

Australian Energy Market Commission
PO Box A2449
SYDNEY SOUTH NSW 1235

Lodged online: www.aemc.gov.au

16 August 2018

Advance Notice of Price Changes (Ref RRC0015)

The Australian Energy Council (the Energy Council) welcomes the opportunity to make a submission on the Australian Energy Market Commission's (AEMC) Advance Notice of Price Changes draft rule. The Energy Council supports measures that improve customer understanding of their energy contracts and encourage consumers to engage with the market.

Primary purpose of the notice

The Energy Council agrees with the conclusion of the AEMC in the draft determination that the primary purpose of the notice is to inform customers of a price change. Keeping the scope of the rule change narrow reduces the potential for information overload, confusion and overlap with other notice requirements. The scope of the rule should not be broadened during this round of consultation.

Timing of notice

The Energy Council maintains that advance notice without a prescribed period is the best regulatory option available. The draft determination identifies a number of important factors raised by stakeholders that should be taken into account when determining the optimal notice period. We support the implementation of this rule in a manner which encourages transparency, consumer engagement and competition however a more flexible timeframe would better achieve these goals.

While there are potentially some benefits to customers being notified five days prior to a price change, these benefits are minimal. Customers may be able to react sooner to a change, which might result in a slight decrease in their energy costs, however it is critical not to overstate these benefits. The greatest benefit for consumers will be over the medium to long term. As they become more aware of changes to their bill, they may switch to a better deal or reduce consumption. All of these factors will reduce 'bill shock'.

It is unlikely that a customer would decide to make a significant investment in distributed generation during a five day window in order to mitigate the impact of the price rise. Even if this were to occur, the main benefits would only be gained over the longer term.

Conversely, the reduction in retailer costs of allowing a more flexible timeframe for the price change notification are likely to be significant. As noted by a number of our members in submissions to the Consultation Paper, there are many factors involved in undertaking a price change. These factors require significant organisation and logistics, and providing retailers a small degree of additional flexibility can only reduce costs. This would allow very large retailers with significant numbers of customers receiving paper communication more time to spread the notification across their customer base, and allow for any errors to be fixed without requiring complex manual processes.

It is important to note that simply because a retailer is able to send a notification up to one day prior to the change occurring, in practice customers will be notified much sooner to account for the above noted factors. Only a small percentage of customers will be notified at the latest regulatory opportunity.

Notice for a price decrease

The Energy Council also questions the value in mandating that retailers notify customers in advance for a price decrease. The problems identified in the rule change proposal do not relate to instances where prices decrease. Retailers also have a natural incentive to share good news with customers in the lowest cost manner possible. Given this, it appears a regulatory intervention is unnecessary and is likely to have a number of unintended consequences.

For example, a number of fees are often directly linked to obligations outside of a retailer's control. This is particularly pertinent in the application of credit card fees where retailers are price takers. Regulations prohibit retailers from charging more of their customers in fees than they are charged for credit services. A small reduction in the percentage fee able to be charged might be required to be passed onto the customer, and as such the retailer would be obliged to notify the customer in advance under this rule. While we accept IPART's position that a retailer could simply absorb a slight increase in costs in the interests of operational efficiency, this is not the case for cost decreases for specific fees such as credit card fees.

We note the issues raised in the draft determination that it might be complex to determine if a price increases or decreases, particularly if one element of the price increases and one decreases. This issue does not appear to be particularly difficult to resolve. We would be comfortable notifying customers in advance if any element of the tariff increased. This would alleviate the necessity to undertake an assessment as to whether the customer is better or worse off.

Exemptions

The Energy Council supports the exemptions that have been included in the draft rule change. We note that these exemptions are only necessary due to the prescriptive obligations in the draft rule requiring retailers to notify five business days in advance and to notify customers in advance of a price reduction.

Further to the amendments noted in the draft decision, we consider two further exemptions would ensure the intent of the rule was achieved. We consider that network reassignment price changes should be exempt from the rule. Network classification changes often result in reassignment of tariffs outside of a retailer's control. For example, a site can be reclassified between residential and business, or from small to large. In most cases, retailers are advised the day of or shortly after a tariff change applies. This would impact a retailers' ability to provide notice 5 business days in advance, and in any event would likely impact the customer irrespective of the retailer or energy plan they were signed up to.

We also consider that an exemption should be included in instances where a ministerial direction or rule change expressly causes a change in a customer's pricing. For example, the NSW Energy Minister announced last year that certain fees would be banned for small customers. Requiring retailers to send customers price change notifications in these circumstances would be particularly onerous and costly as these types of announcements tend to be unscheduled. Customers would still be notified at their next scheduled price change.

Civil Penalty

The Energy Council questions the need for a civil penalty provision in this instance, particularly as it was not requested as part of the rule change request. The AEMC cited deterrence as a reason to include a civil penalty in the draft determination. However, given retailers would be unable to apply new pricing to a customer until

they have provided the required notification, we expect necessity will act as a more efficient deterrent. We do not consider the draft rule changes the nature of the obligation to an extent that it is now appropriate to be a civil penalty provision, particularly given the previous rule was not.

The Energy Council looks forward to further engagement with the AEMC on measures to increase customer engagement with the retail energy market.

For any questions about our submission please contact Oliver Williams by email at oliver.williams@energycouncil.com.au or on (03) 9205 3111.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'B Barnes', written in a cursive style.

Ben Barnes
Director, Retail Policy
Australian Energy Council