

Submission to the Australian Energy Retailer – DRAFT Retail Pricing Information Guidelines

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The Consumer Policy Research Centre (CPRC) welcomes the invitation to comment on the AER's DRAFT Retail Pricing Review Information Guidelines.

CPRC is an independent research organisation which undertakes research to inform policy reform and business practice change. Our goal is to achieve a fair outcome for all consumers. We conduct research across range of consumer markets, with a focus in 2018 on consumer decision-making, housing, consumer data and the online marketplace.

CPRC broadly supports the steps taken by the AER to increase consumer comprehension, comparability and switching through the development of the Retail Pricing Information Guidelines. As is the case with many reforms aimed at changing consumer experience and behaviour, monitoring of the information, tools and platforms consumers access to support informed decision-making and the outcomes of these changes should be ongoing.

Developing a regulatory and policy environment which is iterative and informed by ongoing consumer research will ultimately assist in delivery of evidence-based interventions to improve outcomes from consumer engagement through time.

CPRC has undertaken a recent research project considering the demand-side settings necessary to facilitate effective product choice. Our forthcoming report, *Five Preconditions of Effective Consumer Engagement – a conceptual framework*, outlines a range of interventions targeting each of the five preconditions of: removing barriers to access for vulnerable consumers; key information disclosed is clear and comprehensible; comparison is easy and accurate; switching costs are low; and consumers are aware of how to access, assess and act on information. We attach the report in full to this submission and consider the reforms proposed through the Retail Pricing Information Guidelines through this lens.

Improving access for consumers with limited capacity

Removing barriers to access to suitable products and information for vulnerable consumers is the first of CPRC's preconditions. As outlined in the conceptual framework, consumers with limited capacity – including but not limited to non-digitally engaged consumers – will often require targeted outreach and intervention strategies to ensure fair access to information and products.¹

As a step towards ensuring digitally excluded consumers gain access to key product information, CPRC supports the requirement for retailers and third parties to explain the

¹ CPRC, *Five preconditions of effective consumer engagement – a conceptual framework*, March 2018, 24.

Basic Plan Information Document (BPID) available in any in-person marketing activities – however, we would ask the AER to consider how they will verify that retailers and third parties are providing this information accurately.

As an example of some of the challenges associated with the communication of key product information by retailers we draw attention to recent attempts by UK regulator Ofgem developing a tariff comparison rate (TCR) for residential electricity consumers, providing a simple price per kWh rate for all tariff types. Retailers were required to include this in all communication with consumers (including billing) between July 2014 and June 2017. The TCR was intended as a heuristic to assist consumer to compare tariffs, inclusive of discounts and standing charges, and based on a medium customer usage profile. However, following the CMA review of energy markets, Ofgem decided in 2017 to remove the TCR, as part of its move towards principles-based approach to regulation. Key reasons for the removal of the TCR were that it may provide potentially misleading information when comparing low or high consumer profiles with complex or consumption-sensitive tariffs. Ofgem also noted that ‘spontaneous awareness of the TCR across all of the segmented groups was extremely low’.² How the TCR was developed, trialled and rolled out to consumers may have as much to do with the success as the tool itself. Consumer advocacy organisation WHICH? engaged in mystery shopping exercise to investigate how accurately retailers explained the TCR to consumers. They found of the 78 calls to 13 different suppliers, on only four calls (5 percent) retailers provided accurate information about the TCR.³ Moreover, previous WHICH? research found that only 28 percent of people were able to correctly identify the cheapest deal from a range of tariffs using the TCR when asked.⁴

While good progress has been made in developing the BPID itself, ensuring that its communication and use in the decision-making process delivers improved outcomes, especially for vulnerable consumers will be important. CPRC suggests that the AER continue ongoing monitoring of the use of the BPID by consumers and retailers, particularly with consideration of testing comprehension amongst vulnerable consumers and the extent to which the BPID is being widely used in the decision-making process.

We would also encourage the AER to consider how frontline and community workers - who provide energy advice to consumers with reduced capacity – will be made aware of the proposed requirements, new BPID and summary document, and whether adequate resources are being provided to ensure these workers are trained and supported to provide this information. For example, CPRC (formerly CUAC) through the *EnergyInfoHub* developed a central hub of information for community workers and financial counsellors supporting vulnerable consumers. The *EnergyInfoHub* hosted materials on how to compare offers, access government comparator websites, find out information about available support programs and energy saving tips. The *EnergyInfoHub* is currently undergoing review and CPRC intends to update materials on this platform in the coming year for community workers and financial counsellors.

² Ofgem, *Helping consumers make informed choices – proposed changes to rules around tariff comparability and marketing*, August 2016, 16.

³ WHICH? Conversation, *Is your energy supplier failing to explain a ‘simple’ tariff?*, 19 November 2014.

⁴ <https://conversation.which.co.uk/home-energy/energy-provider-gas-electricity-supplier-tariff-comparison-rate/>

⁴ Ibid.

Improving access to clear, comprehensible product information

CPRC strongly supports the AER's efforts to develop clear and comprehensible product information to enable accurate and easier comparison. Ensuring key information is clear, accurate and comprehensible is CPRC's second precondition of effective consumer engagement. There are three key aspects of this which the AER may wish to consider in the finalisation of the BPID or in next steps for ongoing research: pricing, service quality and jargon.

Price information

This precondition requires that product and service information around price, quality and terms of sale is both easily *accessible* and comprehensible, to ensure that consumers can easily and effectively identify the product or service that best meets their needs.⁵ The AER's proposal to replace the Energy Price Fact Sheet with the Basic Plan Information Document (BPID) and a Contract Summary may improve *access* to clear information, where it is used by consumers. While developing a range of different consumer profiles is difficult given the variation of household energy use and makeup, the proposed consumer profiles may provide a useful reference point for consumers on flat tariffs and may be useful as a heuristic to identify the profile most like a consumers' own profile. CPRC considers the proposed inclusion of an annual, quarterly or monthly estimated cost for customers on flat tariffs may also help consumers to make decisions.⁶

Ensuring that consumers - when comparing estimated annual costs using the BPID – are able to accurately identify their current level on consumption to enable a fair comparison will be central to the success of the comparator price. Linkage between the bill benchmarking consumption levels on bills with the BPID consumption level definitions may be one simple and effective way to ensure consistency. For example, a requirement for a headline kWh per day figure on customers' bills might enable consumers to compare themselves where their own usage profile (number of people/bedrooms or amount of washing/heating) does not correlate to the indicative profiles. Where an individuals' own number of kWh/day roughly aligns with one of the indicative profiles, but indicates a significant cost discrepancy, this may enable comparison of cost and demonstrate an individual would benefit from switching plan or provider.

As a member of the AER's reference group, CPRC is aware of process of development of the BPID and associated consumer testing, and we support the inclusion of these methods within the development of guidelines. As outlined in our conceptual framework, CPRC would recommend the AER conduct comprehension and outcome testing of the use of the BPID by consumers to identify whether consumer decisions are improved – by making a product choice that better suits their preferences. In our view, simplifying disclosure is an important reform, however consumers still need to be able to both find and comprehend the disclosed information and as a result, make a product choice that suits their preferences.⁷

CPRC also strongly recommends that the AER engage in ongoing consumer journey mapping to identify whether consumers make use of tools such as the BPID when

⁵ CPRC, *Five preconditions of effective consumer engagement*, 29-34.

⁶ See Pete Lunn and Marek Bohacek, 'Price Transparency in Residential Electricity: Experiments for Regulatory Policy' (The Economic and Social Research Institute, October 2016). <https://www.esri.ie/publications/price-transparency-in-residential-electricity-experiments-for-regulatory-policy/>.

⁷ CPRC, *Five preconditions of effective consumer engagement*, 6.

researching energy providers and plans, and whether consumers find these tools useful in the switching process.⁸

Service & quality information

While the focus of the development of the BPID has largely been on price and contract terms, CPRC strongly encourages the future consideration of service and quality information in assisting consumers compare product and service offerings. Research indicates consumers do value greater access to information about service delivery and quality (such as call to answer speeds, complaint resolution outcomes and the experience of customer service once signed up with a retailer). CPRC is currently undertaking a research project exploring the potential to use existing regulatory and reporting data, along with other service quality information to better support consumer choice and decision-making. We would welcome further discussions with policymakers and regulators on options to develop a meaningful and relatable consumer service and quality metric for consumers choosing between service providers.

Reducing jargon and simplifying terminology

Directly related to the precondition of access to comprehensible product and service information, CPRC strongly endorses the AER's proposal to simplify the language presented to consumers as part of the changes to RPIG in Table 2 of the draft guideline. As outlined in our conceptual framework, where product or service information is complex or entails lots of jargon, consumers may not understand and simply disengage from the process.⁹ We endorse the AER's proposal to ensure retailers use consistent language on plans, and would strongly encourage retailers to maintain this consistency across other messaging - as part of their billing and contracts for example - wherever possible. We do however, recommend the AER undertake future consumer testing to ensure the replacement language is comprehensible and to ensure these terms do not result in customer confusion (e.g. replacing shoulder with "semi-peak"). Where language remains complex, the AER might produce explainer materials including short and simple videos, or pop out description boxes to help consumers understand the terminology.

The AER's proposal to broaden the meaning of 'generally available' offers to include all generally available offers - except where specific restrictions apply - is a welcome and common-sense proposal.

Improving the ability to assess offers through consistency of pricing information across different mediums

The third precondition of effective consumer engagement is that consumers can quickly and easily compare different market offers is essential for consumer participation in markets.¹⁰ As outlined, consumers need to be able to compare prices and plans using consistent information across different mediums to effectively assess the different offers. The AER's proposal to require the consistent use of the BPID across the *Energy Made Easy*, energy

⁸ Ibid., 8.

⁹ Ibid., 33.

¹⁰ Ibid., 34-40.

retailer websites and third-party comparison websites and social media will ensure that consumers – in the NERL jurisdictions - are provided with access to this consistent information.

CPRC would request that the AER and ESC consider how they might align consumer information reforms, especially where larger scale information campaigns may deliver benefits from these awareness-raising activities.

Improving consumers' ability to *act* and switch providers or plans

CPRC supports reforms that aim to reduce switching costs, enabling consumers to *act* and easily switch plan or provider where this meets their preferences.¹¹

In our view, the AER's proposal to introduce a unique reference code or plan ID for each plan may provide a useful tool that consumers can use to easily identify their preferred plan and communicate this to their preferred provider or comparison site. This accountability measure may help to reduce confusion about which plan consumers have been put on and reduce the risk that retailers put consumers on different offers from those identified on comparison sites. Again, the use of this unique reference code will depend on consumer's *awareness* and actual use of the BPID across different mediums, as well as their *awareness* about how to use the reference ID when switching plan or provider.

Central to the benefits of data portability is enabling more accurate and easier comparison of products and services. Ensuring the key information required to enable the comparison is available is therefore critical. In energy, such key information includes the current product / tariff information, consumption profile or level and NMI. CPRC therefore supports a reference ID which would clearly allow for identification of the particular price or tariff customers are currently receiving, and for this ID to be able to be input to comparison services, along with consumption data.

Furthermore, the establishment of a Consumer Data Right by the Australian Government is intended to provide the first consistent process to enable access to and transfer of consumer data across the banking, energy and telecommunications sectors. CPRC strongly supports a consistent approach to data portability across jurisdictions and would support further measures to facilitate accurate, simple and fair comparisons.

Improving consumer *awareness*

The final precondition of effective consumer engagement is *awareness*.¹² Consumers must be *aware* of the proposed tools developed by the AER if they are to be effective in assisting consumers to switch. If consumers are unaware of the BPID or cannot find it on a retailer or third-party comparison website, it is unlikely to be useful in improving comprehension or enabling comparison. To this end we strongly encourage the AER to consider both testing consumer *awareness* of the current 'Energy Price Fact Sheet' and engage in or support a comprehensive awareness campaign to ensure consumers are *aware* of the new replacement BPID including how to use the BPID, limitations of the BPID, and how to use the unique reference price ID when switching plan or provider. As discussed previously in

¹¹ Ibid., 40-46.

¹² Ibid., 46-50.

the submission, significant benefits can be obtained through effective communication and outreach strategies being implemented alongside information disclosure change reforms.

Consistency across jurisdictions

Though Victoria remains separate from the NERL jurisdictions and is therefore not subject to the AER's proposed changes to RPIG, we strongly recommend that the AER, ESC and DELWP work closely together to align key information disclosure, comparison and switching mechanisms wherever possible to minimise consumer confusion and improve overall market transparency.

If you have any queries about this submission, please don't hesitate to contact Ben Martin Hobbs on 03 96379 7600 or ben.martinhobbs@cprc.org.au.

Yours sincerely,



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