms of communication. In that sense, the key benefit of the plan summary is that it collates other available information into a single table on the bill, potentially reducing search costs for consumers who are seeking that information.

⁵ BETA Technical appendix – Improving energy bills

⁶ Ibid

Plan charge details

The information presented in the plan charge table is also presented in the understand your bill table. There is little rationale as to why this it might benefit customers to see this information presented twice on the bill, particularly when the information on its own does not provide enough context to assist a customer to undertake a comparison between their current offer and an alternative offer. In order to undertake an accurate comparison, a customer is required to understand the volume of their variable consumption, their fixed costs, and their unit cost. This information is available in the understand your bill table, but the plan charge table will only include the unit costs, not the volume.

Energy from renewable sources or carbon offsets

The AEC is unable to identify the rationale for the inclusion of this information in the draft guideline. BETA's research did not appear to test customer desires for this information, nor whether it would encourage consumers to switch to an alternative retailer that offered more renewable energy. While some customers identified a retailer's green credentials as being important to their decision making, the information in this requirement does not resolve this question.⁷

The AEC also considers there is an incentive on retailers who are selling offers that include energy from renewable sources or carbon offsets to market that information to their customers so when they seek to compare offers they are aware that they are paying a premium for that value add service. This incentive will likely mean that for many customers who have made an active choice to purchase a product with a percentage of renewable or offset energy, the retailer will remind them with or without an additional regulatory obligation. There is no consumer protection benefit to mandating that this information is included on a bill – a customer is similarly protected by the Australian Consumer Law if a retailer sells a product that includes a renewable or offset component irrespective of whether or not that information is directly noted on each bill.

Benefit end date

If ease of access is the AER's priority, the AEC considers that only the fixed benefit end date presents information to consumers that might otherwise be difficult to identify. However, on its own, the AEC questions whether the date itself provides enough context to be useful to a customer. Many retailers offer contracts with a benefit end date, however the treatment of the customer at the end of the benefit period differs greatly.

For many customers, the end of a benefit period will result in no change to their offer or discount. For other customers, their benefits may change. The AER's Benefit Change Notice Guideline prescribes that retailers are only required to notify customers where a benefit change occurs. In circumstances where no change occurs, a retailer is not required to send the customer the benefit change notice. When a benefit change does occur, retailers are required to provide multiple pieces of information in the benefit change notice, most importantly the benefit that is due to change, and the financial impact if the customer does not act.⁸

The AEC does not consider that the provision of a fixed benefit end date alone provides customers enough information to be able to make an informed decision based on their energy contract. For some, the presence of a date long into the future might provide a sense of comfort (or perceive it as a contract period that cannot be broken) that means they avoid engaging in the market. This does not seem a desirable outcome.

⁷ BETA Final Report Page 58

⁸ Australian Energy Regulator, Benefit Change Notice Guidelines – Version 1, June 2018

Cost of implementing the plan summary

Of the retailers surveyed, Seed found that the average costs to implement the plan summary would be approximately \$1,100,000. Of this amount, retailers noted that costs would be split relatively evenly between billing system costs, other system costs, and non-system costs. This illustrates the higher complexity of implementing this change as compared with other changes, with many retailers likely to need to rely more heavily on complementary systems than they do for other changes such as better offer.

Better offer information

As noted in its submission to the Consultation Paper, the AEC does not consider there is sufficient evidence from Victoria to suggest that the presence of a better offer message on a bill is delivering material benefits to consumers.

While it is difficult to understand how each individual customer reacts when seeing the best offer message on the bill, the AEC considers a useful proxy statistic to be the ESC's data on the percentage of customers who receive the best offer message on their bill.⁹ This percentage is increasing – suggesting that more and more customers are receiving the message and not switching to the cheaper plan. While this is a point in time assessment, the Victorian data suggests an upward trend in customers receiving the message. If customers were reacting, you would expect a declining trend, unless retail offers were improving so rapidly that customers were unable to switch to cheaper offers fast enough – in effect, the cheaper deal that the customer signed up to was no longer the cheapest a bill later. Irrespective of the cause, and which of the above scenarios is correct, the best offer message has failed to encourage the policy response sought – that is, more and more customers on a retailers' cheapest deal.

The AEC does not consider that evidence presented in the Draft Instrument from the Monash University research noting that the best offer message was useful for third party support workers to be particularly compelling.¹⁰ The AER has opted in the Draft Instrument to require retailers to implement a Victorian style bill message. The Victorian style message is clearly aimed at customers, following behavioural testing undertaken by the ESC at the time that found that customers reacted more strongly if a financial impact for inaction was highlighted. If, as Monash identified, customers are sceptical of the message and that its key beneficiary was third party support workers, the AEC expects that similar benefits could be obtained if the message presented was of the type required in the ACT. In this approach customers are simply notified that a better offer was available. Third party support workers do not need the same provocation to seek out a cost saving for a customer than an otherwise disengaged customer might.

Given these findings, the AEC considers that if the AER was to progress any version of a best offer message (and it should be noted that the AEC does not consider the costs of the message outweigh the limited benefits seen in Victoria), that a requirement to implement an ACT style message would achieve its policy objectives at a cheaper cost.

Practical limitations of any best offer message

Given best offer is a static piece of information that appears on a bill with only a short generic explainer, it is important that should the AER progress with this obligation, it is done in a manner that does not over complicate the calculation or try to identify the perfect tariff and product for a customer based on their historical consumption data.

The AEC encourages the AER to limit any best offer requirement on a basic assessment of a customer's previous total consumption, and only compares offers based on the customer's existing tariff structure. Undertaking a comprehensive 'tariff optimisation' assessment without a direct understanding of a

⁹ Essential Services Commission 2021 Victorian energy market report: 2020–21 29 November, Page 10

¹⁰ Dr Larissa Nicholls and Dr Kari Dahlgren, Consumer Experiences Following Energy Market Reforms in Victoria – Qualitative Research with Community Support Workers (Final report), A report for the CPCR, 22 June 2021

customer's specific circumstances significantly increases the risk of a recommendation no longer being beneficial based on the customer's current consumption patterns. An example of this is a customer who has changed how they have used energy during an assessment period. In this scenario, if the better offer assessment required retailers to compare different energy tariff structures, it may result in a recommendation for the customer to switch to a structure that met the needs of the customer over the previous 12 months, without consideration of the change in circumstances.

Narrowing the scope of the best offer mitigates this risk, ensuring that the greatest benefits are delivered with the lowest risk of error.

Costs of implementing better offer information

As part of its benchmarking report, Seed sought to obtain from retailers their actual costs of implementing the best offer message in Victoria, and then asked retailers what the expected costs for a NECF implementation might be. In effect, Seed sought to identify the rate of discount to implement a best offer message that was already implemented in another jurisdiction.

Seed identified that the average cost to implement best offer in Victoria was approximately \$1,000,000, with the big 3 retailers reporting an average of \$1,100,000, and other retailers reporting average costs of \$925,000. This included approximately 60% directly related to billing systems, 20% to non-billing systems, and 20% for non-system costs. Retailers expected that there would be an approximately 41-45% discount to implement the same model in the NECF states. While this saving is significant, the overall cost per retailer remains material. Seed notes in its report that best offer costs appear to be largely fixed, with smaller retailers not seeing a proportionate reduction in costs proportionate to their size. This represents a concern for both smaller retailers and the AER, given the costs will remain high albeit with fewer customers for these retailers to recover the costs from.

Seed also asked retailers to identify whether they had incurred any ongoing maintenance costs to deliver the best offer message in Victoria between 1 July 2019 and 1 July 2021. On average, retailers noted annual maintenance costs of approximately \$250,000. While most retailers were unable to predict ongoing maintenance costs for a future NECF obligation, it was noted by some retailers that they expected these costs to be at least the same as in Victoria, and in some instances, greater due to the number of different jurisdictions and size of the customer base. In short, it is unlikely there will be any discount factor in ongoing maintenance costs by implementing the Victorian best offer approach in the NECF states. Further insights are available in the Seed report attached.

Structure of the Guideline

The AEC encourages clearer numbering conventions in the final guideline. While the draft provides numbered sections, the use of bullets over subsections makes use of the guideline challenging. To assist retailer compliance, the AEC encourages the AER to use a more common numbering convention, such as that shown in the below image:

(1) subclause (or *subsection on enactment*);

(a) paragraph;

(i) subparagraph;

The AEC is committed to continuing to work with the AER to identify improvement opportunities for energy bills. It is in the interests of industry and consumers alike that bills are fit for purpose, and costs are reduced to the extent possible. As the market continues to evolve, this requires regulators to

genuinely consider how their regulatory framework encourages innovation and enables flexible, tailored customer outcomes. The AEC does not consider the draft guideline effectively enables this outcome, and encourages the AER to seek to simplify the final version to the extent possible, by focusing the guideline on design principles, prominence of important information, and the presentation of clear and simple information.

Any questions about this submission should be addressed to me by email to ben.barnes@energy.council.com.au or by telephone on (03) 9205 3115.

Yours sincerely,



Ben Barnes
General Manager, Retail Policy