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Independent Competition and Regulatory Commission
PO Box 161
Civic Square ACT 2608



Lodged electronically: icrc@act.gov.au

EnergyAustralia Pty Ltd
ABN 99 086 014 968

Dear Mr Dimasi

Level 33
385 Bourke Street
Melbourne Victoria 3000

Standing offer prices for the supply of electricity to small customers from 1 July 2020 – Issues paper – September 2019

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

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

EnergyAustralia is one of Australia's largest energy companies with around 2.6 million electricity and gas accounts across eastern Australia. We also own, operate and contract an energy generation portfolio across Australia, including coal, gas, battery storage, demand response, wind and solar assets, with control of over 4,500MW of generation capacity.

We appreciate the opportunity to provide feedback into the Commission's 2020-24 electricity price investigation. We are particularly interested in its investigation of ways to improve transparency and comparability of electricity price offers for the benefit of customers in the ACT.

We have been supportive of moves to empower customers in navigating offers in the market. Measures to improve comparability in offers are the best way to ensure customers get the best deal, particularly as it encourages retailers to compete more directly on price terms.

The Commission is due to finalise its advice by June 2020. By this time there will be at least one round of reports from various regulatory agencies on the impact of the Default Market Offer (DMO) and Victorian Default Offer (VDO) that were introduced in July this year. There may also be some insights arising from the introduction of related reforms in Victoria including best offer notifications on bills and energy factsheets.

Reference pricing under the VDO and DMO reflects in part the limited consideration of customer and retailer interaction with some marketing disclosures. Changes were introduced under compressed timeframes that suited political ends, with government regulations developed at the same time as the respective regulators were required to design reference prices. We understand the Australian Government is now undertaking consumer testing and this may result in improvements to regulations governing the DMO.

Our initial observations on changes that have occurred in response to regulations from 1 July 2019 are:

- retailers generally appear to have withdrawn some forms of advertising that mention prices and discounts. We consider this is likely because mandatory disclosure of details of such as average consumption and distribution zones is too cumbersome in mediums such as radio and outdoor advertising. Note also that in

Victoria, retailers are not required to refer to the VDO reference price unless they advertise a discount, and this may detract from offer comparability

- many retailers have withdrawn or removed conditional discounts from their products.¹ This is something we support as conditional discounts are a major source of confusion for customers and, as the Commission is aware, is the subject of a rule change proposal with the AEMC
- third party intermediaries, including comparator websites, are captured within the scope of regulations and we have been only working with websites which present our offers in a format that is easily understood and comparable
- some retailers have simplified their product offerings. Our own “No Frills” product which is now marketed without any discounts or sign-up conditions such as direct debit and e-Bills only. Our “Total Plan” has a single non-conditional discount for the total energy bill
- some retailers have diversified their offers, particularly in terms of non-price benefits such as sign-up credits and packaging with other products, services and rewards programs
- our own research suggests customer awareness of reference pricing is poor. This is supported by surveys conducted by the Essential Services Commission before and after 1 July regarding specific VDO reforms²
- so far, the benefits of reform appear to be mostly in the form of price reductions for the small proportion of customers on standing offers.

Given retailers have already incurred costs in complying with reference price requirements in other states, the incremental cost of meeting the same obligations, if introduced in the ACT, may be small although not immaterial. Our experience above, however, suggests that the challenge in introducing these changes for the Commission and the ACT Government would be ensuring that any intervention delivers meaningful benefits for customers.

The Commission should undertake intensive testing with customers to understand exactly what they expect or need to compare offers, and whether this alone is a policy objective, or if further changes in the market would be a measure of success. No measure will remove the need for customers to undertake some effort to properly compare offers. Reference pricing will also not remove uncertainty in what customers are offered versus what they eventually pay e.g. because of actual vs expected consumption. Even when armed with this new information, customers may not act differently in terms of switching retailers. Customers may also lack awareness of government interventions and not trust the integrity of reference price comparisons.

Reference pricing will involve a trade-off in terms of simplicity versus accuracy in terms of what it means for the individual customer’s circumstance. For example, non-

¹ ACCC, *Inquiry into the National Electricity Market—August 2019 Report*, pp. 61-64.

² <https://www.esc.vic.gov.au/media-centre/7-10-victorians-dont-know-their-energy-rights>
<https://www.esc.vic.gov.au/sites/default/files/documents/victorian-energy-open-forum-presentation-energy-rights-campaign-20190827.pdf>

interactive mediums would require the development of some sort of average or representative customer. Web-based or direct sales allow customisation of offers to the customer's usage and other circumstances, which will be more useful for the customer.

The Commission's existing regulations are also critical factors:

- ActewAGL's standing offers are already regulated in line with efficient costs. Furthermore, the maximum spread of market offers around the average (based on the Commission's data, around $\pm 13\%$, compared to $\pm 33\%$ in Sydney for example³) suggests the switching benefits available to the bulk of ACT customers is small. In turn, competitive pressure in the ACT retail market may be dulled.
- ActewAGL also has multiple regulated standing offers which poses challenges in calculating a reference price that reflects the customer's actual point of reference. Specifically, it is not clear if a single reference price would be developed from these standing offers, or if multiple reference prices would exist that correspond to the range of prices customers might currently be paying.

If you would like to discuss this submission, please contact me on [REDACTED] or [REDACTED].

Regards

Lawrence Irlam
Industry Regulation Lead

³ ICRC, *Issues paper: Standing offer prices for the supply of electricity to small customers from 1 July 2020*, September 2019, p. 22.