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Australian Energy Market Commission
Level 6
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Submission to AEMC Consultation Paper: National Energy Retail Amendment (Advance notice of price changes) Rule 2018

Thank you for the opportunity to contribute to the proposal to amend the requirements for retailers to provide advance notice of price changes to their customers. The Tribunal has asked me to make this submission on its behalf.

Under the *National Energy Retail Law (NSW) No 37*, IPART is required to monitor the performance and competitiveness of the NSW retail electricity and gas markets.

Our most recent 2017 review of competition and performance in the retail electricity market (our 2017 review) found that competition in the electricity retail market has continued to develop; however, further improvements could be made to help customers shop around to increase the pressure on retailers to provide more competitive prices and services.

As part of our review, we recommended that the NSW Government work with the COAG Energy Council to make changes to the National Energy Retail Law and rules to require retailers to provide advance notification of price changes to customers. These notification requirements should apply equally to price changes for the supply of electricity and gas.

Improving customer engagement is a key objective of the rule change

We consider that the **primary** benefit of the proposed rule change is the potential for increased competition as the result of greater customer engagement. In particular, changes to the notification requirements should result in:

- ▼ **More customers engaging** in the market, due to more effective notification (for example, through stand-alone communications separate to customers' bills).
- ▼ **Customers engaging earlier**, because customers would be notified up to three months sooner than they currently are. Depending on the timing of a price change relative to when a customer's next bill arrives, many customers are currently paying higher prices for several months before they are notified of these price changes.

The AEMC's 2017 Retail competition review found that the main reasons for switching were price related (where 64% of customers switched because they wanted cheaper prices).

However, because retailers are not currently required to inform customers of price changes before they occur, price signals are not necessarily visible to electricity consumers, which means they are less likely to take action as a result.

Increasing awareness of any price changes through enhanced notification requirements are likely to increase the number of customers switching, and switches would occur earlier. In our 2017 review, we found that some customers would have made substantial savings if they had switched sooner in response to an earlier price notification. For example, a customer switching from a standing offer (facing a 17% price increase) to a market offer would have saved around \$80 if they had switched eight weeks sooner as a consequence of an earlier price notification.

If some customers do not switch (for example, because their prices remain good value relative to other offers) the prospect of greater engagement by customers would enhance the competitive market. The more well-informed and engaged customers are likely to be, the more pressure there is on retailers to offer competitive prices and services.

Notification requirements should be the same regardless of why prices are increasing, and should take the same form

The AEMC recently made a rule change that requires retailers to notify their customers when a ‘fixed benefit’ (such as a discount) under their contract ends. The AEMC determined that the notification should clearly and prominently state:

- ▼ that a price change will occur, the price change and the price change date
- ▼ that the customer may use the energymadeeasy price comparator website to compare offers that are generally available to classes of customers in their area
- ▼ the name and web address of the price comparator, and
- ▼ that the customer can request historical billing data from the retailer that will assist it to use the price comparator to compare offers.

We consider that the notification requirements should be consistent regardless of the timing of an effective price increase for customers – whether it is because the underlying tariffs change, a discount ends, or for some other reason.

Currently, advance notice is only required when a fixed benefit period ends. This creates an incentive for retailers to adjust the effective price paid by customers through changing underlying rates rather than offering a fixed benefit. For example:

- ▼ A retailer could offer a 10% discount which ends after 12 months. Before the end of the 12 month period, the retailer would be required to notify the customer that the discount period is coming to an end.
- ▼ Alternatively, a retailer could offer an ongoing discount, and then after 12 months they could increase the underlying tariff by 10% (while maintaining the same 10% discount ‘benefit’). In this circumstance, the retailer would not have to notify the customer in advance that they have changed their prices, even though the impact on the customer would be similar.

Ongoing discrepancies undermine the notification rules, because they provide an incentive for retailers to change the effective prices paid by customers using the method that reduces the notification obligations.

The notification should reference the energymadeeasy website

In its most recent competition review, the AEMC found that only one in 10 customers is aware of the energymadeeasy price comparator website. To maximise the benefits of the rule change, retailers should notify customers about the website so that they can easily engage in the market and compare offers (consistent with the notification requirements prior to a fixed benefit period ending). In addition, retailers should advise customers that they can obtain their own historical billing data from their retailer.

The AEMC's consultation paper raised the issue of a customer visiting the energymadeeasy website in response to the price notification, and the customer's current prices continuing to be displayed in the search results, while the new prices in the notification are not. This could occur because currently retailers are not required to update their offers on energymadeeasy until after the new rates apply. This is an existing problem for customers seeking to compare their offers shortly before prices change, whether prompted by a notification or not, and should be addressed by the AER.

The price notification should be a standalone document or email

In our 2017 review, we found that many retailers provide notice of price changes to their customers on their bills. This is often at the bottom of a bill, in very small print, which customers can easily miss.

We consider that the rule should require retailers to provide a price change notification through the same communication channel as customers have chosen to receive their bill, and that it is provided in a standalone document or email. This would help ensure that customers are made aware of the price changes.

Allowing customers to receive the price change notification through email, if this is a customer's preferred communication channel, should help minimise the costs of the new requirement.

We do not consider that it would be sufficient to provide price change details only through a channel that requires customers to actively seek out the details of any price change; for example, through a customer portal that would require customers to log in through a website or an app. Increasing barriers to customers receiving updated price information would minimise the effectiveness of the rule.

Retailers can implement strategies to minimise the costs of complying with the rule change

Network prices in NSW change on 1 July each year. The AEMC's consultation paper states that retailers need enough time to assess any network price changes before sending out price change notifications in accordance with the ten day advance notice period.

There is no requirement for retailers to change prices on 1 July each year in step with the network price changes. Therefore retailers are able to implement strategies to minimise the costs of complying with the rule change. For some retailers, it could be most cost-effective for them to change retail prices on a date other than 1 July, if it assists them to stagger mail-outs to reduce any postage costs, and reduce the number of follow-up inquiries to call centres occurring at the same time. It could also be most cost-effective to implement other strategies, such as:

- ▼ absorbing minor changes in network prices, rather than passing them through to customers immediately,
- ▼ providing incentives to customers to sign up to online communication channels to reduce postage costs, and
- ▼ providing effective communication to customers, including explaining why they are changing their prices, to reduce the number of follow-up inquiries to their call centres.

The price notification requirements should apply only to price increases

We consider that it is not necessary to require retailers to provide advance notice of price reductions. Instead, retailers can provide notice on a customer's next bill, as is currently the case. This is because in the case of tariff reductions, the benefits to customers are unlikely to outweigh the associated costs of the price notification.

For most customers, being notified that prices will come down is unlikely to provide a stimulus for them to engage with the market. The costs associated with the notification could provide a disincentive for retailers to reduce their prices, to the detriment of consumers (although, we also note that there is also an incentive for retailers to promote any price reductions to their customers to help build customer loyalty).

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Yours sincerely



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