

Submission to ESC's New Requirements for Energy Bills

Essential Services Commission
Level 27, 2 Lonsdale Street
Melbourne, Victoria 3000

Dear Secretariat,

The Consumer Policy Research Centre (CPRC) welcomes the opportunity to provide a submission on the ESC's new requirements for energy bills.

CPRC is an independent, non-profit, consumer think-tank established by the Victorian Government in 2016. CPRC undertakes consumer research independently and in partnership with others to inform evidence-based policy and business practice change. Our vision is to deliver a fair outcome for all consumers. We work closely with policymakers, regulators, academia, industry & the community sector to develop, translate and promote evidence-based research to inform practice and policy change.

CPRC welcomes the introduction of the best offer entitlement to ensure consumers receive timely, simple information about alternative available products.

Best offer definition

We support the Commission's draft decision in adopting the 'cheapest generally available offer' as the most practical definition of a 'best offer'. While this may not capture the retailer's cheapest offer in the market, it reduces the risk that offers with more stringent eligibility requirements are presented which may limit consumer access and create consumer confusion. As noted by the Commission, this initiative is intended as a nudge to prompt individuals to contact their retailer to secure a better offer, so navigability and simplicity are key.

Where an offer does have eligibility requirements – such as for new customers only or direct debit sign-up – the Clear Advice Entitlement should provide consumers some protection. If this secondary mechanism works as intended, retailers would still offer consumers a better tariff than their current plan.

Presentation of the best offer on bills

In our view, the use of comprehension testing with consumers is fundamental where regulators and policymakers seek to improve information disclosure.¹ To this end, we welcome the Commission's approach to adopt consumer testing and informed by behavioural insights into this reform process. The results have provided a useful evidence base from which more meaningful decisions can be made, even with various limitations (such as online sampling) due to the constraints of the consultation period. Ideally, the Commission would be able to conduct further testing with digitally excluded consumers and those with limited numeracy to identify whether the presentation improved comprehension, and to ensure that consumers can identify the correct amount to pay - though we recognise the limited timeframe for the delivery of this reform.

The ESC's research found that "loss aversion" style message appeared to work best, which is consistent with the broader behavioural economics literature. Given these findings, we

¹ CPRC, *Five Preconditions of Effective Consumer engagement*, March 2018.

support the commission's decision to limit the discretion of retailers to change the presentation or wording of the "best offer" information.

In communicating the best offer to a consumer, we would support a requirement that each offer be linked to a unique plan ID, which may reduce confusion where consumers call retailers to switch plans or endeavour to switch providers.

Unique Plan ID

CPRC strongly encourages the Commission to consider introducing a unique plan ID, as outlined in the AER's revised Retail Price Information Guideline (RPIG). A requirement that this unique energy plan ID be recognised by retailers, be required on retailer bills – and on third-party websites wherever the tariff is advertised - will likely reduce the confusion that consumers encounter when seeking to switch providers. Consistency across different mediums will avoid unnecessary complexity and consumer confusion.²

We would also note that VEC already generates a unique offer ID code for each energy tariff that is submitted to the website by each retailer. Were further work required to more formally establish this unique ID, we note that KPMG is currently engaged by the Department of Energy, Land, Water and Planning (DELWP) to consult on possible revisions and improvements to *Victorian Energy Compare*. This suggests an opportune window to align different objectives – with the end goal of a simpler customer journey to compare and switch.

Though out of scope of the ESC's immediate work program, the inclusion of a unique plan ID on the bill consistent with VEC may enable the Department to deliver on other recommendations in the *Independent Review into the Electricity and Gas Retail Markets in Victoria*, such as recommendation 3J:

The Victorian Government's program to continue to enhance and promote the Victorian Energy Compare website and use of smart meter data.

If Victorians can access their consumption data, overlaid with their tariff (via a plan ID) on *Victorian Energy Compare*, this may provide a simple, efficient and effective way to enable consumers to compare their current tariff cost with new market offers, reducing any ambiguity and guesswork currently required. If the approach of the ESC's reforms is to nudge consumers to action, simplifying the actions and subsequent consumer journey is likely to yield improved outcomes.

Moreover, clear plan identifiers will be a necessary requirement for the forthcoming Consumer Data Right (CDR) reforms – in which energy is likely to be the next sector these reforms will be applied to. Data portability to enable more accurate comparison and facilitate switching is essential to improve consumer outcomes as part of this process. Key data to enable a consumer to compare products and services in the energy sector includes: information about user of product (i.e. National Metering Identifier), information about use of product (i.e. consumption data), information about a product (i.e. current retail tariff and product information). Together, these three pieces of data enable comparison of current plan with potential plan.

Clear advice entitlement

We support the requirement that customers are entitled to clear advice about the terms and conditions of the retail offer proposed by a retailer, at the point of entering a contract. This relates to CPRC's second precondition – that the terms and conditions are clear and understandable.³

We would encourage the Commission to consider including in the Clear Advice Entitlement as a requirement to inform consumers that if and when the company proposes to change

² Ibid.

³ Ibid.

any of the rates associated with the product, the consumer will receive a Rate Change Notification via their nominated communication channel (see Decision 16: Notice Period).

We note from the ESC's forum that articulating all the hypothetical circumstances in which prices might change potentially creates an overwhelming conversation for consumers. However, this goes to the question of how retailers structure their tariffs and contract accordingly - it is notable that new tariffs are already emerging that appear address the variability of costs in energy tariffs with genuinely fixed charges over a set period. We agree with the ESC's approach to identify a reasonable line of delineation about the terms and conditions relevant to the new tariff that must be communicated to consumers.

Interaction with third parties

CPRC agrees with the ESC's decision that any third party acting on behalf of a consumer with their explicit informed consent, should also be able to meet this same Clear Advice Entitlement.

How long should an offer be valid after appearing on the bill

The proposed 13 days for an offer to remain valid seems a particularly short window. The behavioural economics literature suggests people put off complex decisions (procrastinate) so this limited window may limit effective engagement.⁴

Moreover, as long as an energy tariff can be accessed on VEC, from the customer's perspective it remains "valid" and appears "generally available". In our view, aligning the expiry of the offer on the bill, and elsewhere - on VEC and other comparison sites - constitutes key information for consumers when making decisions.

As raised in the ESC's draft decision forum, the use of an expiry date linked to a unique plan ID may help to address this complication. Realistically, providing significantly time-limited offers may frustrate consumers and may even have the unintended consequences of individuals disengaging until the next best offer letter. It is worth remembering that 13 percent of Victorian households do not have the internet at home, so may be totally reliant on these letters to identify cheaper offers.⁵ Therefore, a longer period - perhaps 30 days - would seem more reasonable.

Frequency at which the best offer appears on bills

There are good arguments for the different options outlined by the ESC for the frequency at which the best offer must be provided on a bill.

Narrowly identified periods - such as in January and July - may help policymakers, community workers and media to build awareness for switching. In the UK's experiment with cheapest market offer trials, there was a significant "voltage drop" between the pilot and larger scale roll-out - which suggests that external factors reinforce nudges delivered via bills about switching to cheaper offers.⁶ High profile news coverage of the issues with the energy market, combined with a price change mid-way through the trial may be responsible for the elevated switching of both the control group the amplified switching rates of both treatment arms.⁷

However, we recognise that retailers might receive overwhelming volumes of calls as a result of a narrow window, creating problems for both consumers seeking to switch and retailers call centre workloads. From the consumer's own perspective, an anniversary best

⁴ Karen Stenner, Elisha R. Frederiks, and Elizabeth V. Hobman, "Household Energy Use: Applying Behavioural Economics to Understand Consumer Decision-Making and Behaviour", *Renewable and Sustainable Energy Reviews* 41 (January 2015): 1385-94.

⁵ ABS, *8146.0 - Household Use of Information Technology, Australia, 2016-17, 2018*

⁶ Al-Ubaydli, Omar, John A. List, and Dana L. Suskind. "What can we learn from experiments? Understanding the threats to the scalability of experimental results." *American Economic Review* 107, no. 5 (2017): 282-86.

⁷ Francisco Moraiz and Roger Tyers, "Small Scale Database trial", Research Results, (Ofgem, November 2017).

offer perhaps makes sense, however, we recognise that individualised best offers may be complex for retailer's systems.

The proposed option of two best offer letters per year "not within four months" at the discretion of the retailer perhaps offers a reasonable alternative.

Dollar threshold for determining best offer

CPRC notes the findings of the ESC's research indicate that consumers do not have a uniform view about the dollar threshold required to switch, and for some, this smaller dollar threshold may prompt action, and may well be material for those on limited incomes.

Additional information

We strongly support the need for information on the bill to clearly direct consumers how to access the Victorian Energy Compare website. Evidence suggests that many consumers remain unaware of the government's comparator, even though many indicate a strong preference for an independent government comparator rather than commercial comparators.⁸

Prices to be expressed in GST inclusive terms only

This is a sensible and well overdue reform. Research suggests partitioned pricing can be confusing for consumers and there appears no logical reason why GST should be separated out from the cost of service.⁹ Those components that do not include GST – such as concessions and solar feed in tariffs – could be articulated separately.

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,



Lauren Solomon

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⁸ CPRC, *Five Preconditions*.

⁹ Steffen Huck, Brian Wallace and London Economics, 'Partitioned Pricing Research A behavioural experiment', OFT1501A (Office of Fair Trading, 2014), 2014.
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