



EnergyAustralia

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Simon Kidd and Elisha Kelly
Assistant Directors
Retail Markets Branch
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001

EnergyAustralia Pty Ltd

ABN 99 086 014 968
Level 33
385 Bourke Street
Melbourne Victoria 3000

Phone +61 3 8628 1000
Facsimile +61 3 8628 1050

enq@energyaustralia.com.au
energyaustralia.com.au

Lodged electronically: AERInquiry@aer.gov.au

Dear Mr Kidd and Ms Kelly

Customer Price Information – Issue Paper

EnergyAustralia is pleased to make this submission to AER's Customer Price Information Issues Paper (Issues Paper). We are one of Australia's largest energy companies, with over 2.6 million household and business customer accounts in NSW, Victoria, Queensland, South Australia and the Australian Capital Territory. We also own and operate a multi-billion dollar portfolio of energy generation facilities across Australia, including coal, gas and wind assets with control of over 4,500MW of generation in the National Electricity Market.

EnergyAustralia is one of the seven energy retailers who participated in the Energy Roundtable convened by the Prime Minister in August 2017. In two separate meetings, the retailers present committed to a series of initiatives aimed at improving customer engagement in the electricity market, including to:

1. "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 comparator rate.
2. work on marketing offers in dollar terms, rather than as percentage discounts. This will be part of the work already underway with the Australian Energy Regulator (AER) to develop a comparator rate and factsheets."

EnergyAustralia is making this submission in pursuit of these commitments and in order to support improvements in customer outcomes in the retail energy market. We have participated in the preparation of the Australian Energy Council's (AEC's) submission to this issues paper and support the commentary included in it. The information we provide in this submission adds to the AEC's submission and is based on our own experiences and understanding of customers. We understand there is a strong need for simplification, transparency and the ability for customers to easily understand and compare offers.

EnergyAustralia is also an active member of the AER's Stakeholder Reference Group informing practical initiatives to test various customer engagement methods.

A. Energy Price Fact Sheet and content

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

In their current format, EPFS attempt to include all components of “price” and the terms and conditions of the offer. It seems the objective is to provide transparency and clarity around all the terms of the offers and to ensure a customer looking at the EPFS understands all the terms of the offers and to avoid the potential for misleading customers i.e. there is nothing to hide.

While the current format of EPFS is well intentioned, it is generally understood that EPFS are confusing and difficult to understand; this is a combination of the inherent complexity of energy pricing and efforts to disclose every detail on an EPFS. However, we find that customers tend to feel overwhelmed by not only the amount and complexity of the content, but also the layout of the information.

EnergyAustralia has not undertaken any formal research into the effectiveness of EPFS specifically, however, in trying to understand customer comprehension of price and offers more generally, EnergyAustralia has identified that two types of customers tend to emerge:

1. Category 1: those who are less confident and feel overwhelmed by the complexity of pricing and comparisons and different rates; these customers want to know they are getting the best deal but have little desire to understand the detail and are looking for concise summaries;
2. Category 2: those who feel more confident and who want simplification, but they also want to be provided with detailed information to assess their own position. They seek clarity and transparency on price composition to do their own analysis.

Clearly there is a tension between these two categories of customers and generally individuals will fall somewhere along a spectrum between the two. The level of detail a customer will seek out in trying to understand energy will be different depending where they fall on this spectrum. With this spectrum of need in mind, it is difficult for EPFS to meet the needs of all customers. We do not think it is the role of EPFS to resolve this tension, nor do we think it is necessary. The current form of an EPFS aligns more closely with the information needs of those customers who tend towards Category 2 thereby alienating the customers with lower comprehension levels (or motivation) who tend more closely to Category 1.

If we are to make energy pricing easier to understand and to compare for most customers, then there is real value in reducing a lot of the current detail in EPFS. Reducing complexity allows EPFS to be understood by a larger number of customers. Those customers that want more detail tend to be more willing to research more broadly and be willing to seek out the detail they need to make an informed decision. We recommend excluding complicated detail that a customer can obtain elsewhere (for example from disclosure statements, call centres or contract terms) and highlighting the key information (or the basics) of most interest to most customers; that is price.

We understand that customers struggle to understand energy pricing and they want the cost of an offer presented in dollar terms as total expenditure. Highlighting the likely impact of an offer on the customer’s household budget allows the customer to immediately identify what it means for them, particularly when easily compared against another offer.

Unlike the current version of an EPFS, a new simplified version does not exclude one category of customer in preference of the information needs of another. A simplified EPFS, while providing category 1 customers with an improved ability to make sense of an offer, also remains useful to category 2 customers as an initial point of contact or indicator to narrow down options.

The EPFS does not have to be a one-stop-shop of information for customers. Instead, EPFS can be viewed as one of many resources available to all customers. The reforms here should also not be viewed in isolation of other changes made that will improve transparency and usefulness of information available to customers (e.g. improvements to the Energy Made Easy (EME) website).¹

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?

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

At EnergyAustralia we do not have a firm preference as to how a simplified EPFS should be presented. We think the most valuable insight as to layout and graphics will be obtained from customers and we expect that this will be drawn out of the research process being undertaken by the Behavioural Economics Team of the Australian Government (BETA). We can, however, add value by identifying options to feed into this process by drawing on some of our own customer insights as to what information customers value most and where they experience difficulty.

Consistency with bill

Currently, when a customer receives their bill they can be confused by what they see. The presentation of rates in EPFS does not correlate with how it is presented in the bill. Where possible, the price details on an EPFS should be presented consistently with what happens in practise. Namely:

- the base rate on the bill is displayed *exclusive* of GST;
- discounts and GST are applied after base rate is multiplied by usage and daily supply charge (depending on whether the discount is applied to the usage or usage *and* supply).

Consistency between representation of price allows customers to confirm that what they have been charged is the same as what they signed up for.

Indicator of "Total Bill"

Customers consistently report that they want to understand energy offers in terms of how much it will cost them. We think customers will value seeing an indicator of "the total bill" featuring prominently on the EPFS. This is discussed further below in the section below about comparator rates and reference prices.

Discounts

In most markets customers respond to discounts because it makes them feel as if they are getting a 'good deal'. Energy retail markets are no different, so it has become common practice. However, we recognise concerns raised by Governments, regulators and some stakeholders that discounts can be confusing.

¹ <https://www.energymadeeasy.gov.au/>

In our experience, customers like to see a discount identified and represented separately. It seems customers are used to seeing energy presented in this way and they look for it as a short-cut for a good deal so it would be important to communicate that there is a discount, but ensure value of that discount is somehow represented on the EPFS.

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

We caution against including additional information that is specific to cohorts of customers. The objective of simplifying EPFS should be kept firmly in mind. An EPFS is a static document that attempts to provide generic information in a way that allows most customers to understand and compare. Retailers' websites already provide a significant amount of information about initiatives that are relevant to the needs of narrower subsets of customers, for example appliance swaps, green offers, rebates, concessions or translation assistance. Where a customer wants more tailored advice they can contact the retailer direct or make more detailed comparisons using objective comparator sites, such as EME or Victorian Energy Compare (VEC)².

B. Comparison rates and reference prices

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

To facilitate customers' ability to compare offers, the AER has proposed two key options:

- a **comparison rate** where the overall cost of a product is presented on a per unit basis (e.g. 1.58c per kWh); or
- a **reference price** which is an estimate of the monthly, quarterly or annual cost (e.g. \$2,425 per year).

Taking all the variables and presenting them in one simple to understand price over either:

- (a) unit of a measure; or
- (b) a period of time;

are both objective measures and both provide for relative comparison.

Provided these tools are applied consistently by all retailers, EnergyAustralia strongly supports the use of a common comparison metric to assist customers adequately compare retail offers. The inherent value in using either of these measures is that it gives customers the confidence to objectively compare between offers.

The decision between either a comparison rate or reference price depends on consumer preference as to which of these tools provides a more meaningful representation of the cost of energy to the largest number of customers. As we know, this outcome will vary depending on whether a customer tends toward more or less detail and depending on the level of confidence that consumer has in understanding the energy market.

² <https://compare.switchon.vic.gov.au/>

6. What are the potential benefits and risk of each

The advantage of a comparison rate is that it combines all the elements of the energy price (supply, usage, discount etc.) and presents it all as a single rate expressed in cents per kWh allowing for simple comparison across different offers.

Customers who like to see energy presented in this way are those customers that tend towards category 2 type customers or those who are more 'detail' oriented or more numerate and able to comprehend energy terms better.

Customers who tend more towards category 1 are less likely (or willing) to understand cents per kWh even when presented as a single figure because of their inability to comprehend what they are getting for their dollar. Unlike a loaf of bread or bag a sugar, they cannot visualise what they are getting for their money. These customers are more likely to prefer to see a reference price.

The benefit in displaying a reference price on an EPFS is that customers can see the immediate *likely* impact on their household budget, they can plan and visualise what they are up for over a period of time. We consider this approach to most beneficial to a larger number of customers because Category 1 customers will appreciate its simplicity, whilst category 2 customers can use it as initial basis for further research (which they will naturally do anyway).

We also consider that a reference price is more aligned with other initiatives from Retailer Roundtable to explore more tailored communications with customers in dollar terms.

There are two matters with a reference price which require further consideration to maximise its effectiveness:

1. the time period for which the reference price should apply; and
2. the usage assumptions that should underpin the reference price.

Reference price over what period of time?

Depending on customer preference, expressing a reference price annually allows for seasonal variations to be reflected in the price. However, we understand from our own research that customers do prefer to see a lower price that is an average over a shorter timeframe. The risks with shorter timeframes is that the estimate is less likely to be accurate when applied at different times of the year as will not accurately reflect seasonal variation in customers' bills.

Household usage

By definition, a single, averaged reference price will not reflect the costs likely to be incurred by most customers. For this reason, we would prefer to express a reference price for varying household consumption levels as low, medium and high.

The challenge here is to define what low, medium or high household usage is and presenting this in a useful way to customers so they can relate these categories to their personal circumstances. If this is not done well, our research shows that customers will likely dismiss the reference price as inaccurate for their situation.

In summary, EnergyAustralia supports a reference price as the most appropriate comparator metric for customers as it appears to be the simplest means of comparison and useful 'call to action' for those who want more information. The findings of the consumer research conducted

by BETA will, of course, be an important input to what metric and approach is preferred by customers.

7. When and where should comparison rates/reference price be displayed? For example, on EPFS, retailer websites, media materials?

EnergyAustralia supports the inclusion of a comparator rate/reference price on EPFS. How that tool is further rolled out and applied will depend on the consumer preference and it may be worth testing this tool on EPFS before rolling out more broadly to websites and marketing materials.

Any obligations to display a comparison rate/reference price needs to balance cost of compliance and ease of understanding and use for customers. However, it would appear appropriate that retailers would be required to make the comparator/reference rate known to customers on request at any point of sale (eg. contact centres, websites, door-to-door sales).

8. Is there utility in enabling customisation of such a tool (i.e. allowing for customers to identify additional factors such as appliances or pools and have these reflected in the figure.

EnergyAustralia's view is that for the purposes of static documents (e.g. EPFS) which explain energy costs to consumers on a large scale, there is no scope to include the ability to tailor this to individual customers. We do not believe this is the role of the comparison rate or reference price. Customers who want to undertake a more detail assessment of their potential energy cost can undertake this assessment using objective comparator website such EME or VEC.

9. What other risks or considerations should we be aware of?

Please refer to the AEC submission for more detailed discussion on this topic

C. Technological options to facilitate offer comparison

EnergyAustralia acknowledges that some customers find it difficult to engage in the market because of perceptions about the complexity of the market and their ability to navigate the search process. We believe there is currently data available which can be used to assist customer's engage more effectively using their own usage data and profile.

QR codes have been introduced in the UK as an attempt to improve comparability, however there is little evidence of the impact their introduction has had.

EnergyAustralia has not directly tested QR codes with consumers, we consider that this solution would likely be expensive to implement and maintain given the code would likely need to appear on many electronic and hard copy documents. Given the use of QR codes in Australia is very low at around 5%, it is questionable whether the likely cost would outweigh any benefit, particularly for elderly customers who traditionally use technology-based solutions less.

Retailers already have an obligation to provide customers with usage data. Although not many customers make use of this data, and unless they are actively engaged in the market, they are unlikely to be aware that this information is available.

We think customers would find value in being able to use their historic usage data and input it into EME and obtain a more tailored estimate of the cost of particular offers and in order to facilitate a more realistic comparison. Ideally, a customer would be able to easily transfer usage data from their current retailer's website into a regulator or government website for this purpose. For example, this may include an interface from their current retailer's website where a customer can choose to download their usage data and be transferred to either EME or VEC. This would then allow their usage data (smart meter or otherwise) to be uploaded to the comparison website and provide the customer with an accurate comparison of offers based on the customer's own usage. This could be done in a standard way for all retailers and minimise the effort and number of clicks for a customer usually required to download and upload data from different websites. As part of the upcoming review of EME, we recommend that AER give consideration as to how this data may be most efficiently used. The Victorian Energy Compare website has some of these useful features so we would welcome the AER exploring that platform.

D. Conclusion

In summary, EnergyAustralia supports measures to assist customers engage in the market and make informed decisions, specifically:

- Simplification of EPFS content and structure should be informed by consumer preferences recognising there will be limitations due to the inherent complexity energy pricing.
- We consider that a reference price of \$/year would be the most effective initial comparator measure for customers to make a decision or seek further information if they wish.
- The EPFS simplification process should be complimented by improvements to the Energy Made Easy website to enhance its comparison capability and to allow customers to use their consumption data to get a more tailored view of their energy options.

EnergyAustralia looks forward to continuing to work cooperatively with AER on way to improve customers' ability to engage in the market. Should you require further information regarding this submission please call Samantha Nunan on (03) 8628 1516.

Yours sincerely

Melinda Green

Industry Regulation Leader