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Part of Energy Queensland

31 January 2022

Ms Kathie Standen
General Manager – Strategic Policy and Energy Systems Innovation Branch
Australian Energy Regulator
GPO Box 520
MELBOURNE VIC 3001

ConsumerPolicy@aer.gov.au

Dear Ms Standen

Ergon Energy Queensland submission to the Draft Better Bills Guideline

Ergon Energy Queensland Pty Ltd (Ergon Energy Retail) welcomes the opportunity to provide comment to the Australian Energy Regulator (AER) on its *Draft Better Bills Guideline Consultation.*

Ergon Energy Retail acknowledges the work of the AER in progressing the draft Guideline intended to "help small customers to understand and pay for their energy usage" and to "build customer trust and confidence in their retailer and the energy market". However, while we applaud the efforts of the AER in developing the Guideline, we are concerned with certain practical implications stemming from the draft Guideline.

Of most concern is the AER's proposal to require retailers to include a "better offer" requirement on a small customer's bill. As the AER is aware, Ergon Energy Retail is a non-competing retail business restricted to selling electricity to regional and remote customers at the regulated tariff prices determined by the Queensland Competition Authority (QCA). While retail competition is emerging in certain key population centres, the majority of our customers are subsidised by the Queensland Government in accordance with its Uniform Tariff Policy. As such, the retail prices for small customers in regional Queensland are based on the south east Queensland cost to supply meaning most regional customers do not pay their true cost of supply. We therefore find it challenging to understand how these customers would benefit from a "better offer" comparison on a bill when their retail price is already subsidised.

Of further concern is that Ergon Energy Retail's existing systems are not presently capable of scaling to meet this "better offer" capability. At a minimum, incorporating the "better offer" capability in our billing system will incur significant up-front capital investment, but noting the potential to force the bring-forward replacement of our billing system. We also make clear to the AER that this cannot be achieved within the Guideline commencement timeframes proposed by the AER. Given this, the "better offer" initiative drives retail costs yet delivers limited to no real benefit for our regional Queensland customer base.

Consequently, in our view and aligned to the operation of the AER's Default Market Offer, the "better offer" obligation should be limited to deregulated regions only. Alternatively, we

suggest that the AER reconsider the application of this proposed new requirement for retailers who are not permitted to offer discounted energy plans.
Ergon Energy Retail has provided a response to each of the questions raised in the Consultation Paper in the attached table. However, we would also appreciate the opportunity to meet with the AER to discuss our concerns in greater detail. A representative of Ergon Energy Retail will contact the AER within the next week to arrange this meeting.

Should you require additional information or wish to discuss any aspect of this submission, please contact either myself on [redacted] or Barbara Neil on [redacted].

Yours sincerely

Sarah Williamson

Sarah Williamson
Acting Manager Regulation

Telephone: [redacted]
Email: [redacted]

***Encl** - EEQ comments on the Consultation Paper*

Developing the Better Bills Guideline

Consultation Paper Feedback Questions	Ergon Energy Retail Comments
Implementation costs and timeframes	
1. Given the requirement of the rule for the guideline to take effect by 31 March 2023, what actions need to be taken to ensure that this can occur? How might risks or challenges be overcome?	Ergon Energy notes the AER is required to publish the final Guideline by 1 April 2022 meaning retailers have only 12 months to comply with the new requirements. While the transitional arrangements reflect existing obligations, the changes proposed in the draft Guideline require significant system changes but allow insufficient time for development, testing, quality assurance and customer engagement activities to support the change and minimise customer confusion. Further, the limited pool of specialist resources needed to implement these changes are already committed to delivering other major industry reforms such as Global Settlements and the Consumer Data Right (CDR) as well as ongoing work arising from Five-minute Settlement. Retailers will also need to appraise the new obligations once the final Guideline is released to determine: • the extent of misalignment with existing billing processes and systems; • the need to develop new processes to comply with the new billing principles and obligations; and • the most efficient means of delivery. This assessment will need to integrate with the other implementation projects currently underway, such as the CDR which we anticipate will also require significant investment in new systems.

Opportunities to simplify the retail market regulatory framework to reduce cost to serve	
2. Noting the proposed consistency and simplification of bills in the draft Guideline, would this reduce the cost to serve? If so, how and by how much?	Ergon Energy Retail notes this initiative appears to be based on the assumption that changes in bill design to deliver industry standardisation and/or revised information requirements will improve customers' ability to understand their bills, and in turn lessen retailers' cost to serve by reducing customer contacts to direct channels such as call centres. Ergon Energy Retail has previously undertaken customer studies aimed at optimising its bill layout yet received a marginal cost to serve benefit. We note that the draft Guideline retains most of the existing bill content requirements but adds new requirements for how this information is presented on the customer bills. While we support the removal of the bill benchmarking requirement, we do not agree that this exercise has resulted in a "simplification of bills" as suggested. Rather, we consider this new approach may create more complexity for customers who are used to seeing information presented in a particular way. This has the real potential to generate more customer contacts to call centres, increasing retailers' costs to serve in the short to medium term. While the proposed new presentation requirements may seek to create more consistency between retailer's bills, re-ordering items in accordance with the proposed design principles and tiered approach to information has the potential to increase the length of bills beyond the usual two pages. We expect this will increase print and mailing costs by up to $1.50 per customer per year with no guarantee that billing enquiries will reduce. Further, we expect that the addition of "better offer" information will also increase Ergon Energy Retail's cost to serve due to the additional investment required to perform a 12 month retrospective tariff comparison at the point of bill production. Ergon Energy Retail's systems are not presently capable of scaling to meet this capacity without significant up-front capital cost or force system replacement . To date, less than one per cent of small customers in regional Queensland have adopted demand or time-of-use tariffs, mainly due to the risks of higher bills related to air conditioner usage in spring and summer periods in north and western Queensland. We do not anticipate that customers identified as

	potentially better off on a time-of-use or demand tariff would simply switch tariffs based on a bill message. Rather, we anticipate customers will contact their retailer to determine if one of theses non-flat tariffs is appropriate for their individual circumstances. In our experience, customer calls related to demand or time-of-use tariffs are the longest and most complex type of customer contact, resulting in the highest cost to serve. We also point out that a customer must have a digital meter installed for a time-of-use or demand tariff to be available to the customer. By including the better offer information on the bill without additional commentary or consideration of the appropriateness of the tariff for the customer assumes the customer will make a decision based purely on an annualised saving. We are extremely concerned that the over-simplification of this message could lead to adverse customer outcomes and an increase in retailer cost to serve.
3. Beyond the Guideline, in what other ways could the retail market regulatory framework be simplified? What impact would this have in terms of quantified relative costs and benefits?	Ergon Energy Retail is a non-competitive retailer limited by Queensland legislation to operating exclusively in regional Queensland, selling electricity to customers at the regulated prices determined by the Queensland Competition Authority and under the terms of the relevant Standard Retail Contract. Consequently Ergon Energy Retail can not offer “plans” incorporating pay on time discounts or other incentives. Further, due to the relatively higher cost of distributing electricity in regional Queensland when compared to Southeast Queensland, Queensland Government under its Uniform Tariff Policy subsidises the cost of supplying small customers in regional Queensland meaning there is limited competition for small customers in regional Queensland. Given these factors it is our view that the draft Guideline adds unnecessary cost and complexity for regulated retailers while providing little, if any, tangible customer benefits.

Design principles	
4. Are there any significant reasons why the proposed design principles should not be adopted? What are the relevant benefits and quantified costs the AER should consider? We invite stakeholders to provide evidence of research and testing with their responses.	Ergon Energy Retail, like all retailers, is incentivised to make bills easy to understand to facilitate fast payment and reduce contacts to our call centres. Our existing bill templae includes simple language, pleasing layout and ensures important information is easy to locate. We agree with feedback provided by other stakeholders that bill redesign and rebuilds are difficult, costly, and take time to implement properly. Consequently, revision of bill layout and the need to reconfigure billing systems to capture the required information in the necessary format will be costly and challenging due to concurrent technology implementation projects arising from Global Settlement and the CDR. Unfortunately, these costs cannot be quantified at this time. We also note that the AEMC rule change was not informed by an analysis of costs and benefits but progressed on the basis that it was expected to result in improved competitive outcomes. Retail tariffs are becoming increasingly complex with features such as time-varying pricing, demand and/or capacity charges (kilowatt (kW) and kilovolt ampere (kVA)), and seasonality. With greater penetration of digital meters, the market expects these features to become more commonplace. In light of this, we question how this information can be easily incorporated into a retailer's bill, even under the proposed new arrangements. Ergon Energy Retail also notes that solar export and solar usage is included in Tier 2 requirements. Although the proposed Guideline states these are to be included "where applicable", Ergon Energy Retail does not have visibility of customer solar usage behind the meter and connot provide customers with this information noting Queensland has applied a net (and not gross) feed-in tariff arrangement. We also point out that the Australian Tax Office (ATO) requires inclusion of the term "Tax invoice" on a customer bill and that this requirement does not feature in the draft Guideline. For completeness we recommend that the AER seek advice from the ATO as to its requirements for terms and information to be included on customer bills.

	Lastly, Ergon Energy Retail currently provides consolidated billing arrangements for ~ 500 customers across more than 10,000 sites classified as a mix of small and large. We seek clarity as to whether and how these arrangements can continue under the proposed Guideline.
Requirement to present billing information using a tiered approach	
5. What are the costs and benefits associated with the proposed tiering requirements?	It is difficult for Ergon Energy Retail to quantify the exact cost to implement a reordering of billing information in accordance with the proposed Tier 1 and Tier 2 requirement. However, based on our experience with previous bill changes we estimate that the implementation of the proposed bill layout changes (excluding "better offer" information) would cost our business around $1.5 million. We also note that while this approach ensures specific information is always placed on the front page and aligns with conclusions drawn from both our own research and the findings of BETA, this change is expected to lengthen bills beyond the usual two pages, adding costs for retailers without any customer benefit.
6. Do stakeholders consider there is other information that should be included in the standardised plan summary to enhance comprehension and make it easier to compare plans? E.g. benefit conditions, payment options (direct debit only), bill frequency. What are the relative costs and benefits of including this information?	As Ergon Energy Retail's offers are made in accordance with the regulated prices determined by the QCA and published by the Queensland Government under the terms of a standard retail contract, all customer conditions are the same. As such, the standardised plan summary will present all customers with the same Tier 2 information relevant to their circumstances. Notwithstanding, we note additional observations, and seek clarity on the following: i) Clause 28 of the draft Guideline requires the rate/tariff to be expressed as dollars per unit whereas clause 31 requires the features to be expressed in cents per kilowatt-hour (kWh). These should be made consistent. ii) The proposed Guideline requirements consider only the usage and charges for the current billing period and do not include consideration of payments applied to bills for previous billing periods,

	underpayments and amounts in arrears, or any credits not related to rebates, concessions or grants. These items are features of the existing bill contents requirements and can be a useful record for customers to reconcile their payments. iii) Given Ergon Energy Retail cannot offer discounts off the regulated prices determined by the QCA, the requirement to include the usage discount as a line item is unnecessary and may confuse customers. iv) We seek clarity as to whether the reporting of "energy from renewable sources", applies to renewable energy procured in accordance with our obligations under the Renewable Energy Target (RET), or the energy procured in addition to the RET.
7. Do stakeholders consider there is specific or different information that should be provided for small and medium businesses who fit the definition of 'small customer'? What type of information is required and why? E.g. Australian Business Number, Australian Company Number, bill issue date. What are the relative costs and benefits of requiring this information?	Ergon Energy Retail cannot identify other information which may be relevant for business customers. However, we note that bill issue date is already included in the proposed Tier 1 information.
Better Offer	
8. What are the quantified costs to retailers of providing better offer information of the type described above?	As noted previously, Ergon Energy Retail is limited by Queensland legislation to offering customers the regulated prices determined by the Queensland Competition Authority under the terms of the relevant Standard Retail Contract. Under these restrictions Ergon Energy Retail does not offer a variety of "plans" with discounts or other customer incentives. Consequently, the proposed requirement to perform a tariff comparison for every small customer bill which includes a comparison of a customer's bills over the previous 12 months and providing a message that a "better offer" is available where that benefit is $22 or more is extremely onerous, and in Ergon Energy Retail's circumstances, unlikely to deliver value. Again, we advise that Ergon Energy Retail's billing systems do not have the functionality required to undertake a comparison for the ~ 17,000 bills raised each day. Enabling this functionality will require either a significant investment to augment our existing billing system, or the total replacement of the billing engine. Ergon Energy Retail is unable at this time to provide a

	reliable cost to comply with the "better offer" requirement due to the uncertainty in how we could meet this requirement, however we would expect this cost would run to several million dollars. In earlier submissions to this initiative, Ergon Energy Retail has discussed a service which enables on-demand tariff comparisons and other analytics. While this tool remains available to a limited number of customers, it is entirely separate to Ergon Energy Retail's billing system and cannot be integrated to comply with this proposed requirement. We also note that since most of our small customers are billed on flat tariffs, the alternative offers to enable customers to potentially save on their electricity bill would arise by switching to another regulated tariff, such as a time-of-use tariff or a demand or capacity tariff (Ergon Energy Retail assumes that controlled load tariffs would be excluded from any direct comparison with tariffs not subject to reduced service hours). However, despite the potential for savings, switching to these tariffs entails risks for the customer if they are unable or unwilling to change consumption behaviour, or if their previous 12 months' usage is not representative of their future usage. Switching tariffs based purely on a message on a bill which does not consider customer circumstances could actually cost customers more. Importantly, for customers in regional Queensland who are subject to extreme weather conditions and thus have a greater reliance on air conditioning, the potential for a perverse outcome is significant. Importantly, since a large majority of our small customers do not have digital metering installed at their premises which is required to enable alternative tariffs, it is not possible to recommend alternative tariffs to these customers. Even when appropriate metering is installed at a customer's premises and they are a candidate for an alternative tariff, we would expect most customers would ignore the message on the bill given their reluctance to adopt non-flat tariffs. For those interested enough to enquire, in order to avoid adverse outcomes call centre staff would devote significant time and effort to determine whether the alternative tariff is appropriate for the customer. The cost of these efforts is likely to exceed the very low $22 annual customer benefit threshold thus adding further to our cost to serve.

	Ergon Energy Retail therefore requests that the AER reconsider the application of this proposed new requirement for retailers who are not permitted to offer discounted energy plans.
9. What are the benefits to customers and the market?	The market bodies have discussed the expected market benefits arising from customers adopting more cost-reflective tariffs, such as time-of-use and demant tariffs. Given our customers' reluctance to switch to non-flat tariffs, we question whether a generic "better offer" message on their bill will incentivise them to switch tariffs. We also question the value of this aspect of the initiative if it does not lead to a sustained switch to non-flat tariffs. Furthermore, we question whether this initiative will engender sufficient activity to deliver a meaningful and measurable benefit to the broader market or customers.
10. What are the challenges associated with providing better offer information in a bill where the customer does not have a smart meter or has an accumulation meter?	Ergon Energy Retail notes that the necessary insight into customers' usage to inform consideration of alternative non-flat tariffs is not available from periodic reads from basic accumulation meters. As such, the extent to which we can provide somewhat meaningful recommendations for customers to consider alternative tariffs as a means to save on their energy bills depends greatly on the type of metering installed at their premises. Given that less than 20 per cent of Ergon Energy Retail's small customers have digital metering, reliable comparisons of most customers' consumption for a given period against other tariffs are not possible. In the event that such a recommendation prompts customers to request a meter upgrade ahead of the meter replacement schedule, it may drive up costs of the meter replacement for the retailer. This is especially relevant to Ergon Energy Retail which is unable to recover the full cost of digital metering from its customers. In this context we question whether it is appropriate to require retailers to recommend alternative tariffs to customers without the necessary detail of their usage or the metering required to enable the switch.
11. Other than billing information, what barriers or challenges do customers face when seeking to access the best energy plan for them?	Ergon Energy Retail notes that many customers are challenged by a lack of understanding of how they use energy and how the energy system works. Electricity is an intangible product sold in units of measure that aren't easily

	understood, packaged as tariffs and billed up to three months after consumption. This delay between bills often leads to customers forgetting detail and feeling confronted when they seek to re-engage in their energy use. The supply chain can be confusing for many customers, and parties who are not involved in the energy system can influence customers' perspectives. As noted in the BETA report, customers may suffer from "status-quo bias" preferring to avoid any perceived risk of adverse outcomes by remaining with their existing offer. Conversely, customers who switch offers may suffer remorse (doubting if they made the right decision) or overturn their decision (wanting to change back to the original tariff). This would cause administrative costs for retailers and more stress for customers, especially in jurisdictions where customers may not revert back to a flat tariff. Finally, for customers in many parts of regional Queensland, the impact of climate and seasonal variations on energy usage is significant and a customer could be better off on one tariff in one bill, and another tariff the next bill. Likewise, many businesses have seasonal variations (e.g. farming, hospitality and education), which could trigger multiple tariff changes a year. It is unclear whether these factors have been considered by the AER.
12. What other feedback do stakeholders have in relation to the approach proposed/methodology above?	The proposed requirement to inform small customers that they may be able to save at least $22 by selecting another offer is onerous, and in Ergon Energy Retail's circumstances, unlikely to deliver value. The fundamental intent of the "better offer" is to inform customers that their retailer has a cheaper offer. While this may be applicable for competitive retailers offering a suite of market offers with different features, requiring the same for retailers who only offer regulated tariffs with limited choice and do not feature discounts or other benefits, does not seem reasonable. We also argue that the requirement to state a usage discount figure in the standardised plan summary implies that this approach has not been designed for retailers who may only offer regulated prices. We understand that the customer benefit threshold of $22 represents the value of the exit fee under a market contract. However, we consider that this

	is an unreasonably low threshold to trigger notification of a "better offer". In particular: i) $22 is equivalent to $0.42 per week over a 12 month period and insufficient to incentivise customers to act ii) $22 represents between 1 and 2 per cent of the "typical annual bill" for residential and small business customers in regional Queensland and even less for customers with higher bills iii) Fails to account for variation in usage among our customers iv) Fails to account for variation in behaviour at different times of the year v) Fails to account for the impact of increasing penetration of solar PV or other behind the meter DER on customers' usage and attitudes vi) Was originally implemented in Victoria's highly competitive electricity market and does not appear to be appropriate for retailers who are subject to price regulation. We also suggest that the "better offer" message has the potential to create unmet expectations among customers who may think they can enjoy larger savings, or may result in negative outcomes for customers who may act on the recommendation and then blame the retailer for causing detriment. Thus, the requirement for notification of a "better offer" on electricity bills will add further to our cost to serve with no benefit to Ergon Energy Retail or the customer.
Monitoring and measuring the impact of the Guideline	
13. What do stakeholders consider are the most appropriate measures of impact or success for the Guideline?	Ergon Energy Retail notes that due to the similarities between the existing and proposed bill information requirements, it may be difficult to determine the success of this initiative. Despite this, measures of success could include: i) Material reductions in the number of customer complaints about bill issues (specifically related to presentation, legibility, information, etc) ii) Material reductions on retailers' cost to serve (linked to the number of calls about bill issues (excluding non-payment) iii) Net Present Value-neutral within two years.

	However, the impact of the proposed initiative must not be measured over a short period. Instead, the impact should be measured over at least two years and be appropriately filtered for impacts unrelated to this initiative. We note that a majority of customers surveyed in the BETA study reported that they could understand their energy bills and while this initiative may improve overall customer comprehension of energy bills, or the speed at which bills can be scanned to identify the relevant information, there remains a proportion of customers that this initiative will not assist. Ergon Energy notes that it has a complaint rate equivalent to 0.02 per cent of all customer touchpoints and complaints about bill information do not feature in the top 15 types of complaint we receive. On this basis, we consider it is likely that any investment to meet the proposed Guideline will increase our cost to serve and therefore not deliver sufficient benefits to overcome the expected high costs of implementation.
14. How should impact or success be communicated?	Ergon Energy Retail offers no comment.