

Rebuilding trust in the energy market

Response to Essential Services Commission draft decision on reforms related to the Victorian Default Offer
May 2019



The Victorian Council of Social Service (VCOSS) welcomes consultation by the Essential Services Commission (ESC) on how the Victorian Default Offer (VDO) will interact with 'best offer' notifications on bills and the new clear advice entitlement.

'Best offer' notifications

From 1 July 2019, retailers will be required to display their best offer on energy bills, at least quarterly for electricity and every four months for gas. The best offer will be personalised for each customer, based on their consumption data.

We support the ESC's proposal for the deemed best offer to be the lowest cost of the VDO or a generally available offer (i.e. one that is not restricted to members of certain clubs or other affiliations). The best offer notification is an important way to inform people about the VDO, where the VDO is the lowest priced deal available to that particular customer.

The Victorian Government also suggests bills include information about how customers can access the VDO.¹ This may confuse customers, as the bill will then contain three pieces of information about energy pricing:

- the actual amount owed by the customer on their current bill
- the best offer available to the customer
- information about the VDO.

It is now well-established that more information does not necessarily lead to better decisions. There is an optimal amount of information to enable better decision-making. Decision-making deteriorates as the amount of information and number of choices increases, leading people to rely on brand, word-of-mouth or other mental shortcuts to guide decisions.²

We therefore recommended in a previous submission that if Government wishes to include information about the VDO with bills, it should consider providing its own VDO information sheet, as a separate leaflet.³ This would not have to be provided with every bill; it could, for example, be provided twice a year prior to the summer and winter spikes in energy use. Standardised, simplified VDO information, regardless of retailer, would assist comprehension. Presenting VDO

¹ State of Victoria, Department of Environment, Land, Water and Planning, *Victorian Default Offer – Draft Orders*, Consultation Paper, 2019.

² Lauren Solomon and Ben Martin-Hobbs, *Five preconditions of effective consumer engagement: A conceptual framework—Product information, consumer choice and market engagement*, Consumer Policy Research Centre, 29.

³ Victorian Council of Social Service, Consumer Action Law Centre, Financial and Consumer Rights Council, Council on the Ageing Victoria and the Victorian Public Tenants Association, *A simple, efficient and accessible energy deal: Response to draft Orders in Council on the Victorian Default Offer*, May 2019.

information separately to the bill would also allow Government to use conversational language with limited jargon, which is more likely to be well-received and understood.⁴

Clear advice entitlement

From 1 July 2019, energy customers will also be entitled to 'clear advice' from a retailer when enquiring about an energy offer, including the dollar cost implications of terms and conditions, and other offers that may be more suitable for the customer.

We support the proposal for retailers to be required, as part of the clear advice entitlement, to:

- inform a customer about other generally available offers and a VDO that it reasonably believes may be more suitable for the customer
- communicate information to all customers about the VDO's availability and how a customer may access it from the retailer.

We particularly endorse retailers being required to inform all customers about the VDO's existence, regardless of whether they believe the VDO is more suitable than the offer under consideration. Without this requirement, too much will be left to the discretion of retailers and a person may not receive any information about the VDO. The VDO contains important protections that may make it preferable from an individual customer's perspective, including:

- fixed annual pricing, allowing customers to 'set and forget' and to not have to be alert to price increases soon after entering a contract
- no conditions, such as online or on-time payment
- an independent, government-regulated fair price
- an entitlement to paper bills without charge.

We suggest retailers should be required to inform customers about these features; simply telling a customer about the VDO's availability will not allow them to properly evaluate this option.

It is particularly important for customers to be informed about the non-conditional nature of the VDO. Only 56 per cent of payment plan customers and 41 per cent of hardship concession customers achieve conditional discounts, which can result in a much higher overall bill than a non-discount deal.⁵ Over the three years to 2017-18, the annual average cost of not meeting discount conditions increased from \$212 to \$455 for electricity.⁶ This can easily trigger financial hardship and restrict people's ability to pay for other essentials such as rent and food. Approximately 180,000 Victorian households experience ongoing energy payment difficulty, with renters, households with children and those on low incomes most affected.⁷ These households, and others, need protection against unmanageable contract conditions and sudden, severe rises in energy costs, which the VDO provides.

We welcome each of the ESC's proposed reforms and look forward to strong enforcement of the best offer and clear advice entitlements, to help customers select the most sustainable and affordable energy deal for them, and avoid payment difficulty or disconnection.

⁴ Australian Government, Department of the Prime Minister and Cabinet, *Electricity information to fit the bill*, December 2018, 8.

⁵ Australian Competition and Consumer Commission, *Restoring electricity affordability and Australia's competitive advantage*, Retail Electricity Pricing Inquiry—Final Report, June 2018, 264.

⁶ Essential Services Commission, *Victorian Energy Market Report 2017-18*, 26 February 2019, 52.

⁷ Victorian Council of Social Service, *Battling On: Persistent Energy Hardship*, November 2018.