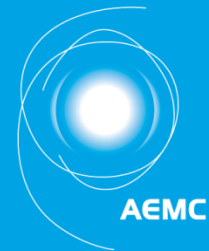


AEMC Public Forum

19 May 2014

**Retailer price variations in market
retail contracts**

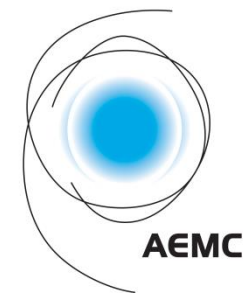
AEMC



Welcome and introduction

- A word from the AEMC Chairman
- Objective of the forum and assessment framework
- Overview of stakeholder submissions

AEMC



Objective of the forum and assessment framework

AEMC public forum
19 May 2014



Chris Spangaro
SENIOR DIRECTOR
AUSTRALIAN ENERGY MARKET COMMISSION

Objective of the forum

- To discuss proposed change to the National Energy Retail Rules to prohibit retailers from varying prices under fixed term and fixed benefit period market contracts

Session 1:

Is there a problem that requires a regulatory response?

Session 2:

What is the appropriate response to any problems identified?

The Commission's legal test

The Commission's rule making test has two parts

***National Energy Retail
Objective assessment***

Focuses on the long term interests of consumers

- efficient investment, operation and use of energy services

***Consumer protections
assessment***

Compatibility with the application and development of consumer protections

The Commission's assessment framework

- Our assessment framework focuses on the following key issues:

Allocation of costs and risks between retailers and consumers

Consumer participation and engagement

Impact on competition between retailers, including on product diversity and consumer choice

Consumer protection issues, including interaction with the Australian Consumer Law and other consumer protections

The Commission's rule making options

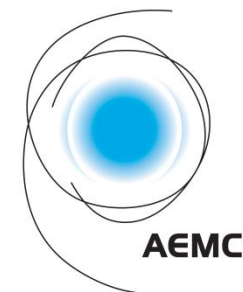
Commission's rule making options

make the rule as proposed

make no rule

make a more preferable rule

The Commission may make a more preferable rule if it is satisfied the more preferable rule will or is likely to better contribute to the National Energy Retail Objective.



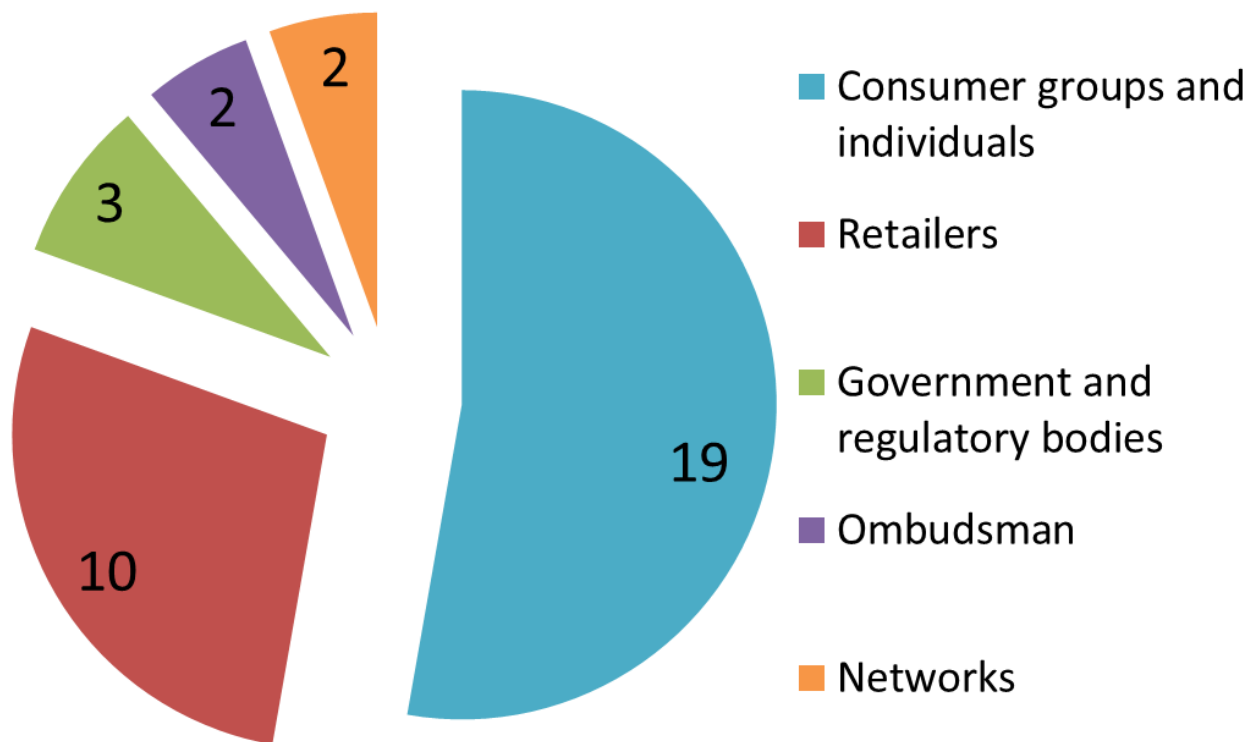
Summary of submissions

AEMC public forum
19 May 2014



Sarah Lau
SENIOR ADVISER
AUSTRALIAN ENERGY MARKET COMMISSION

Submissions received



- 36 stakeholders provided submissions
- 9 emails from consumers and 1,115 petition responses also received via CALC website

Q. Is there a problem in the retail energy markets that requires a regulatory response?

CALC/CUAC
National Seniors
UnitingCare Australia
UnitingCare Wesley Bowden
Ethnic Communities Council
COTA
MEU
Consumers SA
QCOSS
TasCOSS
SACOSS
NCOSS
Qld Independent Legal Services
4 individuals
PIAC

AER
SA Dept
VIC Dept
EWOV
EWOSA
Business SA

- Consumer groups and individuals
- Government and regulatory bodies
- Networks
- Retailers
- Ombudsman

AGL
EA
ENA
United Energy &
Multinet Gas

ERAA
Simply Energy
Red Energy
Alinta Energy
Lumo Energy
Ergon
Momentum
Origin



Q. Should the proposed rule be made?

CALC/CUAC
National Seniors
UnitingCare Australia
UnitingCare Wesley Bowden
Ethnic Communities Council
COTA
MEU
Consumers SA PIAC
QCOSS
TasCOSS
SACOSS
NCOSS
Qld Independent Legal Services
4 individuals

- Consumer groups and individuals
- Government and regulatory bodies
- Networks
- Retailers
- Ombudsman

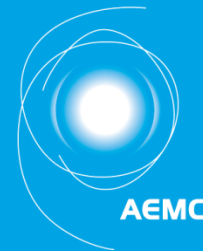
AER
SA Dept
VIC Dept
EWOSA
Business SA

ERAA
Simply Energy
Red Energy
Alinta Energy
Lumo Energy
Ergon
Momentum
Origin
AGL
EA
ENA
United Energy &
Multinet Gas



Views on alternative solutions

	Support	Against
Limited pass-throughs	CALC/CUAC (2 nd preference)	AER, EA, ERAA, Origin, Alinta Energy, UnitingCare Australia
Clarify application of Australian Consumer Law	CALC/CUAC (3 rd preference), SACOSS, TasCOSS	MEU, EA, AER, ERAA, Lumo, Origin, Alinta Energy
No exit fees after price rise	UnitingCare Wesley Bowden, PIAC, National Seniors, Consumers SA	ERAA
Better information/notification of price changes	AER, Simply Energy, SA Govt, EWOSA, Business SA, AGL, EA, National Seniors, PIAC, ENA, United Energy & Multinet Gas, Vic Govt	Origin, ERAA, Momentum



Session 1

Is there a problem that requires a regulatory response?

AEMC



Fix it



Problems with contracts and competition in the energy market

AEMC Forum on Retail Rule Change

Gerard Brody

Chief Executive Officer

19 May 2014

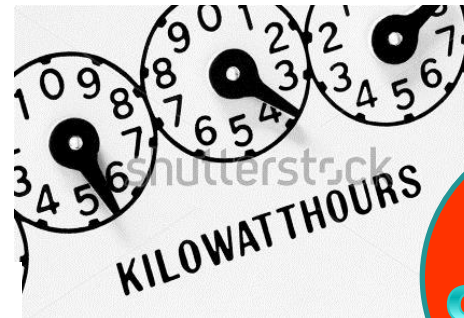
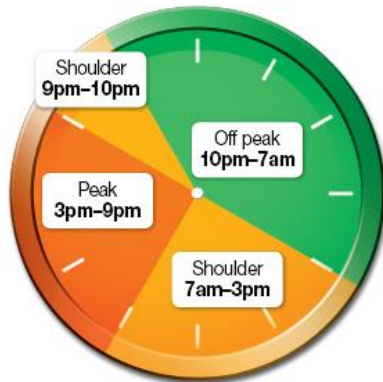
Images: Shutterstock



Effective and fair competition



Choice paralysis



Daily charges



**9 months?
12 months?
18 months?...**

No Contracts Ever!



How to make competition work





Retailer price variations in market retail contracts public forum

19 May 2014

The proposed rule change is not in the long term interests of consumers as it is likely to result in reduced choice and higher costs for consumers.



Key Tests:

- that the new rule will or is likely to promote the long-term interests of consumers as required under the National Energy Retail Objective (NERO); and
- where relevant, that the new rule is compatible with the application and development of consumer protections for small customers, including hardship customers (the consumer protections test).

Key Issues

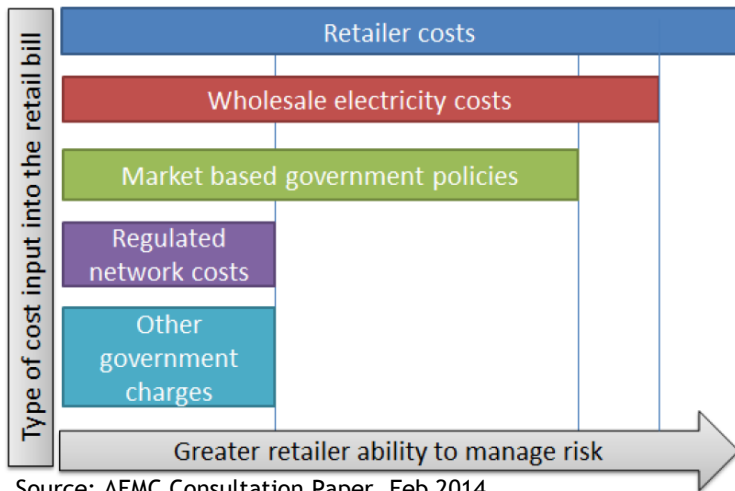
- Allocation of costs and risks.
- Consumer participation and engagement.
- Competition between retailers.
- Consumer protection issues.

Retailers are exposed to significant variations in network and Government policy costs that are beyond their control and ability to forecast.



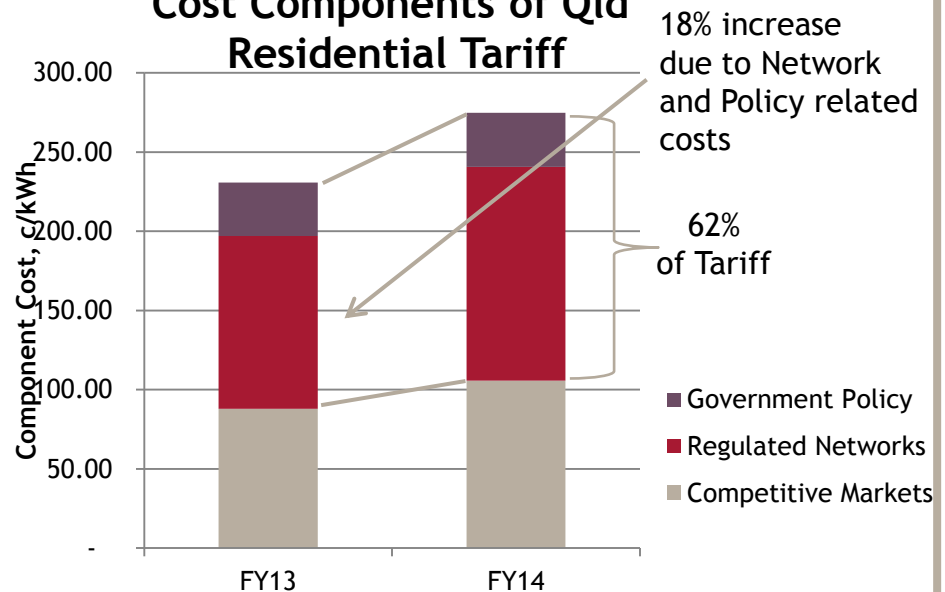
Efficient Allocation of Risks

Figure 5.2 Ability of retailers to manage different cost components in a retail electricity bill



Source: AEMC Consultation Paper, Feb 2014

Cost Components of Qld Residential Tariff



Source: Origin Analysis, Final Determinations Regulated Retail Electricity Prices 2012-13 and 2013-14, QCA assumes 6MWh pa customer

It is not efficient for retailers to manage and price risks they can not control and have limited ability to forecast.

Consumers are selecting products with a lower but variable price over those with a higher, fixed price.



Consumer Participation & Engagement

Plan Name	Monthly Price (Electricity & Gas)	Description
DailySaver Plus NO EXIT FEES	Around \$201 /month (\$201 electricity \$0 gas)	Be rewarded for paying on time
Rate Freeze NO EXIT FEES	Around \$203 /month (\$203 electricity \$0 gas)	Beat future energy rate rises for 24 months
FlexiChoice NO EXIT FEES	Around \$210 /month (\$210 electricity \$0 gas)	Just the basics

- Consumers are choosing a greater discount in return for an energy rate that may vary.
- Retailers are obliged to explain how prices under the agreement may change over time.
- Repeated customer selection of energy plans where the price may vary indicate that consumers understand and prefer this option.
- Customer churn rates suggest search costs/exit fees are not a barrier to switching.
- The AEMC's recent customer survey indicates only 2% of electricity and no gas customers dissatisfied due to price rises.

The proposed rule would have a negative impact on competition and may favour incumbents over new entrants.



Competition Among Retailers

- Price risk is likely to be more difficult for small or new entrant retailers than larger retailers with a greater capacity to absorb under and over recovery of costs.
- The proposed rule will stifle innovation, particularly in relation to longer term arrangements e.g.
 - the development of longer term supply arrangements incorporating solar PV/storage PPA's would be at risk.
 - Services that incorporate the provision of a Smart meter
- The likely outcome is shorter term contracts - increasing search/transaction costs for consumers.
- If products are fixed price with lower discounts then there is likely to be lower customer engagement, switching and competition.

Sufficient protections are in place to protect consumers...



Consumer Protection Issues

- Under the NERR retailers must:
 - clearly inform customers how prices may be varied
 - obtain explicit informed consent (EIC)
- The misleading and deceptive conduct provisions of the ACL should be relied on to effectively address the issues raised by the proponents
- Both the NERR and the ACL are clear in their drafting and are not inconsistent with each other. Therefore they can be interpreted appropriately.
- Amending the NERR risks introducing inconsistency with the ACL.

...the rule change may create further complexity.

The market is continuing to respond to customer demands for greater clarity and communication preferences.



Market Developments



- Major retailers ceased door knocking.
- Origin ceased cold calling and does not apply exit fees.
- Online portal provide bill prediction and other detailed information for Victorian customers with Smart Meters and elsewhere provides energy cost simulation.
- EnergyMadeEasy web site offers energy plan comparison.
- My Power Planner website (Vic) includes detailed comparisons based on customer behaviour.

Consumer expectations and competitive pressure will continue to drive better customer outcomes than imposing restrictive product regulation.



**Government
of South Australia**

Department for Manufacturing,
Innovation, Trade,
Resources and Energy

Retailer Price Variations in Market Retail Contracts Rule change proposal

Vince Duffy

Executive Director, Energy Markets and Programs

May 2014

www.dmitre.sa.gov.au

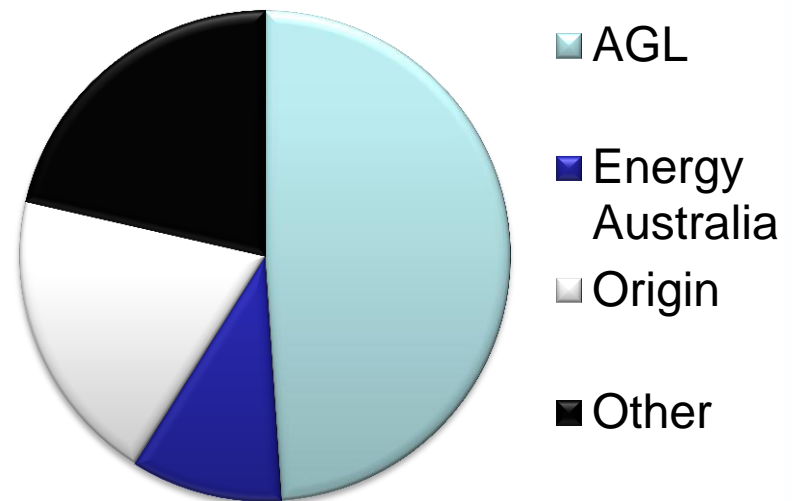
Objectives for retail pricing

- COMPETITION
- CUSTOMER CHOICE
- EASY COMPARISON
- CLEAR INFORMATION & TRANSPARENCY
- NO MISLEADING STATEMENTS

Competition

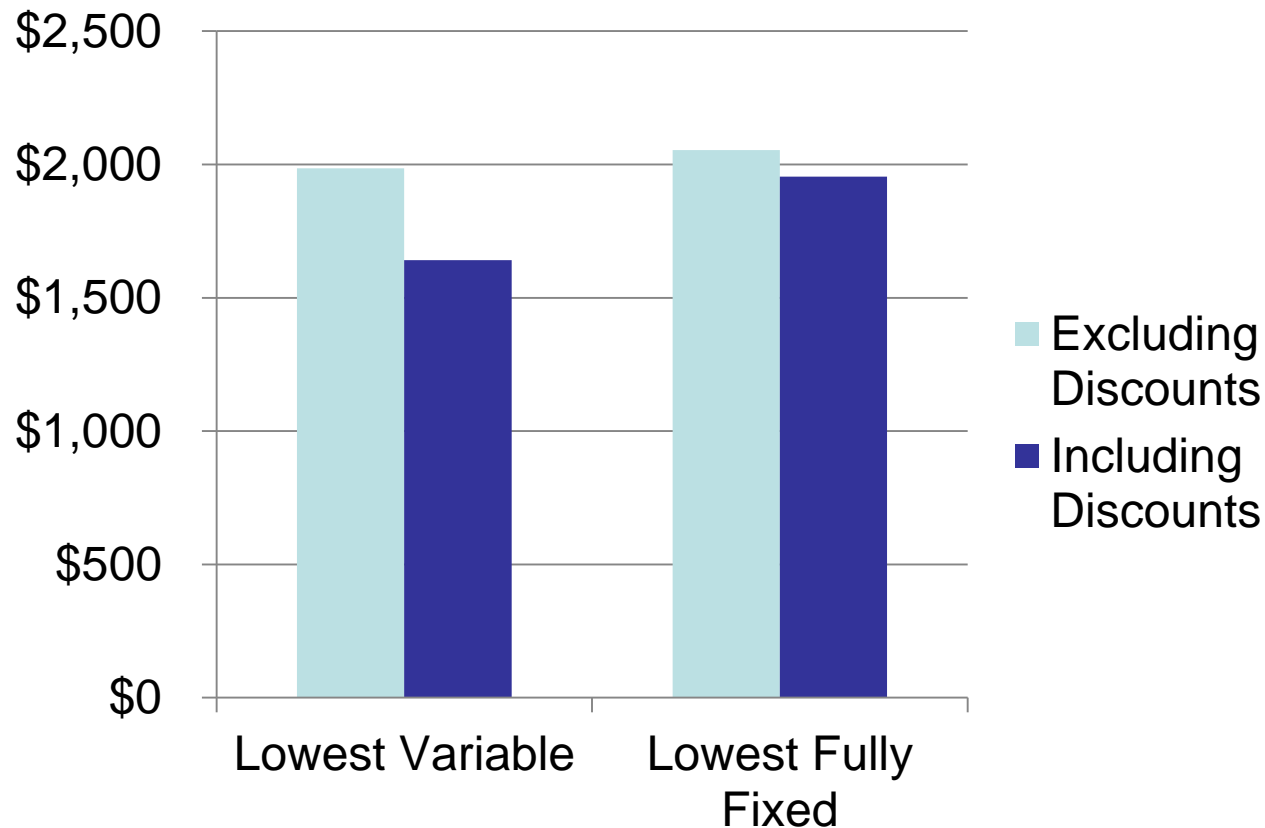
- Deregulated retail energy prices
- Active retailers - 14 electricity and 4 gas
- Approximate generally available offers - 59 electricity and 16 gas

**Electricity Small
Customer Share (Q2
13/14)**



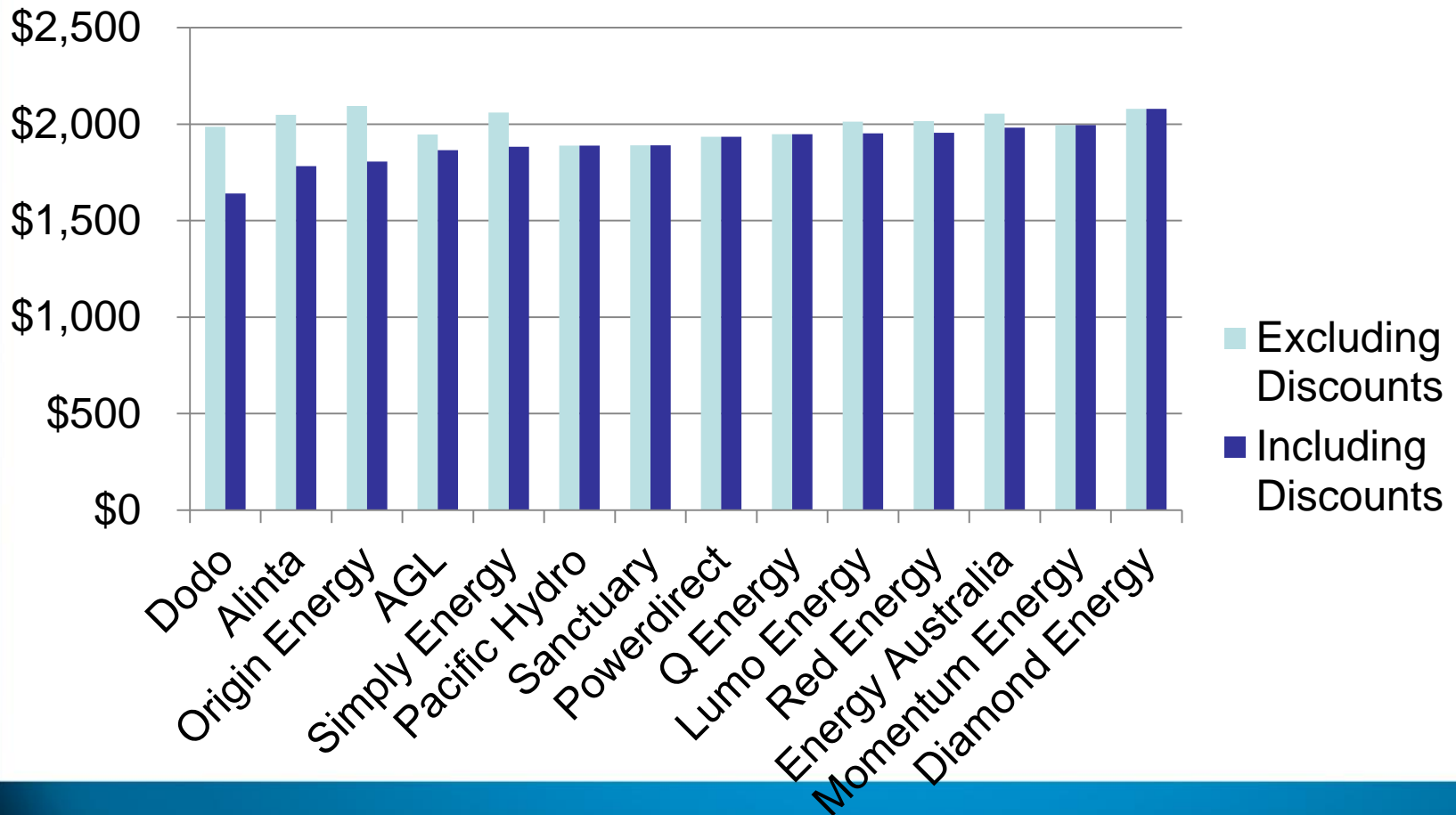
Customer Choice

- Variable and Fixed Priced Offers



Customer Choice

- Exit Fee Free Offers:



Customer Choice

- Other Customer Benefits Offered:

20%
pay on
time
discount

\$70 voucher
for smarter
appliances

\$100
rebate
off first
bill

Velocity
Points

\$100 gift card

Savings of up to
40% off
products

Ease of Comparison

Filter offers by	Sort offers by
<input type="checkbox"/> Contract term of <input type="text" value="Please select contract term"/>	<input checked="" type="radio"/> Estimated annual cost <input type="text" value="Including all discounts"/>
<input type="checkbox"/> Retailer <input type="text" value="Please select a retailer"/>	<input type="radio"/> Contract term <input type="text" value="Lowest to Highest"/>
<input type="checkbox"/> Available to customers with solar panels <input type="text" value="Shown by"/>	<input type="radio"/> Retailer <input type="text" value="Please select sort order"/>
<input type="checkbox"/> <input type="text" value="0%"/> <input type="text" value="100%"/>	



Published on *Energy Made Easy* (<http://>)

Electricity (59)

**SA Home
Smart 12 (No
Exit Fee)**

**Rate Fix -
Home - Peak
Only**

Fees

early termination fee

This is a no fixed term offer and as such no termination fees are applicable.

flat rate - \$0.00

Information & Transparency

Energy Price Fact Sheet SA Residential (Electricity)



Flexi Saver - Home

An easy plan for you and your pocket

This plan is all about rewarding you for being on-top of your payments. It can also be easily transferred to another residence if you move house.

- 3% off your usage charges when you pay by the due date
- No exit fees

^See 'Benefits' table over for more details.

SA Power Networks

Electricity Charges: Peak

Applicable Charges	
Summer Rates - 1 January - 31 March (inclusive)	
Consumption	First 10.9578 kWh of Peak usage per
	Next 16.4384 kWh of Peak usage per
	Next 27.3961 kWh of Peak usage per
	Balance

PRICE CHANGES Prices may be varied in line with your terms and condition and we will provide you with notice of these not later than your next bill.

No Misleading Statements

ACCC takes action against Origin for alleged false or misleading representations

8 May 2014

ACCC takes action against AGL South Australia for alleged false or misleading representations

5 December 2013

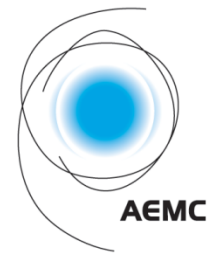


**Government
of South Australia**

Department for Manufacturing,
Innovation, Trade,
Resources and Energy

Department for Manufacturing,
Innovation, Trade, Resources and Energy

Thank you



Session 1 – Open discussion

Is there a problem that requires a regulatory response?

AEMC



Session 2

What is the appropriate regulatory response to any problems identified?

AEMC



Fixing Fixed Term Contracts: the consumer solution

Jo Benvenuti

Executive Officer
Consumer Utilities Advocacy
Centre

The CALC/CUAC Solution

- Rule 46A: for the duration of a fixed term contract, the tariffs and charges the customer pays are fixed, and do not change.

Benefits

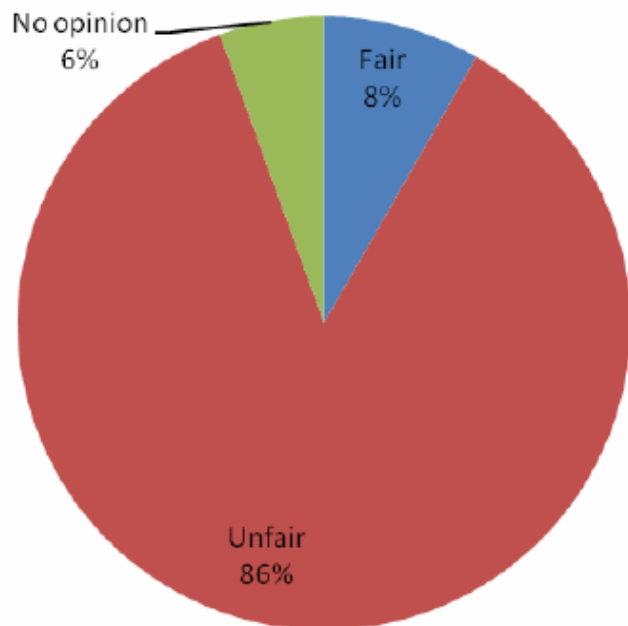
- More efficient risk allocation
- Recognising community expectations
- Increased consumer trust and confidence
- Recognises limitations of consumers in a complex market
- Addresses risk to effective competition
- In the long-term interest of consumers

Counterarguments

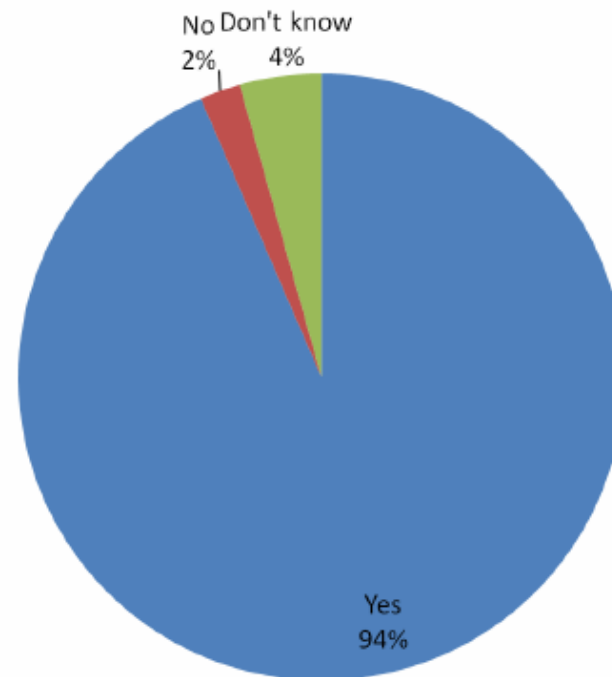
- Our solution will not ban variable/flexible price contracts
- Our solution will not make prices rise faster
- Information alone is not sufficient

The start, and the end

In your opinion, is it fair or unfair that energy companies can increase the price a customer is charged during a fixed term contract?



Would you support a change to Victorian regulations to prevent energy companies from changing the price a customer is charged during a fixed term contract?



CUAC (2012) Fixing up fixed term contracts for energy customers



Energy Retailers Association of Australia

National Energy Retail Amendment

AEMC Public Forum 19 May 2014

Ramy Soussou Deputy CEO



About the Energy Retailers Association

- Peak body representing electricity and gas retailers in the national energy markets
- Members are mostly privately owned and vary in size
- Members are large, medium and niche retailers
- National coverage including WA
- Members have more than 10 million customers – more than 3 million gas customers
- Most provide electricity and gas

Impacts on Consumers and Energy Retailers of Proposed Rule Change

The ERAA does not support the proposed rule changes for the following reasons:

- Reduces consumers' choice of products
- Impedes innovation in product development and may reduce competition.
- Increases and also introduces additional and unnecessary risk for retailers
- Risk premiums likely to be built into consumer energy prices
- May lead to unintended consequences related to retail prices that impact negatively on consumers.

Lastly, the benefits of the proposed rule change have to date not been substantiated by evidence and therefore the NERO test has not been met. The proposed rule change is a disproportionate response to an un-demonstrated perception of market failure.

Scope of Products Impacted is Wide

A range of products are captured by the proposed changes:

- 1. Fixed term, variable price contracts** – products where the term of the contract is fixed with some/all of the price components being variable
- 2. Fixed term, fixed price contracts** – products where the price is fixed over the term of the contract.
- 3. Fixed term contracts that have no exit fees** – customers free to switch at any time at no cost.
- 4. Fixed benefit period contracts** – benefits (such as a discount) apply during a specified period; price may or may not be fixed.
- 5. Tailored products** – Vary in length and consumer benefit and discounts could apply based on certain conditions (E.g. Direct Debit)

Therefore the scope of the proposed changes are far wider than potentially anticipated and may limit consumer choice

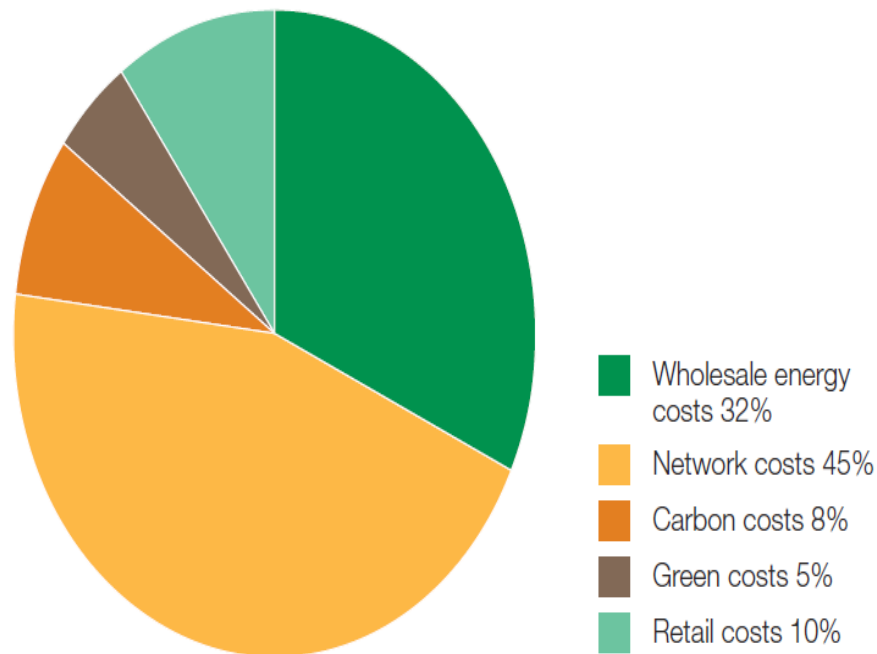
Significant Consumer Protections Already Exist

Consumers entering retail energy market contracts receive significant protections:

- ACL and requirement for informed consent
- Unfair contract term provisions
- NERR – Rule 64 (1)
- 10 Day cooling off periods
- Only 2% of electricity customer dissatisfied after switching due to price rise (AEMC)
- ACCC remains active in enforcing ACL where potential breaches have occurred.

“Variable Retail Component” of a Residential Electricity Bill is Small

Indicative composition of residential electricity bills, 2012–13



Source: AER State of the Energy Market 2012

Premiums are required to manage the risk of inability to recover costs not within retailer’s control, therefore:

- Higher prices for consumers as risk premiums built into price
- Innovation is reduced and consumers are impacted by a reduction in variety of offers (e.g. contracts with shorter periods)

Evaluation of AEMC Alternatives Proposed

The ERAA has evaluated the alternatives proposed:

Alternative	Allocation of costs & risks	Consumer engagement & participation	Range of products & services
Prescriptive list	Increased costs and risk	Consumer confusion and increased transactional costs	Impede innovation and difficult to administer
Limiting amount time to switch	Increased costs and risk	Increase consumer transactional costs	Will impact on price
More information on price variations in specified retail contracts	Increase retail transactional costs considering information already disclosed	Consistency and simplicity of information essential	No impact

In conclusion, the ERAA does not believe that the proposed changes promote the long term interests of consumers, rather they will have detrimental impacts.



Energy Retailers Association of Australia

Further information:

www.eraa.com.au





**Unilateral Price Variations in
Market Retail Contracts**

Andrew Reeves, Chair

Today's forum

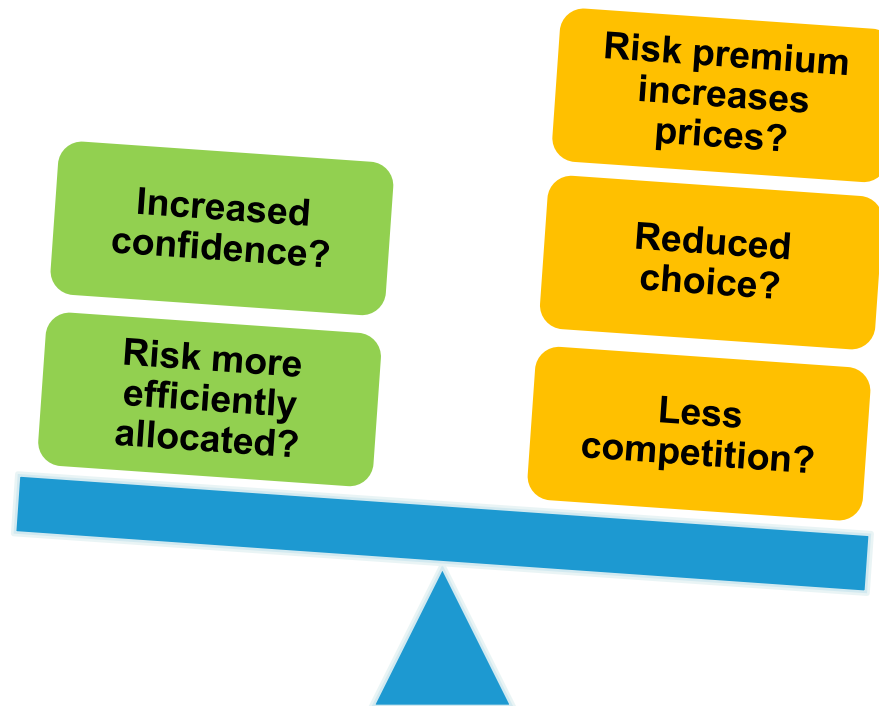
GOAL: Informed, confident consumers who can participate in and are well served by the retail energy market

ISSUES: Market complexity (pricing, jargon and range of offers) can result in customer confusion and lower levels of participation and engagement

What is the best way to address these issues?

Proposed retail rule change

Prohibition on fixed term variable price contracts



Energy Price Fact Sheets

Energy Price Fact Sheet



AGL Sales Pty Limited

Advantage 7% New South Wales residential electricity market offer - AGD6634MR

Customer type	Fuel type(s)	Distributor	Tariff type	Offer type	Release date
Residential	Electricity	Ausgrid	Single rate	Market offer	16/07/2013

Electricity tariff rates

Electricity charges	Price (exc. GST)	Price (inc. GST)
Peak consumption		
Consumption for first 1000kWh per quarter	24.900000 cents per kWh	27.390000 cents per kWh
Consumption for next 1000kWh per quarter	26.380000 cents per kWh	29.018000 cents per kWh
Remaining consumption per quarter	28.480000 cents per kWh	31.328000 cents per kWh
Daily supply charge	71.000000 cents per day	78.100000 cents per day

Daily supply charge: a charge that applies for supplying electricity to your premises for each day of the billing period, regardless of how much electricity you use.

kWh: a 'kWh' stands for kilowatt hour and is the unit of measurement for your electricity bill.

Electricity offer details

Fees	Details
Early termination fee	Year 1 - \$75.00 inc. GST
Early termination fee	Year 2 - \$50.00 inc. GST
Account establishment fee	Flat rate - \$0.00 inc. GST
Late payment fee	Flat rate - \$14.00 inc. GST
Payment processing fee	The amount is GST inclusive and applies to payments made by debit and credit cards. Percentage of bill - 0.60%
Cheque dishonour payment fee	Flat rate - \$16.50 inc. GST
Direct debit dishonour payment fee	Flat rate - \$8.00 inc. GST
Additional information	Additional fees and charges may apply. Please see the AGL market contract fee schedule at agl.com.au

Non-conditional discount	Details
7% guaranteed discount	The guaranteed discount only applies to market rate energy usage charges calculated using AGL's market rates, and will appear as a separate credit (GST exclusive) on bills.

Incentive	Details
\$70 Smarter Living voucher	The voucher may be used for AGL Smarter Living in store and in home appliances and services, and is not redeemable for products purchased from the AGL Smarter Living online store. See voucher for terms and conditions.

GreenPower options	Details
10%	For \$1.10 / week inc. GST we ensure energy equal to 10% of your consumption will be fed into the grid from Accredited GreenPower generators.
20%	For \$1.80 / week inc. GST we ensure energy equal to 20% of your consumption will be fed into the grid from Accredited GreenPower generators.
100%	For 5.5c / kWh inc. GST we ensure energy equal to 100% of your consumption will be fed into the grid from Accredited GreenPower generators.

Solar feed-in tariff options

Tariff type	Price (exc. GST)
Solar bonus scheme pre 27 October 2010 60 cent scheme	60.000000 cents per kWh exported
Solar bonus scheme pre 29 April 2011 20 cent scheme	20.000000 cents per kWh exported
AGL Retailer Feed-in Tariff	8.000000 cents per kWh exported

Term of contract	Contract expiry details
2 year fixed term	At the end of the fixed term if you do not enter into another energy plan, you will be placed on AGL's standard retail contract at standing offer rates.

Cooling-off period
You have a 10 business day cooling off period under the National Energy Retail Law

Eligibility

This energy offer applies to residential customers in New South Wales within the Ausgrid electricity distribution area. For solar feed-in tariff eligibility criteria visit aglsolarenergy.com.au/solar-power/solar-power-feed-in-tariffs

Price changes

The energy rates are market rates which may be varied at any time by giving you written notice (which may consist of a statement on your bill).

468.

Agreement Details

Agreement length The agreement continues until terminated by you or us. The Energy Plan period (fixed term benefit period) is 24 months. At the end of your Energy Plan period the benefits of your plan will end.

Charges may vary During the Energy Plan Period we will not vary the energy rate or supply/service to property components of the Charges, but may vary all other components of the Charges by notice to you. After the Energy Plan Period we may vary all components of the Charges by notice to you. This includes varying the amount, nature and structure of any of the charges. The notice may take the form of a message contained in your next bill and will specify the effective date of the variation.

Cooling off period You may cancel this agreement at any time during the 10 business day cooling off period.

Terms and conditions Eligibility and availability criteria and terms and conditions apply. For full terms and conditions, visit <http://www.originenenergy.com.au/46/Electricity-and-natural-gas>.

Pay by due date discount

3% off your usage charges on each bill that you pay by the due date. The discount excludes overdue amounts, reconnection or disconnection fees, or any charges passed on by your distributor. Any promotional discount will be applied as above for the duration of the promotion.

Benefit Term

The Benefit Term for this plan is for 1 year. We will provide you with notice of your options prior to the end of the Benefit Term. Your contract will continue until it is ended by either party. We also reserve the right to review the continuation of any promotional discounts (in addition to those shown on this sheet) 12 months after they are applied to your account; and charge an additional exit fee (if applicable) to recover the cost of the value of any campaign rewards you may have received as part of this plan if you leave within 12 months of the start of your Benefit Term.

Energy Made Easy – improvements

Refine your search

▼ Fees and discounts ?

- No exit fees
- Include pay on time discounts
- Include direct debit discounts

▼ Contract length ?

- No fixed term
- 1 year fixed term
- 2 year fixed term
- 3 or more years fixed term
- Evergreen with fixed benefit period
- Other

Clear filter

▼ Options ?



At least (%)

Percentage amount

Compare selected offers

Find your current offer

Results per page: 25

Prev | 1 | 2 | 3 | Next

Compare up to three	Retailer	Contract name	Solar	Green Power	Exit Fees	Estimated Bill	Estimated Bill with all discounts	Find out more
CURRENT OFFER	<input checked="" type="checkbox"/>	ActewAGL Home Saver electricity Offer ID ACT 4098MR			Yes	\$1,876	\$1,534	More info
	<input type="checkbox"/>	 Bundle and save up to 25% Offer ID OR 4098MR			Yes	\$2,345	\$2,124	More info
COMPARE OFFER	<input checked="" type="checkbox"/>	 Home Saver+ electricity plan Offer ID OR 7392TI			Yes	\$1,000	\$935	More info
COMPARE OFFER	<input checked="" type="checkbox"/>	ActewAGL Standing Offer (Domestic Single Lorem Rate 2) Offer ID OR 4098SD			Yes	\$2,321	\$2,158	More info
	<input type="checkbox"/>	ActewAGL Home Saver electricity Offer ID ACT 4098MR			Yes	\$1,989	\$1,710	More info
	<input type="checkbox"/>	 Bundle and save up to 25% Offer ID OR 4098MR			Yes	\$2,345	\$2,124	More info

SAMPLE

What would assist customers?

Better information on EPFS:

- *Your price won't change before...*
- *How we will tell you about price changes...*

Leave fixed term contracts without exit fee on notice of price changes

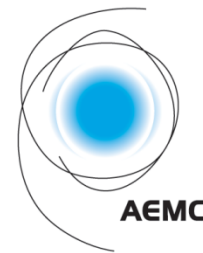
Prohibit fixed term, variable price contracts?

Less regulation More regulation

More user-friendly
Energy Made Easy

More standardised layout and language on EPFS

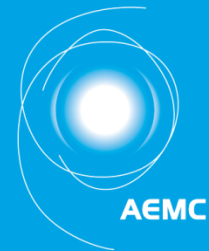
Advance notice on price changes, separate to bill



Session 2 – Open discussion

What is the appropriate regulatory response to any problems identified?

AEMC



Concluding remarks

- Next steps for the rule change request
- Thanks from the AEMC for your participation

AEMC