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19 September 2019

Australian Energy Market Commission
Attention: Mr Conrad Guimaraes
PO Box A2449
Sydney South NSW 1235

Reference: RRCoo28
conrad.guimaraes@aemc.gov.au

Dear Mr Guimaraes

Regulating Conditional Discounting, Consultation paper, 1 August 2019

Meridian Energy Australia Pty Ltd and Powershop Australia Pty Ltd (MEA Group or Powershop) thanks the Australian Energy Market Commission (AEMC) for the opportunity to provide comments on the AEMC's Regulating Conditional Discounting, Consultation paper (the Paper).

Background on the MEA Group

MEA Group is a vertically integrated generator and retailer focused entirely on renewable generation. We opened our portfolio of generation assets with the Mt Millar Wind Farm in South Australia, followed by the Mt Mercer Wind Farm in Victoria. In early 2018 we acquired the Hume, Burrinjuck and Keepit hydroelectric power stations, further expanding our modes of generation. We have supplemented our asset portfolio by entering into a number of power purchase agreements with other renewable generators, and through this investment in new generation we have continued to support Australia's transition to renewable energy.

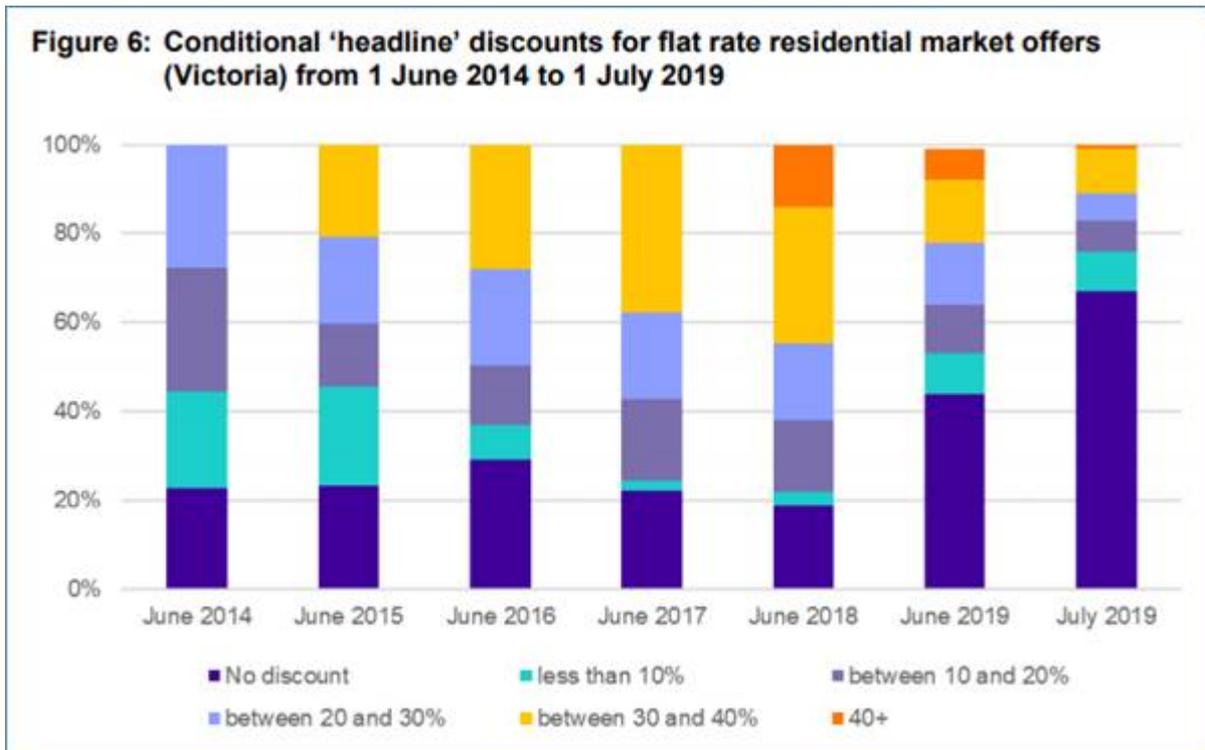
Powershop is an innovative retailer committed to providing lower prices for customers and promoting customer engagement. Powershop recognises the benefits to customers in transitioning to a more distributed and renewable-based energy system. Over the last five years, Powershop has introduced a number of significant, innovative and customer-centric initiatives into the Victorian market, including the first mobile app that allows customers to monitor their usage, a peer-to-peer solar trading trial and a successful customer-led demand response program. Powershop has also been active in supporting community energy initiatives, including providing operational and market services for the community-owned Hepburn Wind Farm, supporting the Warburton hydro project, and funding a large range of community and social enterprise energy projects through our Your Community Energy program.

Powershop acknowledges the intent of the rule change request, however we do not agree that the proposed rule change meets its stated policy objectives. It should be noted that the Default Market Offer (DMO), introduced on 1 July 2019 has had the desired effect of improving the comparability of market offers, reducing the number of market offers with conditional discounts and the level of conditional discounts in the market.

An immediate observable impact of the implementation of the DMO was the reduction of the number of retailers (approx. 6 out of 22) in NSW offering a conditional discount (pay-on-time) and that post-July the highest discount being offered was 25% off the full bill.¹

The Australian Competition Consumer Commission observed in its ‘Inquiry into the National Electricity Market- August 2019’; “Retailers are moving away from advertising conditional discounts based on inflated and inconsistent base rates, enabling customers to more easily identify a better deal for their circumstances and gain the benefits of competition.”²

In addition, data shows that the “extremely high” discounts have also disappeared:



Source: Australian Competition Consumer Commission, Inquiry into the National Electricity Market – August 2019 Report, Page 11

Noting this rule change was requested prior to the DMO coming into effect, the full impact on the retail market should be assessed before making further unnecessary changes. The DMO applies a fair price for all customers, and therefore as intended, acts as an adequate customer protection for customers who cannot or do not wish to engage in the market.

It is important to note that the DMO is predominately designed to provide protections for customers; but to also allow for competition within the market. It is not intended to reduce competition, the ability of retailers to offer differentiated products (including discounts and other features) or to penalise customers from engaging in the market. Powershop notes that currently the 6 retailers offering a conditional discount are Tier 2 retailers. Conditional discounts before the DMO were regularly used as a form of offer differentiation to compete against in particular the incumbent Tier 1 retailers.

The above comments underline the importance of why conditional discounts have a role to play in the market.

Powershop has responded to the questions raised by the Paper below.

QUESTION 1: OFFER COMPARABILITY

(a) Will comparability issues for conditional discount offers continue to be material with the introduction of the Code?

The DMO and the Electricity Retail Code of Conduct (the Code) substantially reduced any comparability issues for market offers.

¹ New South Wales Energy Prices July 2019, An update report on the NSW Tariff-Tracking Project, St. Vincent de Paul Society, page 12

² Australian Competition Consumer Commission, Inquiry into the National Electricity Market – August 2019 Report, Page 2

(b) What other factors may be present that contribute to the difficulty of offer comparability?

The introduction of the Code and associated presentation requirements relating to discounts off the DMO should have the intended consequence of reducing confusion in the long term, however it has initially caused further confusion, mainly due to differing interpretations across the industry. We have had numerous customers enquire about what the DMO is, what is a reference price, can they still access their usual discount offers.

Powershop believes offer comparability will become easier under the DMO when industry is provided with further clear guidance, there are no further regulatory interventions and impacts, the market makes the appropriate adjustments and a review of the impact of the DMO over the first 12 months is implemented.

QUESTION 2: EXCESSIVE PENALTIES

(a) Do stakeholders agree with the characterisation of substantially higher prices paid by customers when they miss conditional discount conditions as excessive "penalties"?

Powershop disagrees and finds the reference 'excessive penalties' lacks context and understanding as to why market offers include conditional discounts. When a customer enters into a contract, a retailer must disclose all rates including any relevant conditional discounts which can be applied to the disclosed, guaranteed rates the customer would otherwise pay. To be clear, if a customer does not achieve the conditions on a discount they are not being penalised. While conversely, if a customer meets the disclosed conditions then they are rewarded.

Both retailers and regulators are aligned with the intention to help customers 'engage' in the market and to increase participation. Powershop strongly believes that the inclusion of features, such as monthly conditions, helps drive customer engagement. Customers who engage in this manner are more aware of their usage and can adjust their consumption and behaviour accordingly and take control of their bills. There is enough evidence in the NEM to conclude conditional discounts have provided many customers incentive to engage with their retailer in order to receive a discount and are rewarded accordingly.

The reference to 'substantially higher prices' if the discount conditions are missed no longer applies. The DMO has now capped a fair reference price for all customers to pay, regardless of if they achieve the conditions of a discount or not. Conditional discounts must always be calculated from the reference price.

(b) What customer groups are most at risk of failing to realise conditional discounts? How significant are these groups as a proportion of the energy customer base? (e.g. [i] Should payment plan customers be considered? [ii] Hardship customers make up 1.4 per cent of all customers according to AER data).

Powershop and some retailers have moved, or are moving hardship customers to simpler, non-discounted offers. Some retailers have specific hardship offers. Hardship customers make up less than 1% of Powershop's customer base,

(c) Do stakeholders have views on the ability of vulnerable customers to anticipate their energy plan costs and ability to pay?

Powershop provides all customers, including vulnerable customers, full access to their usage data, ongoing and estimated forecast costs via an online portal and mobile app. These tools are extremely beneficial to our customers.

(d) What internal rules do retailers have in place to ensure customers on a hardship program do not lose any benefit or discount for late payment (in line with the commitment announced on 7 August 2017 noted above)? Are retailers still committed to this approach now that the DMO has been introduced?

Powershop has internal procedures to identify hardship customers who are not taking up discounts. The processes include:

- explaining to the customer how to buy power and the benefits for buying power prior to the due date for payment of a monthly bill; and
- advising of a non-discounted flat rate product that they can choose (no prompt payment reliance); then
- with this information a customer can make an informed decision on which product best suits their needs.
Note: The above is dependent on the customer engaging with us.

Powershop undertakes regular reviews of our products and offers in light of our customer base, including vulnerable customers.

QUESTION 4: ENERGY OFFERS NOT COVERED BY THE CODE

(a) Do stakeholders consider gas offers should be subject to conditional discount limitations, in line with electricity offers?

As stated above, Powershop does not believe that this is required, nor is there evidence to supporting this regarding gas offers. Industry and consumer representative groups have not raised this as a significant issue.

(b) How has the introduction of the Code impacted the prominence and magnitude of gas offers?

The most noticeable change to the market for gas is the transition from percentage discounting to using monetary based credits.

QUESTION 5: SOLUTIONS

General questions:

(a) Are there any alternative solutions that should be considered by the Commission?

Powershop believes the AEMC should not apply the rule change for the reasons provided above. The market needs to be provided the opportunity to absorb the DMO and its effect both known and unintended. We do not believe the other four options noted in the Paper are required.

QUESTION 6: ASSESSMENT FRAMEWORK

(a) Do you agree with the assessment framework outlined by the Commission?

Powershop would support the proposed assessment framework in order to contribute to the achievement of the National Energy Retail Objective (NERO).

The four options outlined in the paper do not support the priorities of the assessment framework or the NERO. Those options all negatively impact competition, create further risks to customers and the industry and will result in significant implementation costs which will ultimately be borne by customers.

Powershop believes that conditional discounts included in market offers should be permitted. Conditional discounts provide a point of difference between retailers and promote competition and innovation of products and offers.

We encourage the AEMC to reject this rule change request and allow for a detailed, robust review of the impacts of the DMO on the market before any further regulatory interventions are considered. In addition, the impacts of the more expansive, revised version of the DMO will need to be assessed post implementation.

If you have any queries or would like to discuss any aspect of this submission please do not hesitate to contact me.

Yours sincerely,



Michael Benveniste
Chief Commercial Officer
Powershop Australia Pty Ltd
Meridian Energy Australia