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Retail Energy Review Team
By email to RetailEnergyReview@esc.vic.gov.au

8 October 2018

Response to *Building trust through new customer entitlements in the retail energy market* – draft decision

Dear Retail Energy Review Team

Thanks for the opportunity to respond to the draft decision on the implementation of Recommendations 3F–H of the *Independent Review into the Electricity and Gas Retail Markets*. This submission complements the views Renew has already expressed through workshops and forums.

Renew (formerly known as the Alternative Technology Association) is a prominent advocate for all Australian residential energy consumers. As a member of the National Energy Consumer Roundtable, Renew works closely with other consumer advocacy organisations, providing expertise and experience in energy policy and markets. We also conduct independent research into sustainable technologies and practices.

As well as advocating on behalf of all residential consumers, we are the direct representative of our 11,000 members – mostly residential energy consumers with an interest in sustainable energy and resource use – who, like most Australians, find engaging with energy markets confusing. In our member advice service and our home energy consultations, we see many households that, despite being more interested in and informed about home energy usage than the average household, are still signed to energy offers that are completely unsuitable for their usage patterns and consumption level, leading to significantly higher costs than they otherwise could be paying. The changes proposed in this draft decision have the potential to mitigate some of this confusion, and we hope that our response helps with the design and implementation of these changes.

Decisions 1–9: The 'best offer' requirement

1. Putting the 'best offer' on bills

Renew supports the new 'best offer' requirement and endorses the Commission's view that its primary purpose be to 'nudge' the customer to engage with the market, rather than be a comprehensive provision of information. The user testing undertaken by the Commission supports this approach, as it shows that customers are likely to take a range of actions in response to the best offer notification, only some of which involve following up on the specific offer shown.

2. Defining 'best offer'

We support the Commission's proposal that the 'best offer' be the cheapest generally available offer, with retailer discretion to present cheaper plans form their non-generally available offers. This is preferable to the other options considered because:

- 'Generally available offer' is already well-defined, and these offers can be found (and verified) in Victoria Energy Compare.
- 'Cheapest possible offer' is not well-defined and may not be verifiable.

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- 'Cheapest equivalent offer' is difficult to define (what is 'equivalent'?) and presupposes that the customer is not interested in different types of offers, which may not be true.
- 'Two best offers' adds complexity to presentation on the bill, implies a precision that may not be accurate, and goes beyond the 'nudge' approach toward more comprehensive information provision.
- Retailer discretion as to what constitutes 'best offer' could lead to criteria designed to exclude cheaper generally available offers, or offers designed to be excluded by the criteria.

In considering other issues pertaining to the definition of 'best offer', Renew proposes that:

- Generally available offers that require additional financial outlay – such as signing up to a magazine subscription or club membership – should be excluded, because additional financial outlay could undermine the bill savings presented by the best offer notification.
- Generally available offers with other eligibility criteria that *do not* require additional financial outlay – such as offers only available to new customers – should be included, to avoid incentivising retailers to add eligibility criteria to their cheapest generally available offers in order to exclude them from the best offer notification requirement. This may also encourage retailers to ensure they have offers for existing customers that are priced similarly to offers for new customers, in order to satisfy customers who contact them in response to the best offer notification.
- Offers that are bundled with other products or services – such as gas + electricity or energy + internet bundled offers – pose a challenge. Bundled offers are much more complex for customers to figure out financially as they need to consider their existing cost for the other service(s); and retailers can't reliably advise the potential bill saving as they don't know what the customer is currently paying for the product or service that would be bundled with the new offer. If bundled offers are included, the *clear advice entitlement* obligation must include a specific requirement for retailer to obtain sufficient information from customers to give a clear picture of the net financial outcome of the bundled offer compared to the customer's existing offer and other relevant services.

3. **Calculating 'best offer'**

Renew supports the proposals to calculate the value of the 'best offer' by:

- Using the customer's last twelve months of billing data, with estimated data used where a full twelve months is not available. Retailers should have a documented procedure for estimating data.
- Applying all conditional and unconditional discounts – contingent on clear communication to the customer *if and when the customer makes contact to access the offer* of the impact of not meeting conditions. This should be covered by the new *clear advice entitlement* requirement, discussed below.
- Applying any concessions the customer is eligible for to both their current offer and the 'best offer'.

4. **Presenting 'best offer' on bills**

Renew supports the Commission's proposed approach to displaying the 'best offer' notification on bills. We particularly support the proposed terminology, which makes it clear that the saving is approximate and that it 'may' be achieved (rather than 'can definitely' be achieved). This approach embodies the 'nudge' principle, and also reflects the realities that energy usage varies – so usage next year won't be exactly the same as usage last year – and that conditional discounts may materially affect the financial outcome.

Expressing dollar savings

Renew recommends that the dollar saving be rounded down to the nearest $5 or $10 in order to better convey that the saving is approximate. More specific figures ($86.74 rather than $80 or $85) imply a precision that is not actually possible.

Unique offer IDs

Experience with Victoria Energy Compare (VEC) suggests that retailer call centres can't necessarily identify a specific offer that a customer has fun when searching comparators or other information sources. The same names are often applied to a range of different offers; and call centre staff may not know the names of all products on offer. Specifically, VEC assigns unique ID codes to all offers in their system, but call centre staff have no idea what the unique offer IDs refer to. We have had many anecdotal reports of customers finding an offer on VEC, phoning the retailer and quoting the offer ID, being told by the retailer rep that they don't know what it refers to, and being offered a completely different product to the one they had found. This undermines the whole intent of a site like VEC, and could similarly undermine the intent of the 'best offer' initiative for those customers who are spurred to engage with their existing retailer. We see no reason why unique offer IDs can't be included in the best offer notification (since they are already generated by VEC and retailers presumably record them somewhere), and recommend that they be included, and that the Commission investigate how unique offer IDs can be more effective in the Victorian market as a tool to help consumers identify which offer they are currently on, and how to request a new offer when engaging with the market.

If a customer is already on the best offer

When there is no better offer Renew supports the original proposal for the best offer notification to state this. This normalises the 'best offer' notification paradigm, may still serve as a nudge to engage with them market, and may reassure customers, once they become aware of the 'best offer' notification system, that their offer is also subject to the same scrutiny.

5. Clear advice entitlement

Renew strongly supports the clear advice entitlement. This is the essential complement to the 'best offer' advice, where the approximate value of a possible saving becomes verified as an actual opportunity for a specific customer.

The clear advice entitlement enables the 'best offer' advice to be simpler. For example, risk of misleading customers by including pay-on-time discounts (or other conditional discounts) in their 'best offer' notification when they are not guaranteed of constantly meeting the conditions is mitigated by clear communication from the retailer that failing to meet the conditions will change the value available. *Without the clear advice entitlement, Renew could not support inclusion of conditional discounts in the calculating the 'best offer'.*

We note the concerns of retailers that a requirement to explicitly divulge conditions in retail offers places a burden on them, and risks confusing customers. We agree with the Commission that if there are dozens or hundreds of terms and conditions that can materially impact energy costs, there is a serious problem with the terms and conditions.

We recommend that the Commission clarify the language in the clear advice entitlement obligation to make it clear that:

- it *specifically refers to* conditions included by retailers in their offers that change costs depending on customer meeting criteria or changing their behaviour (e.g. pay-on-time discounts, time-variant or demand-based pricing)
- it *does include* costs such as paper bill fees and merchant fees, since retailers have the option of smearing these costs.
- it *does include* possible increases in tariffs, by advising as appropriate:
    - that prices are fixed for a specific period of time,

        - that prices may increase under the terms of the offer by an unspecified amount if the magnitude and timing of expected price rises is not known, and/or
        - the dollar impact of price changes that are known at the time of the advice.
- it *does not refer* to pass-through costs from other elements in the supply chain (e.g. DNSP charges for special reads, etc.) *unless* there is a retail margin added to those costs
- it *does not* need to include DNSP tariff reassignment, as this would either be absorbed by the retailer, or lead to a change of retail tariff which itself would trigger a bill change notice. A predictable tariff reassignment, on the other hand, is a predictable price change that should be notified as discussed above.

We also recommend that pass-through costs such as special read fees, meter, testing, etc. are prominently displayed in offer information provided to customers when accepting an offer.

Privacy implications

We note the concern of retailers about the privacy implications of having third parties delivering tailored advice to customers under the *clear advice entitlement* obligation. In our view, if third parties are used to deliver customer support or advice, it must be under contractual arrangements that embody the retailer's privacy obligations.

Offering more suitable offers

If a customer, in response to the 'best offer' notification, does not contact their retailer but rather engages with a commercial comparator but is led back to a different offer from their existing retailer, we would assume that once the customer is identified as an existing customer they are transferred to that part of the business that deals with existing customers and is able to access relevant customer information under the existing privacy framework, on which to base any assessment of the suitability of the offer. If that assumption is not correct, then there seems to be a serious flaw in retailer systems or contractual arrangements with comparators.

Bundled offers

As noted above, if bundled offers are included, the *clear advice entitlement* obligation must include a specific requirement for retailer to obtain sufficient information from customers to give a clear picture of the net financial outcome of the bundled offer compared to the customer's existing offer and other relevant services.

6. Scope of the 'best offer' obligation

Renew supports the proposed scope of the 'best offer' obligation, but recommends that it be extended to exempt retailers within 24 months of commencement.

7. Frequency of 'best offer' notification

Renew recognises the complexity of determining when and how frequently the 'best offer' notification should appear and is cautious of the potential for poor consumer outcomes if it is either left to retailers' discretion or overly prescriptive. In particular we note the risks of call centre congestion and of retailers gaming the system (by temporarily removing cheaper offers from the market at certain times) if the frequency is strictly prescribed.

We are also concerned that the right balance be struck between too frequent and too infrequent notifications. Consumers may 'switch off' if it becomes just another thing on every bill; or they may miss it altogether if, for example, it's on one bill per year and they just weren't paying attention that one time (especially if at a bust time of year such as December/January).

Renew believes twice a year strikes a good balance, and suggests giving retailers the discretion to choose when it appears, with the caveat that they be at least four months apart.

8. Dollar threshold for 'best offer'

The dollar threshold for determining whether an offer is cheaper is a vexed question. Too small a threshold may lead to some customers seeing it as insignificant and concluding that the market has little to offer them (undermining the 'nudge' principle), while too large a threshold may lead to more price sensitive households not being notified about an offer that would make a difference for them. Too small a threshold also risks customers switching to an offer that ends up making no difference because a small saving could easily be offset by fairly minor changes in usage – especially if some of it is also offset by an early termination fee. Thus, Renew's view is that:

- the proposed $22 p.a. threshold, based on a typical termination fee, is too small because it could end up leading to no change in bill costs.
- the threshold we use in our economic analysis of fuel choice, $100 p.a. is probably too high for many households, as lower income households would likely value smaller savings than middle income households would.
- A threshold of $40–$50 p.a. may be a good middle ground, being a $10–$12 saving on a quarterly bill and – more importantly – a large enough figure that most households would see it as significant enough to engage with the market looking for a cheaper offer, even if they wouldn't ordinarily value a saving that amounts to $1 per week.

However we acknowledge this view is based more on a gut feeling than any research, and we urge the Commission to consider relevant research and the views of other consumer representatives, especially those working directly with people vulnerable to financial hardship, in determining the threshold.

9. The time period for which a 'best offer' must be valid

Renew agrees with the Commission that this is difficult to determine thanks to the dynamic nature of energy offers in the market. We also note that since the primary purpose of the 'best offer' notification is to 'nudge' customers to engage with the market to find a better offer (rather than simply to accept the offer shown), it may be successful even if the offer in question is no longer available when a customer contacts their retailer – and that customer research undertaken by the Commission suggests that the majority of customers responding to the 'best offer' notification will not even pursue the offer shown with their existing retailer, but search the market more generally. Thus we consider the Commission's proposal for 13 business days after the bill issue date to be satisfactory. We see no need to show the offer expiry on bills.

Decision 10: Additional information on bills

Renew supports the proposal to require all bills to include information about how the customer can access Victoria Energy Compare (VEC). We also recommend that key information needed to use VEC is included. From our experience working with consumers using VEC, the information consumers sometimes don't know that their retailer should know is:

- Whether they have a controlled load
- Who their distributor is
- Their peak, off peak, and shoulder rates (currently GST-exclusive)
- Their daily supply charge total for the bill period (also currently GST-exclusive).

We recommend that the Commission advise VEC that when the requirement to show prices in GST-inclusive terms on bills commences, VEC change its data entry directions and calculation methodology to calculate prices based on GST-inclusive rates.

Decisions 11–17: Bill change notices

11. Bill change notices

Renew strongly supports the new requirement for bill change notices. We have long considered the practice of advising of price changes after they have occurred to be unsatisfactory, and out of step with most other industries. Consumers are often caught off-guard by unexpected and unannounced price changes, and the tariff change notices currently sent after the fact are typically unclear and probably overlooked in many cases.

12. Minimum information requirement for bill change notices

Renew supports the proposed information requirements for bill change notices. As noted above, with regard to information the consumer needs to make use of VEC: it's up to the customer to know things like how many people live in their house and what type of appliances they have. From our experience working with consumers using VEC, the information consumers sometimes don't know that their retailer should know is:

- Whether they have a controlled load
- Who their distributor is
- Their peak, off peak, and shoulder rates (currently GST-exclusive)
- Their daily supply charge total for the bill period (also currently GST-exclusive).

We recommend that the Commission advise VEC that when the requirement to show prices in GST-inclusive terms on bills commences, VEC change its data entry directions and calculation methodology to calculate prices based on GST-inclusive rates.

13–15. Manner and form, delivery, and scope of bill change notices

Renew supports these proposals, but recommends that the scope be extended to exempt retailers within 24 months of commencement.

16. Notice period

Renew recommends that a longer notice period be given. We find it difficult to believe that price changes can be implemented in such a short timeframe as to be unable to be notified more than five days beforehand. We recommend at least 14 days to give consumers sufficient time to engage with the market.

17. Exemptions to the bill change notice requirement

Renew supports these proposals

Decision 18: Expression of prices as GST inclusive

Renew understands that some stakeholders feel there are complications with displaying prices as GST-inclusive with regard to feed-in tariffs and concessions. We are not convinced. FiTs are GST-free and subtracting them before or after GST is added makes no difference. Concessions may be calculated on the GST-exclusive rates, but the amount can still be shown on the bill as a credit; and anyone attempting to verify that the full 17.5% has been deducted from the total of the fixed and variable charges will find it hasn't whether or not the charges are GST-inclusive or -exclusive, because the concession is not applied to the full bill anyway (an allowance has been made since 2011 so that the concession is not applied to that part of the bill deemed offset by the carbon price compensation package).

Energy offers are the only consumer products with prices shown as GST-exclusive. This causes much confusion, and can make it hard for consumers to compare offers (because some are shown as GST-inclusive) and calculate expected costs. Requiring energy bills and offers to show GST-inclusive prices brings energy into line with all other sectors. Renew strongly supports this change.

If it is decided to allow retailers to show both GST-exclusive and GST-inclusive prices, we recommend that there is a requirement to very clearly distinguish between the two so consumers don't get confused about which prices are what. This would mean they would need to be presented in a visually distinct way – simply labelling two columns of a table differently is not clear enough for many people.

Victoria Energy Compare and GST-inclusive prices

We note that while VEC shows results GST-inclusive, it requires GST-exclusive rates to be entered if users choose to enter their current plan details for comparison. This is at odds with the new requirement for GST-inclusive prices on bills and other collateral. We recommend that the Commission advise VEC that when the requirement to show prices in GST-inclusive terms on bills commences, VEC change its data entry directions and calculation methodology to calculate prices based on GST-inclusive rates.

Other matters

We also note that the number of things required to be shown on bills has grown significantly over the last decade or so, and would support a consultative process at some stage in the future to revisit all the requirements for information to be shown on bills in order to make them simpler for consumers to understand.

Thankyou for accepting a late submission. Renew looks forward to continued engagement with other aspects of the implementation of recommendations of the *Independent Review into the Electricity and Gas Retail Markets*.

Sincerely yours,

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