choice
THE PEOPLE'S WATCHDOG

Submission to Senate Select Committee on Electricity Prices

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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 and subscribe to CHOICE Campaigns Update at www.choice.com.au/ccu.

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Executive Summary

Australian household electricity consumers have experienced rapid electricity price rises over recent years, particularly in the period since 2007.[1] CHOICE believes these increases have been to a significant extent avoidable and unjustifiable.

The single biggest driver of price increases has been network costs, the multi-billion dollar price tag of maintaining and expanding electricity transmission and distribution networks. These structural factors, if not addressed, are likely to cause ongoing excessive and unnecessary price increases for Australian households.

CHOICE believes the Committee can play an important role in identifying proposals for reforming the regulation of our energy networks that will deliver the greatest long-term benefit to Australian consumers, and maximise the outcomes from current rule change and review processes.

> ***Recommendation 1:*** Strengthen the power of the Australian Energy Regulator to improve energy network regulation, in particular by ensuring greater scrutiny of the cost-effectiveness of infrastructure spending.

> ***Recommendation 2:*** Change regulations so that they encourage networks to invest in the most cost effective solution to meet consumer needs whether it be supply or demand-based, with a greater emphasis on reducing peak demand.

> ***Recommendation 3:*** Allow large energy users to sell reductions in electricity demand into the wholesale electricity market, thereby reducing peak demand and pressure on household bills.

> ***Recommendation 4:*** Review and reset network reliability standards in relevant jurisdictions on the basis of probability and consumer preferences.

CHOICE strongly supports the development of a cost-effective national energy savings initiative scheme (ESI) that will help households reduce their energy bills[2]. It has been estimated that such a scheme could save households up to $296 a year in 2020 and save $3.5-12 billion in deferred energy generation and transmission infrastructure by 2040.

> ***Recommendation 5:*** Implement a cost-effective national energy savings initiative scheme (ESI) that will help households reduce their energy bills.

[1] For example, see Commonwealth of Australia, 'Garnaut Climate Change Review Update 2011, Update Paper 8 – Transforming the Electricity Sector', 2011, p. 7

[2] CHOICE is an Advisory Group Member for the National Energy Savings Initiative.

Most decision-making processes within the National Energy Market are complex, highly technical and time-intensive. CHOICE supports processes currently underway to develop a model for a national energy consumer advocacy organisation. We also support the provision of greater funding for residential energy consumer advocacy through the Consumer Advocacy Panel.[3]

> ***Recommendation 6:*** Establish a national energy consumer advocacy body and provide more resources to give consumers a stronger voice in the national energy market.

In a context of rising energy prices and increasingly proactive marketing, CHOICE believes governments can play a role to facilitate better information for energy consumers. Technologies are advancing which can deliver an unprecedented level of data about energy consumption, with the potential to empower energy consumers to make more informed decisions, and achieve greater product differentiation in electricity retail.

> ***Recommendation 7:*** Fast-track the Federal Government's energy information hub concept to empower consumers with access to their own consumption data and drive innovation in energy retailing.

> ***Recommendation 8:*** Ensure appropriate safeguards in relation to the privacy of consumption data.

CHOICE strongly supports genuine competition in retail electricity. However, we are concerned that residential energy consumers are increasingly asked to make long-term commitments that have an important impact on their household, while lacking the basic tools and information to navigate this complex market. At the same time, implementation of consistent national energy consumer protections and information provision has stalled, while commercial electricity comparison sites are providing information that in some cases may not be transparent, comprehensive or accurate.

To address these issues, CHOICE believes the National Energy Customer Framework should be implemented as soon as possible, along with fast-tracking of participation by all jurisdictions in the Australian Energy Regulator's energymadeeasy.gov.au website. We also support the development of a code of conduct to help consumers identify credible commercial energy comparison sites.

> ***Recommendation 9:*** Adopt the National Energy Customer Framework (NECF) as soon as possible to create a nationally consistent framework of robust consumer protections and information provision and reduce the costs to consumers of regulatory inconsistency.

> ***Recommendation 10:*** Fast-track the NECF obligations on retailers to supply Energy Price Fact Sheets and tariff information for the Australian Energy Regulator's price comparison site: www.energymadeeasy.gov.au

[3] See http://www.advocacypanel.com.au/about.htm

Recommendation 11: Introducing a code or accreditation system for commercial electricity switching sites, similar to that operating in the UK.

CHOICE believes that if there is a move towards phasing-in cost-reflective pricing, protections under the NECF should be strengthened. As Victoria is the only jurisdiction to have mandated a roll-out of smart-meter technology, we recommend an investigation of whether specific elements of Victoria's energy consumer protections should be adopted as part of the national framework.

Given the significant opportunities to modernise Australia's electricity grid and empower energy consumers, reforms and new technologies should demonstrate clear benefits to consumers that outweigh costs. Community engagement must be prioritised to ensure consumers participate in the full benefits of reforms.

Recommendation 12: Make adequate levels of consumer protection, particularly for vulnerable residential consumers, a pre-requisite for phasing in time-of-use electricity pricing.

Recommendation 13: Ensure that if critical peak pricing is introduced, it is on an opt-in basis only to avoid consumer detriment and impacts on the progress of energy market reforms more broadly.

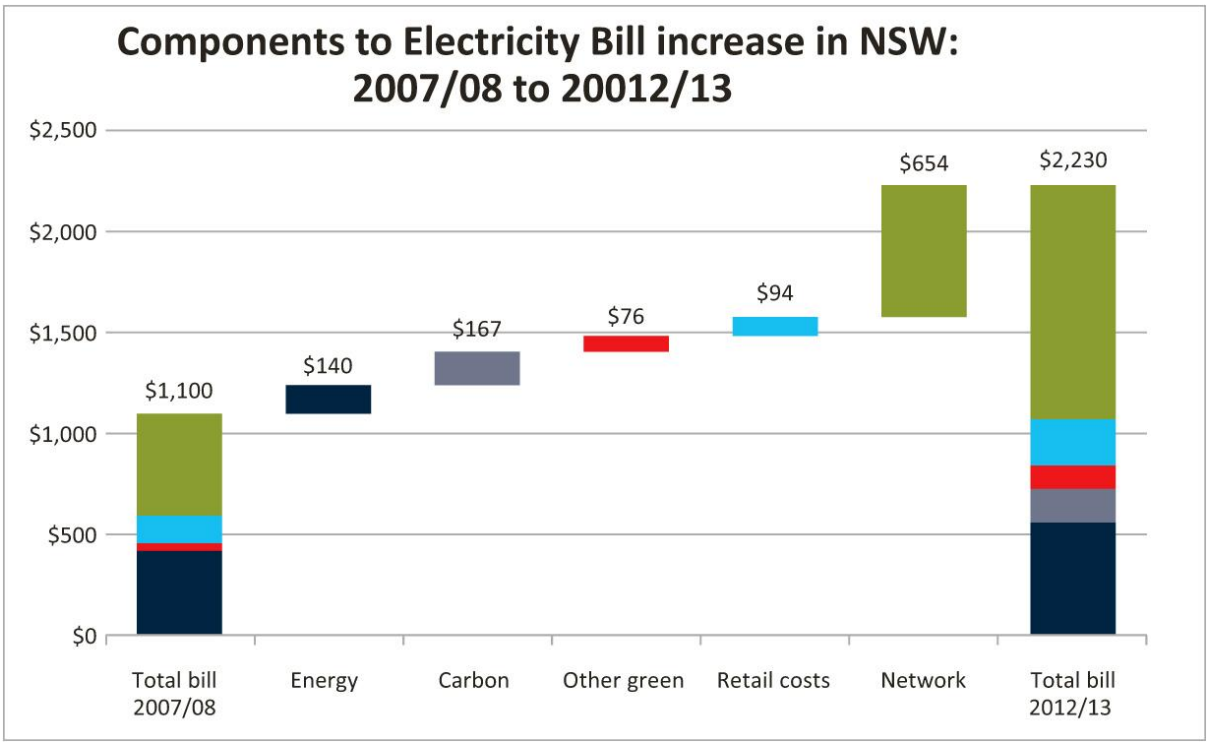
Recommendation 14: Ensure the roll-out of new energy technologies is consumer-focused, demonstrating clear benefits to consumers that outweigh costs, and prioritising community engagement.

Past and future electricity price rises

Australian household electricity consumers have experienced rapid electricity price rises over recent years, particularly in the period since 2007.[4] CHOICE believes these increases have been to a significant extent avoidable and unjustifiable.

Of most concern are the structural drivers of price increases, those elements of Australia's National Electricity Market design that have allowed inefficient infrastructure investments. These network costs, the multi-billion dollar price tag of maintaining and expanding electricity transmission and distribution networks, are the single biggest driver of recent electricity cost increases on a national level,[5] and currently comprise over half of the average electricity bill.[6] This is in addition to the impact of the carbon price that is estimated to be about 9% on average nationally.[7] Figure 1 shows the components of increases in nominal bills over the past five years for NSW. This trend is similar in other states.

Figure 1:

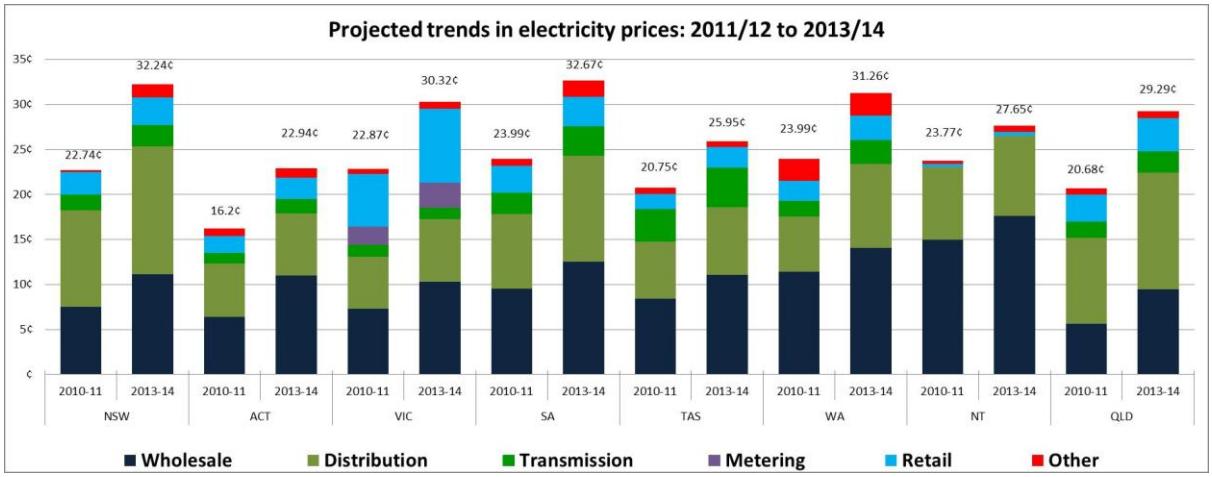


Source: IPART, http://www.ipart.nsw.gov.au/Home/About_Us/FAQs

[4] For example, see Commonwealth of Australia, 'Garnaut Climate Change Review Update 2011, Update Paper 8 – Transforming the Electricity Sector', 2011, p. 7
[5] Commonwealth of Australia, 'Garnaut Climate Change Review Update 2011, Update Paper 8 – Transforming the Electricity Sector', 2011, p. 8
[6] Australian Government, Department of Resources, Energy and Tourism, 'Fact Sheet – Electricity Prices', accessed at http://www.ret.gov.au/Department/Documents/clean-energy-future/ELECTRICITY-PRICES-FACTSHEET.pdf
[7] P Bell, P Wild and J Foster, 'The Impact of Carbon Pricing on Wholesale Electricity Prices, Carbon Pass-Through Rates and Retail Electricity Tariffs in Australia', University of Queensland, April 2012

Over the next two years, increasing network costs are expected to continue to be the most significant driver on a national level, as Figure 2 shows.

Figure 2:



Note for WA (the South West Interconnected System specifically) and NT, this graph represents the actual prices. Subsidies by WA and NT mean that the prices that residential electricity consumers pay are less.

Source: AEMC, Possible Future Retail Electricity Price Movements: 1 July 2011 to 30 June 2012, Final Report, 25 November 2011, Sydney

Current regulatory settings do not prioritise opportunities to cost-effectively save energy and reduce peak electricity demand. These structural factors, if not addressed, are likely to cause ongoing excessive and unnecessary price increases for Australian households. With up to $240 billion of energy infrastructure investment estimated to be required by 2030,[8] there is a high risk that current settings will result in inefficient infrastructure being 'locked in', resulting in higher costs for consumers.

[8] Commonwealth of Australia, 'Draft Energy White Paper 2011: Strengthening the foundations for Australia's energy future', December 2011, p. x

A complex market

The electricity retail market has undergone a rapid transformation from a low-engagement product to one where consumers are asked to make long-term commitments that impact on their household, while lacking the basic tools and information to do so. Price increases have been accompanied by proactive, and in some cases, intrusive, opportunistic and misleading energy marketing. The introduction of full retail contestability and the sale of government-owned electricity retailers in some jurisdictions, combined with rapidly rising prices and generally poor information, has created a 'perfect storm' in which consumers find it difficult to navigate an increasingly complex market.

CHOICE strongly supports genuine competition in retail electricity, but is concerned that the immature state of Australia's retail electricity market is not working in consumers' best interests. There is little product differentiation and churn is often used as a proxy for competition.[9] CHOICE believes genuine competition is achieved when informed consumers make active purchasing decisions that result in a consumer finding a product that is the best fit for their circumstances and being confident in their decision.

What do consumers think about electricity prices?

CHOICE recently conducted a survey of over 1,000 Australian household decision makers that showed most are very concerned about their electricity expenses relative to their costs of living.[10] Despite this high level of concern, there was a lack of understanding about the key drivers of electricity prices increases, past and future.

Of those respondents who said electricity prices had increased over the past few years, nearly 40% perceived the main reason was 'energy companies increasing prices to increase their profits'. Almost a quarter (23%) identified the main reason as the 'carbon tax' despite it not having been introduced when the research was conducted.

Nearly half of those who expected electricity prices to increase over the next few years identified the 'carbon tax' as the main reason (44%). Over a quarter of (27%) considered the main reason to be 'energy companies increasing prices to increase their profits'.

On the whole, respondents did not see individual households (i.e. themselves) as playing a fundamental role in reducing electricity bills.[11] Rather, they identified (in order from highest to lowest) the government (politicians), energy regulators, energy retailers, energy generators, and large and industrial energy users as all having a more fundamental role than individual

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[9] For example, see vaasa ETT Global Energy Think Tank, Utility Customer Switching Research Project, 'World Energy Retail Market Rankings 2012'

[10] CHOICE conducted a nationally representative survey of 1,020 online Australian household energy decision makers in June this year. Nearly all household decision-makers surveyed ranked electricity as an expense they are very or quite concerned with (55% and 30% respectively). More people indicated concern about electricity than any other household expense (gas, telephone, internet, home insurance, rent/mortgage, transport, water, food and groceries and health/medical expenses).

[11] Just under a quarter (23%) of household decision makers surveyed saw individual households as having a 'fundamental role' in reducing the cost of household electricity bills.

households. The only party that consumers saw as having a less fundamental role than individual households were small-to medium-business owners.

Confusion regarding the long-term drivers of electricity price increases and the perceived small role that individual households play in reducing electricity bills is likely to present barriers to reforming the electricity market and to effective consumer engagement. For example, without a greater consumer understanding of the drivers impacting electricity prices, any reforms intended to address these that will (or be perceived to) impact upon consumers in terms of their bills, comfort or convenience are likely to be strongly resisted. It may also discourage consumers from seeking out and adopting cost-effective energy efficiency measures.

While CHOICE strongly supports the capacity for consumers to switch electricity retailers in genuinely competitive markets, changing providers does not address the issue of increasing network costs. There is no doubt that consumer confusion has been exploited to some degree through electricity retail marketing, including by third parties,[12] increasing the likelihood that consumers will make decisions that may not be in their best interests. In particular, many of the discounts currently being offered refer to the savings achieved when a consumer shifts from a regulated to a market contract, meaning the potential savings are likely to be lower (and possibly non-existent) for those already on a market contract.

Reforming electricity networks

Whether privately or publicly owned, energy network businesses operate as regulated regional monopolies. The way in which these businesses are regulated has profound consequences for the prices paid by residential energy consumers.

CHOICE believes that current regulatory arrangements are skewed too much in favour of energy network businesses, and do not strike the appropriate balance between requirements for ongoing investment and the efficiency of that investment. This is reflected in the contribution of network costs to past and projected future price increases.

Some of these issues are the subjects of current rule change proposals under consideration by the Australian Energy Market Commission, while others are the focus of recommendations in the 'Power of Choice' draft report.[13] Taken together, these processes have the potential to deliver significant reforms to the energy market to improve the efficiency of network spending and reduce future cost increases for residential electricity consumers.

However, there is a risk that these processes will not go far enough in achieving the genuine transformation that is required to create an energy sector that works in the best interests of consumers, and that current draft recommendations will be watered down and made less effective before they are implemented.

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[12] For example, see the analysis in CHOICE's super-complaint to the NSW Department of Fair Trading regarding commercial electricity switching sites, accessed at http://www.choice.com.au/switchingsites

[13] Australian Energy Market Commission, 'Draft Report - Power of choice - giving consumers options in the way they use electricity', 6 September 2012

CHOICE believes the Senate Select Committee can play an important role in identifying those proposals that will deliver the greatest long-term benefit to Australian consumers, and ensuring that current opportunities for reform are maximised.

The following table summarises our key concerns in relation to electricity network reform and related recommendations:

Network issues	Recommendations
The limited powers of the Australian Energy Regulator (AER) to ensure network investment decisions are efficient. The AER has itself identified these issues, and they are the focus of rule change proposals currently under consideration.[14]	Strengthening the power of the AER to improve energy network regulation, in particular by ensuring greater scrutiny of the cost-effectiveness of infrastructure spending.
The relationship between network revenue and energy volume, which may result in windfall profits if more energy flows through the network over a regulatory period than forecast. According to the Australian Energy Market Commission (AEMC), this creates "the potential for substantial over recovery of revenue," citing AER analysis that between 2006 and 2010 in Victoria, there was over-recovery of $568 million.[15]	Decoupling the profits of network businesses from the volume of energy, thereby removing the potential for windfall profits at the expense of energy consumers.

[14] See 'AER rule change proposal to the AEMC on energy network regulation', accessed at http://www.aer.gov.au/node/6176

[15] Australian Energy Market Commission, 'Draft Report - Power of choice - giving consumers options in the way they use electricity', 6 September 2012, p. 128

Network issues	Recommendations
Imbalances in the incentives between capital expenditure and operating expenditure with greater incentives for network businesses to invest in capital expenditure than invest in demand side participation to meet growth in peak demand. Lack of incentives for network businesses to seek out and implement cost-effective opportunities to reduce demand, in particular peak demand. In circumstances where the regulated rate of return for network businesses exceeds the actual rate of return, this creates a bias towards network augmentation over demand reduction, an outcome sometimes referred to as 'gold-plating'. The skillset of network businesses is geared towards capital expenditure as opposed to delivering demand reduction projects, meaning networks may view demand reduction projects as costly and uncertain even when the potential for returns is identical.[16]	Changing regulations that currently encourage networks: - to profit from over-investment in infrastructure; - to invest in infrastructure when there are more cost-effective alternatives by way of demand side participation. Setting minimum targets for network businesses to reduce peak-demand driven network investment through demand-reduction activities. Allowing large energy users to sell reductions in electricity demand into the wholesale electricity market, thereby reducing peak demand and pressure on household bills.
Current network reliability standards in some jurisdictions result in increased costs, not reflecting the probability of failure and unrelated to what consumers are prepared to pay for levels of reliability.[17]	Reviewing and re-setting network reliability standards in relevant jurisdictions on the basis of probability and consumer preferences.

[16] Australian Energy Market Commission, 'Draft Report - Power of choice - giving consumers options in the way they use electricity', 6 September 2012, p. 120
[17] See Commonwealth of Australia, 'Garnaut Climate Change Review Update 2011, Update Paper 8 – Transforming the Electricity Sector', 2011, p. 13

Helping households save energy

Australia has traditionally benefitted from an abundant supply of relatively cheap energy resources. This has arguably led to an under-investment in energy efficiency, both in the built environment and in the culture of our energy services industries, as energy productivity has not been an economic priority.

To unlock the benefits of improved energy efficiency, CHOICE strongly supports the development of a cost-effective national energy savings initiative scheme (ESI) that will help households reduce their energy bills[18]. The Prime Minister's Task Group on Energy Efficiency estimated that such a scheme could save households up to $296 a year in 2020 and save $3.5-12 billion in deferred energy generation and transmission infrastructure by 2040.

With the existence of many non-price barriers to the take up of energy efficiency, a well-designed ESI could make a significant contribution to reducing energy bills. A carbon price alone will not ensure that all cost-effective opportunities for reducing energy consumption are implemented given barriers such as a lack of information, principal-agent issues and high capital costs.

The Government's multi-departmental Nation Energy Savings Initiative Working Group, which is investigating whether to introduce an ESI and how it should be designed, has proposed the objective for an ESI should be:

> *"to improve Australia's energy efficiency in order to help manage energy bills and improve productivity."*[19]

Improving energy efficiency reduces exposure to rising energy prices from all causes (including exposure to increasing global prices for energy resources). System-wide improvements in efficiency can offset future infrastructure costs and reduce wholesale energy prices, leading to system-wide savings. These savings ultimately flow through to all energy users. A national ESI could be designed in a way that harmonises existing state energy efficiency schemes, thereby reducing the overall regulatory burden and reducing costs for consumers.

CHOICE considers that where cost effective, an ESI should encourage liable parties to adopt a more bundled approach to energy efficiency improvements when targeting households. This is opposed to an approach for example where households and businesses would be targeted first in relation to light bulbs, then power stand-by controllers. A bundled approach would facilitate measures that need to be implemented at the same time for reasons of cost and practicality.

The majority of household decision makers surveyed in our recent survey were positive about the idea of having electricity companies visiting their home to help them become more energy efficient.[20]

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[18] CHOICE is an Advisory Group Member for the National Energy Savings Initiative.
[19] Australian Government 2012 *Progress Report: National Energy Saving Initiative*, Australian Government, Canberra, page 33.
[20] The majority of household decision makers surveyed (71%) responded positively (ranked it a good idea or better) when asked to rate what they thought of the idea that 'Electricity companies would visit your home to help you become more energy efficient (e.g. by providing information and advice, sealing door/window gaps, assessing your need for insulation, advising you about energy efficient appliances, providing subsidised energy saving products)'.

Giving consumers a stronger voice in the energy market

CHOICE believes there is a clear need for greater resources to support consumer advocacy on behalf of residential energy consumers, including the establishment of a national energy consumer advocacy body.

Most decision-making processes within the National Energy Market are complex, highly technical and time-intensive. This is true to the extent that even Australia's energy regulator struggles with the "copious amount of detail and substantial engineering justification" in its "careful forensic examination of the myriad of detailed workings" presented in energy network revenue proposals.[21]

Advocates for residential energy consumers often contest issues alongside well-resourced representatives from the electricity generation, network and retail sectors, all of which also have national peak bodies, as do large-scale energy consumers. It is worth noting that advocacy on behalf of energy sector businesses is effectively funded by consumers, given all costs for these businesses, including lobbying, end up being paid for through consumers' energy bills.

The case for increased resources for energy consumer advocacy was reinforced in a comprehensive report published by a coalition of consumer advocacy groups in 2011, including the need:[22]

- To respond to a greater proportion of formal processes;
- For a higher quality of input;
- For earlier stage engagement;
- For greater efficiencies and centralised resources; and
- For increased access to technical expertise.

The move towards national processes for the regulation of the energy market, including consumer protections, underscores the need for a well-resourced national consumer advocacy body. Such a body should have sufficient funding to draw on high-level technical expertise in order to effectively engage with energy market processes.

CHOICE supports processes currently underway to develop a model for a national energy consumer advocacy organisation. We also support the provision of greater funding for residential energy consumer advocacy through the Consumer Advocacy Panel.[23]

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[21] Andrew Reeves, Chairman, Australian Energy Regulator, 'Finding the balance—the rules, prices and network investment', 20 June 2011, accessed at www.aer.gov.au
[22] Gordon Renouf and Polly Porteous, 'Making Energy Markets Work for Consumers: the role of consumer advocacy – Final Report', 2 February 2011
[23] See http://www.advocacypanel.com.au/about.htm

Empowering consumers with better information

Comparison of electricity products requires consumers to navigate a range of features and variables. These include pay-on-time discounts, exit fees, moving home fees, one-off credits, varying tariffs (including block, off-peak and multiple time-of-use), electricity and gas bundling, locked-in rates and fixed versus consumption charges.

When energy products claim to offer savings based on 'percentage-off' deals, it is difficult for consumers to weigh up the benefits compared to their current arrangements, particularly if they are already on a discounted market offer. While unbiased comparison sites such as energymadeeasy.gov.au will assist in this process, the site in its current form does not provide searchable information about a consumer's existing energy costs, nor does it facilitate comparison of time-limited offers such as those promoted by third-party switching providers.

In this context of rising energy prices, increasingly proactive marketing and complex products, governments can play a role to facilitate better information for energy consumers. The advancement of technologies that deliver an unprecedented level of data about energy consumption, and which if effectively deployed and accessed, has the potential to empower energy consumers to make more informed decisions, and achieve greater product differentiation in electricity retail.

Making data available

CHOICE recommends fast-tracking of the Federal Government's energy information hub concept, empowering consumers with access to their own consumption data and increasing energy literacy.

An energy information hub would enable consumers to identify energy efficiency options. Providing wider access to this consumption data, with appropriate privacy safeguards, would also encourage genuine competition and product differentiation in energy retailing and promote cost-effective distributed generation options.

Some of the applications that an energy information hub could facilitate include:

- Use of the AER's price comparator at energymadeeasy.gov.au or a commercial switching site to help consumers find out which tariff best suits their individual consumption profiles based on their actual energy usage.
- Applications that estimate how much electricity each household appliance consumes and which ones would be worthwhile upgrading to reduce energy consumption.
- Applications that estimate how long it will take to recoup costs related to installing solar panels or solar hot water based on actual consumption.

In research recently conducted by CHOICE, there was an overwhelmingly positive response to ideas relating to increasing consumers' energy literacy, including:

- detailed information about individual household patterns of usage over time;

- a display showing at each point in time how much energy is being consumed, at what price and by which appliance; and
- detailed information comparing electricity usage of individual homes with similar homes in the same area.[24]

By enabling access to consumption data by parties other than energy retailers, with robust privacy protections and de-identified where appropriate, an energy information hub could help drive innovation and challenge existing business models through a shift towards energy services rather than simply energy consumption.

It is unrealistic to assume that many consumers will wish to constantly monitor their energy usage, even if such information is made available. CHOICE notes that the AEMC's 'Power of Choice' directions paper stated that in trials to date, in-home displays have a 'limited additional impact on consumer response compared to households without displays'.[25]

However, by enabling applications that provide insights and assist in purchasing decisions, liberating consumption data can play a key role in addressing some of the current issues around poor energy information through market-based solutions.

Protecting energy consumers

CHOICE believes that the National Energy Customer Framework (NECF) should be agreed and adopted by all jurisdictions as soon as possible. In particular we recommend the fast-tracking of obligations on retailers to supply Energy Price Fact Sheets and tariff information for the Australian Energy Regulator's price comparison site, www.energymadeeasy.gov.au, as provided for under the NECF.

The capacity for governments and advocates to direct energy consumers to a single, unbiased resource of information regarding energy offers will help address many of the issues identified by CHOICE in relation to commercial electricity comparison sites.[26]

While some jurisdictions have expressed concerns about elements of the NECF, CHOICE believes that on balance there are substantial benefits for energy consumers in moving to a nationally consistent framework of robust consumer protections and information provision. Increased costs to industry from regulatory inconsistency inevitably result in higher costs for Australian energy consumers.

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[24] The majority of household decision makers surveyed were positive about (i.e. rated as "good" or better) each of the following three ideas suggested as ways to reduce their bills (88%, 76% and 90% respectively), : households could have an **in-home electricity usage display**, which showed at each point in time how much energy was being consumed, at what price and by what appliance/s; electricity bills would come with additional information that **compared the electricity usage of each home by other similar homes** in the area; electricity bills would come with detailed information about household **patterns of usage over time** (e.g. seasonal effects, time of day or peak/off-peak/shoulder usage)

[25] Australian Energy Market Commission 2012, Power of choice - giving consumers options in the way they use electricity, directions Paper, AEMC, 23 March 2012, Sydney, page 93.

[26] See the analysis in CHOICE's super-complaint to the NSW Department of Fair Trading regarding commercial electricity switching sites, accessed at http://www.choice.com.au/switchingsites

At the same time, CHOICE recognises that if there is a move towards phasing-in cost-reflective pricing, protections under the NECF should be strengthened. As Victoria is the only jurisdiction to have mandated a roll-out of smart-meter technology and deregulated electricity prices, we recommend an investigation of whether specific elements of Victoria's energy consumer protections should be adopted as part of the national framework. While the NECF can still be adopted with state-specific measures legislated as derogations, we believe that all Australian energy consumers should benefit from best-practice protections.

Cost-reflective electricity pricing

Cost-reflective pricing has been identified as a key measure to help reduce the costs of electricity supply over time, including immediate savings on bills.[27] CHOICE considers that where time varying prices are introduced for residential consumers, a prerequisite should be adequate levels of consumer protections (see discussion on the NECF). This is particularly important for those vulnerable residential consumers who may be unable to shift their consumption under a time varying tariff.

CHOICE is currently considering the proposed approach to phasing-in time-varying pricing in the AEMC's 'Power of Choice' draft report in further detail. In our research, where time varying prices were proposed as a way to help *reduce electricity bills*, approximately three quarters of those surveyed were receptive to the idea (rating it a good idea or better). However, a significant proportion (nearly a fifth) of those surveyed rated it as a bad idea or worse. This underlines the importance of an approach to electricity market reform and new technologies that prioritises community engagement and protections for vulnerable consumers.

Critical peak pricing

The purpose of critical peak pricing is to reduce consumption during peak times.[28] CHOICE considers that critical peak pricing (CPP) should be offered on an opt-in basis.

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[27] For example, according to the AEMC's draft 'Power of Choice' report, "an average consumer who simply moves from a retail flat tariff to more flexible time varying tariffs could potentially save up to around $100 per year. This could increase to as much as $200 per year if the consumer also changes their consumption pattern." See Australian Energy Market Commission, 'Draft Report - Power of choice - giving consumers options in the way they use electricity', 6 September 2012, p. v

[28] 'CPP is a real-time rate that is applied during periods when supply and demand conditions become very tight. Typically, such a rate gives consumers a predictable price (flat or Time of Use) during all but a limited number of hours per year, when (much higher) rates (the CPP) would be charged. Generally, consumers are notified about a CPP event in advance through various communication tools, for example telephone, e-mail, SMS and messages on in-home displays. Notification can be 2 hours to 24 hours before the CPP is called. In this way the consumer can choose to avoid the higher prices by reducing their consumption during those times.' AEMC 2012, 'Power of choice - giving consumers options in the way they use electricity', draft report, 6 September 2012, Sydney, Appendix B.

If it were to be compulsory for all residential consumers, there is a significant risk that some consumers would not receive notification about a CPP event given a lack of engagement and/or understanding and therefore not reduce consumption during this period. Subsequently, the net effect will be that consumption is not reduced and the consumer faces a larger electricity bill than expected. This is likely to lead to a significant number of angry, upset and confused consumers and set back broader moves towards time-of-use pricing.

Such a reaction could also set back the implementation of other reforms in the energy market, given the experience of the 'smart-meter' roll-out in Victoria. It is also important that vulnerable consumers are not defaulted towards CPP as the only means to make their energy affordable.

Problems with commercial comparison sites

CHOICE believes that commercial comparison sites can play an important role, providing easy to understand and accessible information to consumers. However our investigation into commercial electricity comparison sites in NSW identified several issues which NSW Fair Trading is now investigating, including:

- Claims about cost savings, 'cheapest' and 'best' plans;
- Claims about impartiality;
- Claims about the pool of energy retailers used; and
- Undisclosed commissions received by operators of websites.

CHOICE's findings are similar to those of the Consumer Utilities Advocacy Centre (CUAC), which investigated Victorian-based comparison sites. Based on these investigations, CHOICE recommends that a code or accreditation system for commercial switching sites be introduced, similar to that which operates in the UK.[29] This would help consumers quickly identify the switching sites they can trust.

In its initial response, NSW Fair Trading agreed that a voluntary industry code of conduct may improve the quality of switching sites. CHOICE is contributing to work led by CUAC progressing draft principles for a code of conduct.

Direct marketing of energy products

CHOICE believes that effective competition in the energy retail market requires consumers being able to make active and informed decisions. Based on our research, consumers have low levels

[29] See 'Ofcom Price Comparison Accreditation' accessed at

http://stakeholders.ofcom.org.uk/consultations/ocp/statement/pricescheme/consumerfaq/

of confidence in the quality of information provided and have a high level of dissatisfaction with high pressure selling techniques employed by direct marketers, in particular door-to-door sales.

Similar issues have been identified in detail by groups including the Consumer Action Law Centre[30] and the Consumer Utilities Advocacy Centre. The ACCC recently released a major research report estimating there had been one million door-to-door energy sales in Australia in 2011, with total door-to-door visits averaging eight per household,[31] a figure likely to skew much higher in NSW and Victoria due to the retail electricity markets in these states.

CHOICE also conducted qualitative research in September and October 2011 where household decision makers surveyed expressed a high level of dissatisfaction with the quality of information provided and the high pressure selling techniques employed by door-to-door salespeople selling energy plans. A sample of responses includes:

> *'I need to be able to compare products in an objective place without pressure from salespeople. This is never provided by door-knockers or over the phone in my experience'*
>
> *'The door-knockers always seem to think I have nothing better to do but listen to their 'big sell'. It is so clear they are money-makers. I do not trust door knockers'*
>
> *'Not once have I found anything they [telemarketers and door-to-door salespeople] have provided as useful, clear or easy to understand… It's the variables. If 'this' comes into play, then 'that' may happen, unless of course, 'something else' is taking place, in which case - well, you get my drift'*

CHOICE believes that consumers should have the option not to be contacted by door-to-door salespeople as they currently do for telemarketers. For this reason, we supported the recent Do Not Knock Register Bill proposed in the Federal Parliament, which it appears will not proceed.

CHOICE also strongly supports CALC's initiative to distribute 'Do Not Knock' stickers for households, and notes the ACCC is undertaking legal action to determine whether or not these stickers constitute a request to leave under the Australian Consumer Law.[32]

It reflects the current immature state of the retail energy market that such a large number of acquisitions are driven by sales techniques that are intrusive and viewed by the majority of consumers as negative. While providing consumers with the ability to opt-out of door-to-door sales is important, we believe broader issues must be addressed to improve consumer information and promote genuine competition and product differentiation in electricity retailing.

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[30] See http://www.consumeraction.org.au/get-involved-in-our-campaigns/Do-Not-Knock.php
[31] See http://www.accc.gov.au/content/index.phtml/itemId/1070537/fromItemId/142
[32] See http://donotknock.org.au/2012/03/27/consumer-action-welcomes-clarification-of-legal-position-of-do-not-knock-sticker

Banning exit fees in electricity contracts

CHOICE notes recent moves from jurisdictions including Queensland, NSW and South Australia to abolish exit fees in electricity contracts in circumstances where prices or terms and conditions change during the contract period. In principle, we support moves that make energy consumers more mobile and able to access better deals. CHOICE supported an analogous approach to the banning of exit fees on variable rate mortgages, and believes this has resulted in clear benefits for Australian banking consumers.[33]

Ideally, the approach to exit fees on electricity contracts should be nationally consistent to minimise costs. CHOICE questions the proposition that exit fees are required to ensure more competitive products, and instead believes the focus should be on the provision of better information. Consumers are unlikely to switch away from a competitive product if they are easily able to compare their current deal with other offers.

Deploying new technologies

As discussed, there is a range of new technologies with the potential to give consumers greater awareness and control of their energy consumption. However there are significant challenges in ensuring the modernisation of the electricity grid is undertaken in a cost-effective manner, with the benefits aligned appropriately.

For example, where a technology benefits a network business, such as the facility for remote meter reading or lower maintenance costs, then it is appropriate that the consumer does not bear the cost, or that the benefit is clearly passed on to consumers in the form of lower prices.

It is also crucial that the roll-out of new energy technologies results in clear benefits to consumers that outweigh costs, and that the process is consumer-led, prioritising community engagement and the provision of meaningful information, rather than being technology focused.

CHOICE has tested consumer views on a range of potential new energy technologies. Our research found markedly different views from household decision makers surveyed on the idea of having electricity companies remotely controlling certain appliances (such as air conditioners) when turned on to save electricity for the household even where the household could manually override this.

These views may be influenced by a number of factors including a general lack of awareness of what is driving up electricity prices and apprehension given a lack of awareness surrounding how remote cycling would operate.

About half of household decision makers surveyed rated remote load control as a ‘good idea’ or better (43%) and a similar proportion rated it as a ‘bad idea’ or worse (46%). Among those who rated the idea negatively, sentiments were stronger from Victorian consumers, who were more likely to rate it as ‘terrible’ rather than merely ‘bad’ or ‘very bad’. This may reflect the general lack of positive consumer engagement with smart meters in Victoria and emphasise the

[33] See http://www.choice.com.au/media-and-news/consumer-news/news/mortgage-exit-fees-ban-becomes-law.aspx

importance of ensuring that any roll out of smart meters prioritises community engagement and demonstrated benefits for households.

Terms of Reference

1. That a select committee, to be known as the Select Committee on Electricity Prices be established to inquire into and report on:

    a. identification of the key causes of electricity price increases over recent years and those likely in the future;

    b. legislative and regulatory arrangements and drivers in relation to network transmission and distribution investment decision making and the consequent impacts on electricity bills, and on the long term interests of consumers;

    c. options to reduce peak demand and improve the productivity of the national electricity system;

    d. investigation of mechanisms that could assist households and business to reduce their energy costs, including:

        i. the identification of practical low cost energy efficiency opportunities to assist low income earners reduce their electricity costs,

        ii. the opportunities for improved customer advocacy and representation arrangements bringing together current diffuse consumer representation around the country,

        iii. the opportunities and possible mechanisms for the wider adoption of technologies to provide consumers with greater information to assist in managing their energy use,

        iv. the adequacy of current consumer information, choice, and protection measures, including the benefits to consumers and industry of uniform adoption of the National Energy Customer Framework,

        v. the arrangements to support and assist low income and vulnerable consumers with electricity pricing, in particular relating to the role and extent of dividend redistribution from electricity infrastructure,

        vi. the arrangements for network businesses to assist their customers to save energy and reduce peak demand as a more cost effective alternative to network infrastructure spending, and

        vii. the improved reporting by electricity businesses of their performance in assisting customers to save energy and reduce bills; and

    e. investigation of opportunities and barriers to the wider deployment of new and innovative technologies, including:

i. direct load control and pricing incentives,

ii. storage technology,

iii. energy efficiency, and

iv. distributed clean and renewable energy generation.

f. any related matter.