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.

origin

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).

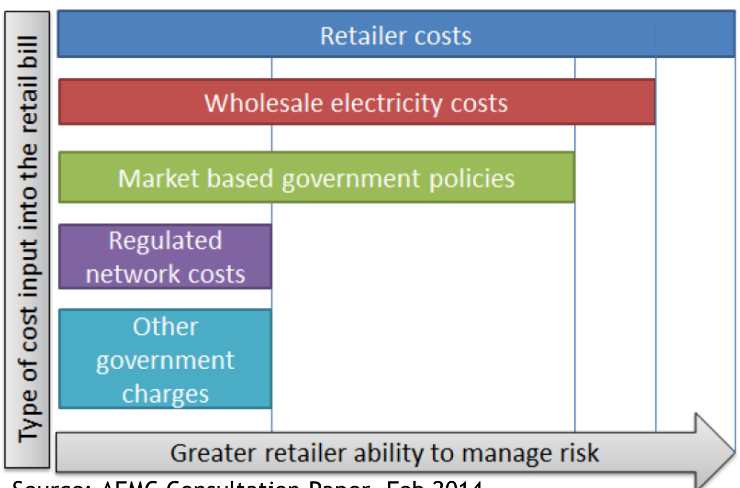
Key Issues

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

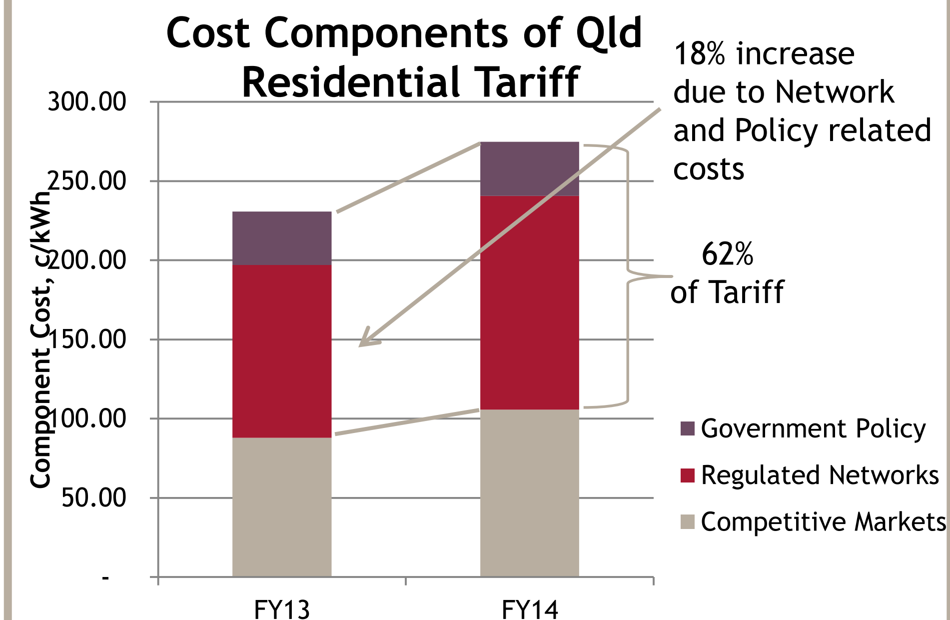
Retailers are exposed to significant variations in network and Government policy costs that are beyond their control and ability to forecast.

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



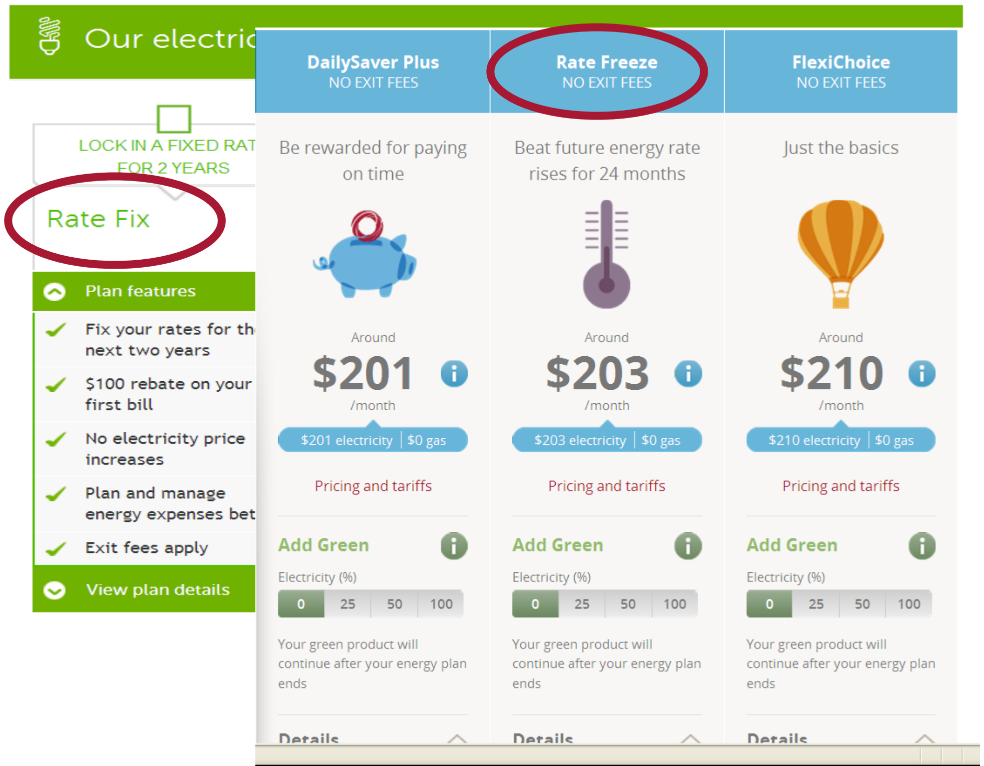
Source: Origin Analysis, Final Determinations Regulated Retail Electricity Prices 2012-13 and 2013-14, QCA assumes 6MWh pa customer

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.

origin

Consumer Participation & Engagement



- 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

origin

30 March 2014

Hello Australia,

We're making some changes at Origin

If you've been thinking that your energy provider can do a better job of looking after you, then you're not alone.

We have too.

We know you expect more from your energy retailer. So from now on, things will change.

The days of Origin cold calling and door knocking homes are over. When someone wearing our uniform arrives on your doorstep, it's because you want to see us.

From tomorrow, exit fees at home are gone too. Since life's not always predictable, you'll no longer be penalised if your energy needs change.

As for bills, unfortunately they are a reality, but we can help. With EasiPay, you have the option of paying your bills weekly, fortnightly or monthly.

From May 5 we'll also be extending our weekday call centre hours to 7am – 9pm. Because when you're free to talk, we should be too.

We'd love to hear from you

We're setting up Customer Service Hubs across the country to help with any queries you have. Jump online at originenergy.com.au/changing to find hub locations near you or to share your ideas on how we can continue to improve.

These changes are long overdue. Rest assured they're just our first steps to ensuring that we put our customers first.

We look forward to hearing from you soon.

Frank Calabria, CEO, Energy Markets
and the Origin Retail Team

- 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.