

22 September 2021

RE: Developing the Better Bills Guideline: Consultation Questions

To the AER,

Thank you for providing the opportunity to offer feedback on the key issues in the AER Better Bills Guideline.

Energy Locals supports the objective of this project – simplifying bills for customers. We'd like to comment specifically on question 4 of the *Developing the Better Bills Guideline Consultation Questions*, particularly some of the practical issues with including “best offer” information on bills. Energy Locals has been providing “best offer” information to our customers in Victoria for some time now and we have identified some key considerations and learnings that we believe warrant consideration by the AER.

“Best offer” and Virtual Power Plants

Energy Locals offers several products that allow customers with solar panels and a battery to participate in a Virtual Power Plant (VPP). The customer receives a special plan that is tailored for the VPP circumstances. Being part of the VPP requires customers to allow the VPP operator to access and control their battery so that customers can collectively contribute to grid stabilising activities or benefit from grid pricing events. The batteries are programmed for optimization and VPP activities, meaning that throughout the day the battery software responds to events and chooses whether consumption comes from the grid, the solar panels, or batteries. This functionality is available exclusively to VPP participants who are on the matching VPP electricity plan. If a VPP customer were to switch plans or retailers, the battery would return to its normal function.

The Victorian best offer rules require us to use each customer's usage history to calculate the cost of the best offer and compare it to their current offer, which is calculated by retailers using meter data. However, under VPP functionality, the customer's grid consumption and exports are impacted by the VPP/optimisation software. The usage patterns under the VPP would not be representative of that customer's consumption if they were on a non-VPP plan. Hence, it is inappropriate to use meter data for a VPP customer to estimate the cost of another plan. This also applies for plans where a customer may not be participating in a VPP but utilises battery optimisation software that is uniquely tailored to a specific plan.

In these scenarios, comparing plans using the annual usage history misrepresents the costs that would be incurred by the customer on another plan. Their usage is fundamentally affected by the fact they have opted for these specialised plans and there is a risk that using a basic formula to compare offers may provide inaccurate information and mislead customers.

“Best offer” and Dynamic pricing products

Energy Locals also offers a product that has dynamic pricing which adds additional complexity to a “best offer” requirement. Our product offers customers unbundled bills with pass-through costs, where the wholesale energy price is based on the market spot price at the time of consumption. The retailer collects a fixed margin from a small monthly fee on the bill, so this product offers excellent transparency. The spot market can be extremely volatile, meaning the wholesale component of a bill may vary greatly from month to month. The current Victorian “best offer” rule requires retailers to use usage history to estimate an annual cost and essentially asks retailers to forecast an annual cost on the current plans versus the best plan. It is impossible to accurately forecast the costs this customer will incur over the next 12 months as these will be based on the wholesale prices over the coming year. Any assumptions made (e.g. assuming a maximum price, average price, minimum price) will result in an inaccurate calculation and may mislead customers about the cost of their plan.

Customer choice

We believe that it is important to note that some plans offer a benefit that is not cost related and a “best offer” rule that disregards these benefits is incomplete. While some consumers may choose plans based purely on price, others will choose a plan that delivers a non-cost benefit that, in their opinion, outweighs the potential savings of a slightly cheaper offer. Since the introduction of the *Competition and Consumer (Industry Code—Electricity Retail) Regulations* in 2019, the way in which retailers can market their offers has been standardised. This, along with the use of Basic Plan Information Documents, means customers are now provided with clear information about their contracts in a consistent format and therefore it is reasonable to assume that when a customer signs up for a new offer that they have chosen it for a specific reason. It follows then that a “best offer” message that is based solely on costs is not always providing the customer with all the information that is relevant to them and may in fact damage the customer experience.

Examples of this include:

- The dynamic pricing product mentioned above, which is targeted to customers that want radical transparency from their retailer. This product comes with live updates of spot pricing and helpful information that, for an engaged consumer, will provide great assistance over time to reduce their costs. It will not always be the cheapest offer, depending on the spot market and the customer’s usage profile, however the customer has selected this unique plan as they can see the benefits of pass-through pricing and potential for future savings using the pricing tools we make available.
- A plan that bundles a customer’s monthly electricity bill payment with other services like rent, internet and mobile phone plan. Energy Locals does offer a product like this, that comes with exclusive access to an app that makes managing these services easy with a single monthly or fortnightly payment. If a customer were to switch to another electricity plan that may be slightly cheaper than their bundled plan, they would no longer be able to bundle their electricity with other services through the app. The customer has shown they choose convenience over a possibly lower price; however a “best offer” message would not take this into account.

- A plan that comes with 100% GreenPower. Because of the Greenpower addition, the plan is higher cost compared to other offers and a “best offer” message might require a retailer to promote a non-GreenPower offer to that customer. The GreenPower program objectives are to increase the portion of renewables in the grid, a goal that Energy Locals supports as well. Presumably, a customer who selects a 100% GreenPower product is also supportive of the program goals and so their retailer advising them regularly that they can save money by switching to a non-GreenPower plan is not aligned with our collective goals.

Because customers are choosing plans specific to their needs, the requirement to tell them about better offers that are based purely on price devalues the customer’s initial decision and disregards the ongoing non-cost benefits the customer receives from their chosen offer.

The market is rapidly moving away from the vanilla tariff structures that a best offer-style rule seeks to police, and we risk a retrograde step if we force innovative product bundles and tariffs to meet a bar that’s set at the lowest possible level. While best offer is appropriate in some situations, we think the AER would be well placed to form a more considered implementation. Indeed, in our experience we believe simpler rules would better serve customers and encourage more transparency from retailers when setting new prices. With the exception of dynamic tariffs, one such rule could limit retailers from changing prices for existing customers more than once per year and would ensure those price changes are tied to the annual repricing of network tariffs. We have found very few customers actually act on the best offer message in Victoria and hope that our experience can help lead to more relevant price regulation being considered by the AER.

We hope the AER will take into account these practical issues before introducing a “best offer” requirement. I am happy to provide any further information and discuss this further if it would be of use to the AER.

Kind regards,

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