



Submission to the AEMC

Review of Competition in the Retail Electricity  
and Natural Gas Markets in NSW

RPR0001

Consultation on Issues Paper

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57 Carrington Road Marrickville NSW 2204

Phone 02 9577 3333 Fax 02 9577 3377 Email [campaigns@choice.com.au](mailto:campaigns@choice.com.au)  
[www.choice.com.au](http://www.choice.com.au)

## About CHOICE

CHOICE exists to unlock the power of consumers. Our vision is for Australians to be the most savvy and active consumers in the world.

As a social enterprise we do this by providing clear information, advice and support on consumer goods and services; by taking action with consumers against bad practice wherever it may exist; and by fearlessly speaking out to promote consumers' interests - ensuring the consumer voice is heard clearly, loudly and cogently in corporations and in governments.

To find out more about CHOICE's campaign work visit [www.choice.com.au/campaigns](http://www.choice.com.au/campaigns) and subscribe to CHOICE Campaigns Update at [www.choice.com.au/ccu](http://www.choice.com.au/ccu).

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CHOICE welcomes the opportunity to comment on the Australian Energy Market Commission's Issues Paper relating to its review of competition in the New South Wales small customer electricity and natural gas retail markets (**Review**).

This submission discusses:

- the switching behaviour and motivations of small customers in NSW's electricity and natural gas retail markets; and
- recommendations to improve the level of competition in NSW's electricity and natural gas retail markets.

This submission discusses the results of a nationally representative survey conducted by CHOICE in June 2012 with 1,020 online Australian household energy decision makers.

Some of the responses from the survey were in relation to small customer experiences with the retail electricity market. We consider however that the findings are equally applicable to small customer experiences with the retail gas market as both markets are characterised by complex tariffs and a lack of effective tools.

CHOICE believes it is an open question as to whether price deregulation, in the form it has so far been undertaken in Australia's retail electricity and gas markets, is achieving genuine competition with net benefits for consumers. For example, in the Victorian market, often held up as the model for pursuing deregulation in other jurisdictions, there is a lack of understanding regarding the net impact of retail price deregulation on consumers. While there has been considerable 'switching' activity, there are concerns about marketing efforts and retail costs, and CHOICE believes there is a need for more information about the actual impacts on consumers.

We note that in the UK fifteen years on after the full liberalisation of the energy market, OFGEM made a range of proposals in response to a finding that there is 'tariff complexity, poor supplier behaviour and lack of transparency identified in its review of the retail market'<sup>1</sup>. The key proposals are to:

1. Put an end to complicated multi-tier tariffs, requiring all tariffs to be set out in a simple standing charge and unit rate structure;
2. Require suppliers to give consumers personalised information on their bill of the estimated savings they could make if they switch to their supplier's cheapest deal;
3. Introduce a Tariff Comparison Rate: a 'common currency' to allow customers to compare tariffs across the market;
4. Require suppliers to give all customers a new, improved Annual Statement with the personalised information a consumer needs to engage in the market, and to provide other 'calls to action' on bills and in the letter notifying consumers of price increases;

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<sup>1</sup> <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=430&refer=Media/PressRel>

5. Introduce new licence conditions to require suppliers to treat their customers fairly and to embed this principle throughout their business.<sup>2</sup>

## Market conduct: Small customer participation and experience

CHOICE agrees with the AEMC's view that informed customer choice and a willingness to switch places competitive pressure on energy retailers.

However, we note that some consumers may be unable to engage effectively in the decision making process of choosing an energy supplier. For example, residents of residential parks, those for who English is a second language and elderly consumers that are unfamiliar with the Internet. We also note that information provision is not a proxy for active consumer engagement. Much depends on the quality of information, for example in interpretive and/or simplified forms, with the effect of reducing complexity in the market.

CHOICE also agrees that 'necessary pre-conditions for informed and effective customer participation in electricity and natural gas retail markets are that customers are aware that FRC exists, they understand the consequences of being able to choose their retailer, and they have *the tools to assess or compare offers* so as to facilitate customer engagement' (emphasis added). We also consider that a necessary pre-condition is that the market offers the types of products and services that consumers want, at fair prices with strong protections.

CHOICE considers that this competitive pressure on energy retailers does not currently exist in NSW at an effective level. In our recent survey, nearly a third of the 413 respondents who had recently joined a new electricity provider<sup>3</sup> (29%) said that they didn't know where to start with finding information to weigh up the options as illustrated in the figure below (see Figure 1 of Appendix A).

We also note that as NSW has not signed on to the National Energy Retail Law, the AER's 'Energy made easy' comparator is not available to NSW gas or retail consumers. NSW consumers have to rely on IPART's site which is not optimal in its features in comparison to the AER's comparator. We also note that awareness of the IPART comparator and other equivalent comparators by other regulators in the various states is likely to be low. The benefits of being able to point consumers to one site for jurisdictions in the NEM is currently unavailable. There is also the issue of timely information provision in regards to IPART's site.<sup>4</sup>

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<sup>2</sup> <http://www.ofgem.gov.uk/Markets/RetMkts/rmr/Documents1/The%20Retail%20Market%20Review%20-%20Updated%20domestic%20proposals.pdf>

<sup>3</sup> There were no significant differences in the responses when the 413 respondents were categorised by state (i.e. NSW, VIC, QLD and SA only noting that respondents did not include those who identified Ergon Energy as their retailer in QLD). See figure 1 above for relevant base.

<sup>4</sup> 'In Victoria, NSW, Queensland and South Australia, major price resets occur in July every year that attract substantial media coverage in which politicians and other commentators typically encourage consumers to 'shop around' for a better deal. However, consumers seeking to act on this advice through visiting their jurisdictional regulator's price comparison service may find themselves confused, wasting time, or in a worst case scenario, acting on inaccurate information. Clearly all regulators seek to minimise this risk but instead of fixing the problem they simply reduce the sites' usefulness.

CHOICE agrees with the AEMC's view that 'information about energy product and service offerings is likely to promote competition only if it is easy to obtain, understand, relevant, up to date and enables competing energy offers to be compared.'

It is our view that the complexity of tariff structures means that competing energy offers are not able to be easily compared. In these circumstances, consumers are less likely to choose the best plan for their circumstances from those available resulting in the relevant retailer not being rewarded. This results in decreased competitive pressure on (and incentive for) retailers to deliver what consumers want as efficiently and innovatively as possible.

Results from our recent survey include that:

- one third of respondents who recently joined their electricity retailer said they had tried to compare providers but had found it was too hard to work out the best choice;
- only about half of those who recently joined their electricity retailer were confident they had made the best choice.

(See Figure 2 of Appendix A)<sup>5</sup>

Confidence was even lower among those who had switched through direct marketing (door-to-door sales or telemarketers). Fifty-five per cent of those who recently joined their retailer in response to a direct marketing offer were not confident they made the best choice.

The complexity of the tariffs mean consumers typically need to analyse a significant amount of detailed information and consider a whole range of different scenarios to properly compare the available options as discussed in the table below:

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At the IPART site serving NSW energy consumers, there is simply a pop up message warning consumers that most retailers change their tariffs at this time of year and that they should contact the retailers individually to confirm the rates.'

*The National Energy Market – In a bit of a state? Observations from the Vinnies' Tariff Tracking Project* Gavin Dufty, St Vincent de Paul Society, Victoria and May Mauseth Johnston, Alviss Consulting Pty Ltd Melbourne, 13 November 2012

<sup>5</sup> There were no significant differences in the responses when the 413 respondents were categorised by state (i.e. NSW, VIC, QLD and SA only noting that respondents did not include those who identified Ergon Energy as their retailer in QLD). See figure 2 above for relevant base.

Typical characteristics of tariffs (for electricity and gas)	Relevant factors that a consumer needs to consider
X per cent off the whole bill or Y per cent off the usage	Their usage profile (i.e. whether supply charges or usage charges are the major contributor to their bill) taking into account differences in their demand throughout the year (i.e. seasonal variances)
Lower fixed costs with higher usage costs or higher fixed costs with lower usage costs	Their usage profile taking into account differences in their demand throughout the year
Differing time-of-use tariffs (for electricity only)	How much electricity they use at different times of the day  How much of their electricity consumption they are able to shift to a different time of day
The energy usage level(s) at which point a higher / lower tariff applies (i.e. graduated tariff)	Their energy consumption over a billing period taking into account seasonal differences
Discounts conditional on paying by a particular payment method	Preferred payment method
Discounts conditional on paying on time	Likelihood or not of paying on time
Late fees	Likelihood or not of paying on time
Whether to sign up to a longer term contract given that they typically offer higher discounts but exit fees would be incurred if they terminate the contract before the end of the contracted period	Possible changes in household type / size given the likely impacts this would have on energy usage  Possible relocation and ability to move contract  Risk that during the contract period, the tariffs change so as not to be as suitable for their circumstances compared with another retailer's tariffs

Typical characteristics of tariffs (for electricity and gas)	Relevant factors that a consumer needs to consider
Measurements in kilowatts or megajoules	What are kilowatts or megajoules  How many kilowatts or megajoules each of the different appliances use in the household  How many kilowatts or megajoules they would use in a billing period taking into account seasonal differences

In our recent survey, over a third of respondents stated that they needed more detailed information about their household electricity usage to properly compare the available options when they recently joined their energy retailer<sup>6</sup> (Figure 3 of Appendix A).

An additional factor is that consumers do not have readily available information about the plan that they are currently on. This information should be provided on each of the bills that a consumer receives so that it is *easy to obtain* to enable comparison. Specifically:

- the name of the plan that they are currently on (if applicable)
- details on the level of discount they receive under the plan including:
  - whether it is conditional upon a certain event occurring (e.g. paying on time or paying using a particular payment method)
  - whether it is on the whole bill or on usage only
- amount of any applicable late fees
- the supply charges
- the usage charges including
  - where they are graduated, details on when the graduation applies
  - for time-of-use pricing, the times at which they are applicable
- the length of the contract and amount of applicable exit fees.

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<sup>6</sup> There were no significant differences in the responses when the 413 respondents were categorised by state (i.e. NSW, VIC, QLD and SA only noting that respondents did not include those who identified Ergon Energy as their retailer in QLD). See figure 2 above for relevant base.

CHOICE agrees with the AEMC that it is relevant to understand why some small customers elect not to switch energy retailer.

CHOICE considers that the complexity of offers, lack of tools and low levels of confidence felt by consumers in their ability to navigate the energy retail market as evidenced above results in a significant number of consumers disengaging from the process when choosing a new energy retail offer. This reduces the level of competition significantly as there is decreased pressure on retailers to deliver what consumers want as efficiently and innovatively as possible.

Alarming, in our recent survey over a quarter and nearly a third of the respondents who had recently joined their provider respectively said that:

- they just went with a provider they already knew of without comparing with others (26%)<sup>7</sup>
- that they didn't bother comparing providers as they considered that they are all about the same in terms of what they offer (29%)<sup>8</sup>

(Figure 4 of Appendix A)

This is despite the fact that nearly three-quarters of all respondents stated that their decision about which energy retailer to use is very or quite important in relation to their use of energy and management of household expenses. (Figure 5 of Appendix A)

In addition, the majority of respondents are very concerned about their electricity expenses relative to their costs of living. (Figure 6 of Appendix A)

Similarly, in a recent Ernst & Young survey of 620 electricity customers across Victoria, NSW and Queensland, almost half (47%) of those who were motivated to switch gave up after their initial search for information. This was reported as being due to three main reasons: believing there was too much time and effort needed to switch, feeling it wouldn't be worthwhile, or thinking they should just stick with their existing provider as they likely offered a better deal.<sup>9</sup>

It is indicative that competition is not effective in NSW when a large proportion of consumers are disengaging from the process when choosing their energy retailer as evidenced above in our research and Ernst & Young's. Consumers consider that their choice of energy retailer is important in relation to their use of energy and management of household expenses. However, upon commencing the process of choosing their energy retailer, the complexity of offers, lack of tools and low levels of confidence are arguably causing a significant number to disengage from the process. In these circumstances, consumers are not making the best choice when deciding upon their energy tariff and / or are remaining on the regulated offer.

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<sup>7</sup> There were no significant differences in the responses when the 413 respondents were categorised by state (i.e. NSW, VIC, QLD and SA only noting that respondents did not include those who identified Ergon Energy as their retailer in QLD). See figure 2 above for relevant base.

<sup>8</sup> There were no significant differences in the responses when the 413 respondents were categorised by state (i.e. NSW, VIC, QLD and SA only noting that respondents did not include those who identified Ergon Energy as their retailer in QLD). See figure 2 above for relevant base.

<sup>9</sup> <http://www.ey.com/AU/en/Newsroom/News-releases/Feeling-powerless---Time-and-effort-stops-consumers-switching-for-a-better-electricity-deal> Accessed 8 February 2013

It is also likely that consumers remember this experience and are choosing not to engage in the decision of choosing an electricity and / or gas retailer when the opportunity arises in the future.

It is unlikely that respondents are choosing a particular provider or choosing to stay with their existing provider due to high levels of overall satisfaction with the relevant retailer. Results from our recent survey include that:

- Satisfaction with providers was low across the board, though TRUenergy's customers gave them a comparatively high rating for keeping them informed on key issues like price rises.
- Only 8% of respondents rank their provider as 'excellent'. This compares to 14% of respondents who rated their bank as 'excellent' in CHOICE's last member bank satisfaction survey. (Figure 7 of Appendix A)
- 25% or less of respondents rated their electricity provider as 'very good' or better across the categories of value for money, customer service, helping customers understand how to reduce usage, and updating them on key issues such as electricity prices.
- Dissatisfaction with their previous company was the second-most frequently cited reason by survey participants who had switched in the past three years with looking for a cheaper option being the most common reason.

## Ways to improve competition

For there to be an energy retail market that has effective levels of competition, necessary pre-conditions are that consumers are able to easily compare offers, have the right tools and have best practice consumer protections in place so that consumers:

- do not disengage from the process due to complex tariff structures resulting in a significant amount of information and a range of scenarios needing to be considered;
- have easy access to the relevant information that they need to enable effective comparison between offers, including details of their current energy plans; and
- have confidence in their ability to navigate the energy retail market effectively;

therefore placing pressure on energy retailers to provide what consumers want as efficiently and innovatively as possible.

It is important however that an energy retail market caters for consumers that may be unable to engage effectively in the decision making process of choosing an energy supplier.

CHOICE recommends that:

- The AEMC conduct research looking into potential methods of addressing the issue of comparability including a new means to deliver at a glance comparability between retail offers. This research should consider the suitability of the 'unit price' model currently proposed in the UK<sup>10</sup>.
- The AEMC conduct research into the benefits of a default tariff for those that are unable to engage in the decision making process of choosing an energy provider.
- Key information regarding consumer's current energy plans be provided on each of the bills that a consumer receive so that they have easy access to relevant information to enable effective comparison between offers. Specifically:
  - the name of the plan that they are currently on (if applicable)
  - details on the level of discount they receive under the plan including:
    - whether it is conditional upon a certain event occurring (e.g. paying on time or paying using a particular payment method)
    - whether it is on the whole bill or on usage only
  - amount of any applicable late fees
  - the supply charges
  - the usage charges including
    - where they are graduated, details on when the graduation applies
    - for time-of-use pricing, the times at which they are applicable
  - the length of the contract and amount of applicable exit fees
  - any other relevant details
- The AEMC conduct research establishing the factors that are causing consumers to disengage from the energy market and restricting proper comparison including:
  - the particular features that are displayed in advertising of energy retail offers
  - typical characteristics of tariffs such as:
    - X per cent off the whole bill or Y per cent off the usage
    - lower fixed costs with higher usage costs or higher fixed costs with lower usage costs

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<sup>10</sup> <http://www.which.co.uk/documents/pdf/the-imbalance-of-power---which-report-308858.pdf> Accessed 8 February 2013

- differing time-of-use tariffs (for electricity only)
  - the energy usage level(s) at which point a higher / lower tariff applies (i.e. graduated tariff)
  - discounts conditional on paying by a particular payment method
  - discounts conditional on paying on time
  - late fees
  - whether to sign up to a longer term contract given that they typically offer higher discounts but exit fees would be incurred if they terminate the contract before the end of the contracted period
- The AEMC conduct surveys of what customers in Victoria are actually paying for electricity and whether the retail sector is competitive, flexible and meets consumers' needs.