

1. The organisation One Big Switch (OBS) argues in its submission that a lack of transparency around plans and pricing for consumers is impeding the benefits of competition and they are arguing retailers should be forced to supply more information to customers including immediately informing the market of price rises and publicly releasing price rises for all plans and customers. Do regulations currently prohibit retailers supplying this information to customers and what is your organisations view of OBS's submission?

We would agree that there is a lack of transparency around plans and pricing for energy consumers. However, we would contend that it is the absence of regulation, among other factors that contributes to the problem. Unfortunately, it appears that, similar to other industries such as telecommunications, superannuation and insurance, it has been in many retailers best interests to reduce the comparability of their offers. This problem is particularly profound among retailers with offers that are not competitive on the basis of price. Given this, we argue for both regulatory and other policy measures to improve the comparability of retail offers.

There are a number of issues that contribute to problems of price transparency and comparability. Energy remains a low involvement product. While consumers are concerned about energy prices, a substantial effort is required to engage in the intricacies of pricing, which is simply not worthwhile for most consumers for what remains an essentially homogenous product. Additionally, consumers are not generally aware of simple things to look for in their energy price. Most consumers only look at the variable per kw/h price when comparing energy offers. While this is a simple way of comparing offers, it neglects the very important fixed component of an energy offer. While examining the variable component of an offer may work for some households it certainly will not work for all. For example, a household with low electricity consumption may well be better off with a high variable charge and a lower fixed charge as the fixed charge component of their bill is proportionally larger.

Other factors that contribute to the lack of clear comparative information are often the result of retailers pitching information in order to target the biases that consumers are consistently shown to rely upon in their decision making. For example, as a result of an inconsistent valuations of time, consumers can often be lured by teaser discounts and rebates without reference to the actual cost of the product over the life of a contract. This reduces the need to provide accurate information but rather provides an incentive for providing limited amounts of the most attractive information.

The lack of useful information to facilitate consumer comparisons has been outlined in some detail in our own research report [Improving energy market competition through consumer participation](#). The equivalent problems in the UK, a retail market that is broadly comparable with that of Victoria, have also been thoroughly examined in the Office of Gas and Electricity Markets' (Ofgem) [Retail Market Review](#). These reports suggest a range of approaches to improving offer information and comparability. Among the main approaches identified in the work are:

- effective comparative information services (e.g. price comparison websites);
- consumer education;
- appropriate regulation to improve the comparability of energy services.

How these approaches may be implemented has been discussed in the research highlighted above and in our previous submission to the Committee. However, for emphasis, included in the box below are the recommendations from the CUAC research report on approaches to improving price regulation for comparability. The scope of this report was focused on the Victorian context but can be extrapolated for national application.

Appropriate regulation to improve the simplicity of offers and the ease of comparison for consumers

The research into consumer behaviour, consumer experience in other markets and consumer experience in the Victorian market indicates that steps to make the market simpler would be beneficial. The classic paper by Iyengar and Lepper on limited consumer capacity illustrates the power of reducing complexity and improving comparability. It is also clear that many consumers are finding the Victorian retail market complex and comparability difficult. The research on the switching websites and the extent to which errors are made, even when technology is doing the leg work for the consumer, highlights the level of complexity. It is very difficult to make informed and accurate comparisons when considering the array of discounts and bonuses that most retailers incorporate into their offers, coupled with the fact that retailers are allowed to vary rates even within the context of a fixed term contract.

Steps should be taken to ensure that consumers are not overwhelmed with complex offers and can make informed choice in their interest.

The Retail Markets Review being conducted by Ofgem in the UK has recommended the introduction of a series of reforms to improve the simplicity of their market. Some of these reforms are not appropriate in the Victorian context because of different regulatory approaches to offers. However, aspects of the reforms would likely work to improve simplicity for Victorians. The reforms recommended by Ofgem include:

- The requirement for “evergreen” offers, or offers without a fixed contract, to be provided in a standard format that competes on the basis of usage charge alone (the fixed charge is set by the regulator). This means that there is a strong incentive on the retailer to reduce costs and price but that these contracts are easily compared by the consumer on the basis of a single unit price.
- The requirement for fixed term contracts to maintain a fixed price and the same terms and conditions for the period of the contract.
- The development of a standard metric for the expression of all energy contracts so that they can be expressed in comparable terms. This reform would mirror reforms in the UK’s consumer credit market that allowed for easier comparison of credit contracts.
- The development of strict regulatory approaches to the provision of information to consumers to ensure that they understand the relevant terms.

In the Victorian context similar reforms should and could be considered. Such reforms should also necessarily be considered by the AER and Standing Council on Energy and Resources (SCER)[3] as transition to Commonwealth regulatory and policy arrangements occurs. Some specific reforms that should be considered are:

1. Mirroring the reform of the evergreen offers in the UK, the Victorian Government should consider the regulation of the fixed charge (cents per day) for standing offers and evergreen offers in the Victorian market with price competition in this market sector based on the cents per kilowatt hour (kWh) variable charge. The fixed charge could be set according to some reasonable determination of average consumption. Although a regulated fixed price would affect different energy consumers (small and large) differently, it is likely that these impacts would not be excessive and would be offset by the presence of other fixed term market offers without the regulated fixed charge. Such a reform would enable an easy and direct comparison of standing offers as well as evergreen offers and allow competition for offers that provide consumers with more consumer protection and the flexibility to change supplier.

2. To supplement this reform another UK inspired reform could be introduced. Specifically, fixed term contracts should come with a price that does not change over the course of a contract. Under current arrangements, whereby retailers can raise the prices of market offers periodically during the contract, consumers bear all the risk of their choice. Even if a consumer succeeds in finding the best offer for them at a particular point in time, a price increase can render the time spent in their decision-making worthless. On the other hand, retailers enjoy the certainty of having secured the customer for a particular period of time. A key reason for having a retailer is to mediate the inherent risks and volatility upstream in energy markets into products that mitigate these issues for end users. Allowing contracts within which prices can be increased even though the customer has signed up for a fixed term abrogates retailers' market responsibilities. The ESC should introduce regulation to facilitate this reform.
3. The Victorian Government and ESC should consider restructuring and reforming the current regulatory approach to complex discounts, bonuses and rebates. The question that needs to be analysed further is: does the presence of these incentives as they are currently structured deliver real innovation and options to consumers, or does it merely serve to reduce the comparability of offers on the basis of price (which, as this research shows, is the primary motivator for the majority of switching consumers)? Furthermore, rebates, bonuses, discounts and teaser exploit consumers' time inconsistency and other behavioural biases. Restrictions on the number and type of discounts, bonuses and rebates would contribute to market simplicity while increasing the effectiveness of competition on the basis of price.
4. The Victorian Government should consider placing limits on the number of market offers that can be provided by each retailer. There is a high probability that reducing choice may enhance rather than reduce competition. Research shows that consumers engage more in markets in which choice is not overwhelming. This greater consumer engagement and active participation leads to greater competitive pressure and a more active market. A reform that limits the number of offers may in fact prove that, in respect to competition and consumer engagement, less is more.
5. As part of these reforms, it may be appropriate for the ESC to consider the way that offers are expressed and described. Currently energy offers are given meaningless names conjured up by marketers such as Loyalty Saver, Flexi Switch, or Go For More to name a few. It may be more appropriate for offer names and quickly accessed marketing material to make some suggestion as to which consumer the offer would suit most. Selecting an offer would be simpler for consumers if they could quickly identify offers designed to suit, for example, large households or single apartment-dwellers. Creative approaches to more clearly identifying which offers are right for which consumers would support more effective choice and help overcome poor understanding of concepts such as kWh. This reform could be developed in cooperation with retailers.
6. Also mirroring UK reforms, a common metric for comparison should be developed by the ESC and AER to allow for all offers to be put into a particular tool and be directly comparable against each other on the basis of, for example, a single unit price. Although the design of such a tool may be difficult, in concert with some of the reforms suggested here, such a tool could be more easily developed and result in considerably reduced complexity for consumers. This tool could also be championed by regulators through their own comparison websites.

2. OBS also argues for easy to understand dash board information to be supplied to consumers to make it easier for them to understand their contracts and bills. What information should be included on such a dashboard for consumers?

● Page 4

We believe that there may be advantages to the supply of an easy to understand dashboard of information for many consumers. However, there are numerous challenges in identifying the type of information that should be included on this document given the diversity among consumers. From our perspective the key information that should be provided on any dashboard should be simple information about understanding offers, how to save money and where to go for further assistance. For example, a dashboard could provide some useful tips and pointers about:

- factors to consider in “finding the right energy offer for you”;
- energy efficiency tips; and
- alerts regarding concessions, payment difficulty and hardship assistance.

Consideration should also be given to ensuring that all consumers can access information. To this extent the specific information/education needs of CALD communities, Older Australians, Indigenous Australians and People with Disability etc need to be considered and addressed. Our research indicates that these needs are best satisfied through trusted non-government agencies and support groups. We suggest that some thought be given to such an information and education initiative devoted to building community literacy around the increasingly complex energy market. CUAC has developed an extensive knowledge base in this area and would be pleased to provide further information and assistance if this would be useful to your deliberations.