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Developing the Better Bills Guideline

Red Energy and Lumo Energy (Red and Lumo) welcome the opportunity to respond to the Australian Energy Regulator's (AER) consultation on Developing the Better Bills Guideline. Red and Lumo support the need to make bills easier and simpler for consumers.

We recommend that the AER develops the draft Guideline in a manner that provides retailers flexibility to present the bills in line with their customer's expectations. The draft Guideline should be fit for current and future market structures, in particular ensuring it will operate well within the recommendations for the post-2025 market design.

The research undertaken and published by the Behavioural Economics Team of the Australian Government (BETA) found that no change is required to the layout or content of energy bills to really improve consumer engagement. Further, BETA found that any change does not improve consumers' comprehension of their energy bills, instead changes to consumer bills has the opposite effect and leads to a decrease in comprehension. Taking a flexible approach will allow for retailers to make changes to bill design in a manner that does not trigger a decrease in comprehension for their customers. In response to the consultation paper released, we have attached answers to the specific questions raised by the AER.

About Red and Lumo

We are 100% Australian owned subsidiaries of Snowy Hydro Limited. Collectively, we retail gas and electricity in Victoria, New South Wales, Queensland, South Australia and in the ACT to over 1.1 million customers.

Red and Lumo thank the AER for the opportunity to respond to its initial consultation. Should you wish to discuss this submission, please call Christophe Bechia, Regulatory Manager on [REDACTED]

Yours sincerely

Ramy Soussou
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Att.

Attachment: Questions posed in the consultation paper

AER consumer and behavioural insights

Question 1: What are the key insights from our consumer and behavioural research? What are the key opportunities for the AER to improve consumer outcomes, including through the Guideline, that arise from the research?

The overall insights gained from the BETA research indicate that changing the bill design and layout from what consumers currently receive, will bring little to no additional consumer improvements, and in some cases actually lead to more confusion. When BETA compared a variety of modified bill samples, with a bill format they designed to be similar to what consumers currently receive (the control), the difference in bill comprehension was negligible. In fact, the control bill outperformed the alternatives in terms of bill comprehension.

As was stated in the limitations of the BETA interim report, during this study the respondents would have allocated time to focus on reviewing the bill samples they had been provided and examine each segment of information under question. However, time constraints on actual consumers to review an energy bill is limited, with many distractions, time pressures, intention vs action. Yet, even when allocating the time to undertake this review, the control bill template delivered more positively.

Red and Lumo are concerned that standardising the layout, format, content, and location of information on a bill risks the ability for retailers to innovate and reduces the points of differentiation for customer choice. Furthermore, this ability to innovate allows retailers to provide information in a way that is most convenient for their consumers on their bill, by contacting their retailer or via other self service mechanisms (app, online energy account management platform).

Along with the aim of ensuring energy bills are simple and easy to understand, the AER must strike a balance between allowing retailers the flexibility to manage the design of their bills, mandatory obligations of what information is required on a bill and what can be agreed. Just as individual consumers will have differing needs, retailers will have differing offerings. One size does not fit all, proving a need for flexibility for retailers to respond to their own customer demands and communication preferences. This is supported by BETA, who found that consumers from culturally and linguistically diverse backgrounds (CALD customers) and the over 65 consumer research study group, indicated a different mix of preferences and needs for what constituted an ideal bill.

Noting that retailers must also manage their obligations that ensure that an energy bill is a tax invoice. The Guideline should be developed in a way which, whilst providing mandatory obligations, enables retailers to go above and beyond, without specifying it within the Guideline. Furthermore, providing greater flexibility in the bill design would allow for retailers to more easily understand and control the costs of compliance. It would also give retailers the ability to appropriately design the communication around any changes it sees fit, in a manner and format which their customers would expect.

Consumers like the idea of having additional information at hand, however, will only make use of this information when they see fit. This was evidenced by the fact that only 15% of the respondents to the BETA study who were provided with an 'Email Bill template' actually clicked on the link provided to view the additional information on offer. Consumers prefer simple bills, with a focus on understanding how the bill was calculated to provide them with enough confidence the bill they are paying is accurate.

Improving energy bills

Question 2: What additional or new insights do you have regarding the current problems with energy bills? You may wish to consider what are the causes of current problems, and any barriers to making bills simpler and easier to understand.

Interactions with our customers have not identified that our bill design and layout is problematic. In the main, customers contact us about the quantum of the bill, to which we are able to assist them with payment options, personalised energy saving tips, plan reviews, and information about their energy consumption compared to their historical trends, in a way which is engaging and relevant to their individual needs.

The BETA research only indicated that consumers are able to read and understand the benchmarks, however, this does not support the relevance of it. Providing consumers with a benchmark to compare their consumption against other similar households is a source of confusion for customers, which has been confirmed by not only retailers but also by EWON, EWOV, EWOQ and EWOSA as pointed out in the BETA interim report. Providing consumers with generic information, such as benchmarks or energy saving tips, only leads to more confusion and misinformation.

Making energy bills simple and easy to understand

Question 3(a): What are the key opportunities to ensure energy bills are simple and easy to understand?

As stated in our previous responses and backed up in the BETA interim report, understanding and comprehension of energy bills are not a source of contention. Consumers seek support when they receive their bill primarily due to the quantum of the bill and what is available to them from their retailer to assist with the payment as well as the ongoing management of their energy consumption.

Consumers have a good grasp of what they currently can find on their bill, and what the information means for them. Energy retailers should be allowed more flexibility to simplify the structure and content of the bills based on the needs of their customers especially as the energy market evolves over time.

Question 3(b): Which approach do you consider preferable and why? Are there other approaches we should consider?

Prescriptive rules take away from retailers' ability to be innovative and offer value add services based on their customers' needs. It adds risk of forcing certain requirements onto retailers and their customers, without meeting the actual primary use of the bill - which is to understand the bill amount to pay and how the bill was calculated.

BETA found that providing a guide of word definitions would not improve consumers' understanding of their bill. In fact, this created confusion and led to some terms not being correctly understood. This is likely due to the fact the terms used are taken out of context, whereas when kept in context they actually serve their purpose, for example, adding the unit of measure next to total usage KWH. Even changing the actual terms used would have a significant impact in terms of retailer costs yet no value add for the consumer. For example, Red Energy products with conditional discounts make reference in our communication with customers as 'pay on time discount', whereas Lumo Energy uses the term 'early bird discount'. Changing this term to be more generic and aligned across retailers would require significant time, effort, and cost, but not deliver appropriate customer value.

We support the design of a Guideline to include mandatory requirements, which retailers must display on the bill, and discretionary requirements which is information that can be made available, not necessarily on the bill itself. A suggested tiered approach could be as follows:

- Administrative information: requirements that are necessary to identify the customer. We note that retailers already have administrative requirements already legislated elsewhere (such as the GST Act or Australian Consumer Law) which may not need to be replicated.
- Energy Specific: requirements to calculate and understand the bill (tariff, charges, meter readings used).
- Discretionary: optional information which may be deemed as value add but not necessary for all consumers, for example: access to detailed consumption and personalised energy messages including benchmark against similar households. .

The discretionary information does not need to be on the bill itself, and would allow for other industry changes and initiatives to truly deliver improvements, without doubling up retailer requirements and costs to adopt. Our ability to innovate through our bills is already limited from the sheer volume of regulated generic information which we must display. This impedes how well we can design the layout so that it is cohesive and effective. Further mandating additional information will further restrict the ability to deliver a bill design that is simple and easy to understand.

'Best offer' information

Question 4: Would including 'best offer' information increase consumers' understanding of their bills? Are some consumers likely to find this more beneficial than others? What are the practical issues that need to be considered? Are there risks or potential downsides in including 'best offer' information on bills?

Adding a 'best offer' message on a bill does not increase a consumers' ability to understand their bill, the amount to pay, their usage, or the charges based on their current plan. Implementing this in Victoria has been a costly and complex exercise. The approach of adding a 'best offer' message on consumers' energy bill has been adopted in Victoria with an aim to promote transparency and customer engagement to find a better deal. However, the ESCV recently published the Victorian Energy Market Update: June 2021, in which they found that "three out of four residential electricity customers were told they were **not** on the best offer with their retailer"¹ despite the message on their bill informing them of a cheaper electricity offer with their current retailer. This suggests that there has been little observed consumer benefit from this inclusion.

Simplifying the regulatory framework and reducing cost to serve

Question 5: How can we simplify the billing regulatory framework, through the Guideline or more broadly?

Per our responses to questions 3a and 3b, the framework can be improved by providing a Guideline which allows greater retailer flexibility whilst balancing what information should be mandatory to go on a bill and what information should be discretionarily made available. This will enable bills to be simplified and retailers to control the cost through targeted approaches based on their own consumer engagement offerings (app, web portal, web chat) and their own consumer needs.

Question 6: Would this reduce the cost to serve? If so, how?

The approach mentioned above, as well as in responses to questions 3a and 3b, would be beneficial to minimising any negative impacts on cost to serve - now and in the future as other regulatory changes are rolled out and come into effect.

Any mandated changes, where there is no added value or increase to the understanding of the bill, are likely to lead to consumer confusion and further engagement with their retailer regarding the changes. Thus increasing costs to serve for no benefit and impacting the customer experience negatively. An example of this occurred around 7 years ago, where Lumo moved customer concession information from the first page of the bill to the second page. This triggered an increase in calls from customers inquiring as to why the information had been removed and where to find it, expressing confusion and frustration for something they believed had to reason to change and

¹ Essential Services Commission, 2021, *Victorian Energy Market Report*
<https://www.esc.vic.gov.au/electricity-and-gas/market-performance-and-reporting/victorian-energy-market-report.pg.9>

delivered them no value. The call increase did not return back to normal until after a month or so, by which point most impacted customers had received their bill and made contact - overall adding to increased business cost for managing the increased customer enquiry volumes.

Question 7: What are the practical and implementation considerations we should be aware of in considering ideas to simplify the regulatory framework, and in developing the draft Guideline?

The limitations expressed in the BETA interim report are an important consideration in deciding on the most appropriate next steps. While the findings in their research indicate consumer intention, they may not translate to real life action. These assumed changes and the benefits expected should be informed through behavioural testing, preferably based on real consumer interactions. Which is not something that should be implemented on scale via an enforceable Guideline.

As stated in our previous responses and backed up in the BETA interim report, energy bills are not a source of contention in terms of understanding/comprehension. Consumers seek support when they receive their bill primarily due to the quantum of the bill and what is available to them from their retailer to assist with the payment as well as the ongoing management of their energy consumption. The Guideline should not be developed with an aim to simplify energy bills on the assumption that consumers need more information to understand their bill, or that terms are confusing. BETA have found that customers already have a good grasp of what they currently can find on their bill, and what the information means for them.

Any risk of removing flexibility on how retailers present information, and the type of information they present, will limit retailers in how they respond to more diverse consumer preferences as they emerge. Given the expected changes to the retail market in the coming years, it would be premature to enforce and mandate billing requirements now for these to potentially need to change in the near future, creating more consumer frustration and confusion in needing to adapt to multiple changes in a short period of time while adding additional costs to retailers and consumers.

Other views and information

Question 8: Would you like to provide other information for the AER to consider at this stage?

The AER must also consider how any changes will interact with future market structures, not just focus retrospectively. Red and Lumo are concerned that the Guideline will not adequately consider the market changes proposed in the Energy Security Board's post-2025 market design. This has proposed implementation of new market structures (such Flexible Trading Relationships) for consumers which could have a direct impact on the Guideline.