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22 September 2021

Consultation questions: Better Bills Guideline

The Australian Energy Council ('AEC') welcomes the opportunity to make a submission to the Australian Energy Regulator's ('AER') Consultation on the Better Bills Guideline *(the **Guideline**).*

The AEC is the industry body representing 20 electricity and downstream natural gas businesses operating in the competitive wholesale and retail energy markets. These businesses collectively generate the overwhelming majority of electricity in Australia and sell gas and electricity to over 10 million homes and businesses.

The AEC commends the approach taken to date by the AER in its consultation on the Guideline. Publication of interim behavioural research at this early stage of the Guideline's development provides an excellent opportunity for stakeholders to provide informed views on what the Guideline should focus on. In the view of the AEC, the interim research suggests that customers are largely able to interact with a variety of bills, irrespective of structure or volume of information. Given this, the AEC does not consider the AER should be seeking to utilise the Guideline to determine the 'perfect' energy bill, and rather should focus on identifying approaches that would allow retailers to work with their customers to better align their bills with their preferences – be that for a simple or more complex bill.

Question 1: What are the key insights from our consumer and behavioural research? What are the key opportunities for the AER to improve consumer outcomes, including through the Guideline, that arise from the research?

Broadly, the AEC considers that the key insights from the consumer and behavioural research is that customers are able to understand a variety of bills in a variety of forms. This finding is important, as it is at odds with current thinking that customers are unable to effectively engage with the energy market due to energy bills being too complex. While the AEC agrees that energy bills today are not always optimally designed for every customer preference, the research indicates at the very least that the information presented on bills is not on its own a barrier to understanding.

Interestingly, all four stakeholder groups, and CALD and older consumers, had different preferences as to the information and display they wanted to see on their bills. This illustrates that there is unlikely to be a single perfect bill for all, with customers increasingly expecting bespoke offerings based on their own level of interest. This finding is challenging to regulate, and might require the AER to allow more flexibility in its Guideline than it might if customers indicated a preference for direct comparability.

The AEC does not yet have a view on the volume of information that would be included on a more prescriptive bill. While consumers valued information when they needed it, by and large the research indicates that they use the bill to identify what to pay, how to pay it, and to check its accuracy if the amount of the bill didn't align with their expectations. This might indicate that for some customers, a very simple bill (in effect, a tax invoice) would meet their needs most of the time, and other approaches for obtaining information might be utilised when something goes wrong. For other customers, they see the bill as the source of truth, and would prefer all information to be present for transparency, even if they never look at it. The AEC suspects that if all information was removed, customers would feel reticent to trust the amount of the bill, and might lead to disengagement.

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Finally, the AEC considers the research shows that customers like the idea of additional information on the bill, but largely, would be unlikely to use them. For example, including a definitions section didn't improve comprehension, despite customers mentioning that they often don't understand all the terminology on the bill. It might be that providing too much information on the bill made the bill appear more dense than it should, encouraging customers to skim read the information presented rather than to digest it carefully.

Question 3(a): What are the key opportunities to ensure energy bills are simple and easy to understand?

Importantly, the research tested four well designed bills. The AEC expects many stakeholders will suggest that these positive results would not have been achieved utilising a genuine sample of existing retailer bills. However, retailers have often stated that the volume of information on the bill, and importantly, the way the regulations have added new objects onto the bill periodically, has meant that they have been unable to design their bill in the manner they would like. The AEC considers that this guideline provides an opportunity to provide retailers with flexibility and certainty that would enable them to take action to improve the layout of their own bills.

Increasing flexibility in the information provided on bills, and allowing retailers to work with their customers to identify the most effective means of delivering the important information currently required on bills, would provide an easy and incremental approach to simplifying energy bills. The current rules require retailers to provide 24 pieces of information of every customer bill. As the research indicated, not all of this information is valuable to all customers. However, it did clearly find that customers wanted access to the information currently provided on the bill, particularly in circumstances when something went wrong.

This indicates a benefit in increasing flexibility in the manner and form in which retailers provide the information currently required in Rule 25 of the National Energy Retail Rules. If, for example, the AER removed the mandate for all this information to appear on the bill, retailers may seek to utilise alternative tools, such as mobile applications to deliver some of this information dynamically, and retain the bill to act as a 'tax invoice', merely undertaking the key task the research identified customers used the bill to perform. It is important to note that retailers already offer compliant billing, and it is highly likely that in a competitive energy market, some retailers (if not all), will continue to provide a bill that contains all information currently required on bills. Other retailers might opt to deliver this information via an app or web portal which would allow customers to effectively choose the information they considered relevant to them.

The AEC encourages the AER to ensure its Better Bills guideline does not seek to make bills the perfect information delivery device for every circumstance, but rather, enable retailers to continue to improve information delivery in a manner that benefits their customers, using a wide range of delivery tools.

Question 3(b): Which approach do you consider preferable and why? Are there other approaches we should consider?

The AEC encourages the AER to consider alternative non-regulatory guidance might be provided to retailers to highlight what it considers to be best practice design. A lighter touch approach will highlight to retailers preferred bill designs and layouts without overburdening retailers with costs that will ultimately be passed through to consumers by enabling retailers to implement layout enhancements alongside other regulatory and customer experience changes already scheduled.

The AEC recommends such guidance might include:

- Key pieces of information beneficial to be on page one of the bill

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- Best practice display options for providing clear usage information to customers
- Bill designs and layouts informed by behavioral evidence
- Clear and simple design principles

The AEC does not consider the evidence is yet clear enough to enable the AER to impose a regulated design for retailer billing. Even if the evidence did suggest a preferred approach, the AEC is concerned that regulating a particular design for the bill will entrench today's energy frameworks into the market for many years to come. Given the evolution of the energy market, caused by increases in DER and the two sided market, as well as the significant ongoing technological advancement of the economy broadly, the AEC considers that now is the time to encourage retailers to develop flexible and actionable billing that can operate alongside other information delivery tools, rather than to standardise bills to solve yesterday's perceived problems.

Question 4: Would including 'best offer' information increase consumers' understanding of their bills? Are some consumers likely to find this more beneficial than others? What are the practical issues that need to be considered? Are there risks or potential downsides in including 'best offer' information on bills?

The AEC considers there is insufficient evidence to suggest that best offer information on bills provides an effective nudge to encourage customers to take action and seek out a cheaper deal. The Victorian regulatory framework includes an obligation to provide this offer to customers in a specific format at least once every three months. Intuitively, the AEC can see the intended benefits of this obligation, as it should reduce the effort required for a customer to ascertain whether the offer they were on was the best offer from that retailer, and if it wasn't, provide a prompt and information as to how to take action.

However, early data published by the ESC appears to refute this assumption. The most recent Victorian Energy Market Report for the March 2021 quarter found that the number of customers receiving the best offer notification, that is, not currently on the retailers best offer, was increasing. Between July and December 2021, approximately 1 in 2 customers received the message. In the March 2021 quarter, 3 in 4 customers received the message.[1]

While there is clearly not enough data over a long enough period to provide conclusive evidence, this appears to suggest that customers in Victoria are failing to act upon receipt of the notification. Retailers have better offers available to the customer, yet they remain on the higher priced deal.

Alternative approaches suggested in the BETA research such as providing a comparison of the customers offer to the reference price are unhelpful, and likely expensive to implement. The reference price is only valuable when it is seen in contrast with other energy offers. BETA research indicated that customers would be more likely to seek out a cheaper deal if the bill showed the current offer was equal to the reference price, with declining responsiveness if the offer was below the reference price. Given almost all market offers are priced below the reference price, it is likely that providing a comparison to the higher reference price would minimise responsiveness. This is a problem given the customer has no way of knowing (without undertaking further research) whether or not the percentage their offer was below the reference price was competitive or not.

At this stage, the AEC considers there is no evidence that customers in the real world act when presented with a best offer message. This should be further considered for a future iteration of the guideline when more evidence of the efficacy of the Victorian regulations is available.

[1] Essential Services Commission 2021, Victorian energy market update: June 2021, 29 June

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Question 5: How can we simplify the billing regulatory framework, through the Guideline or more broadly?

Importantly, the AEC considers that any mandatory change to the regulatory framework, even in circumstances where the framework is being simplified, still results in costs to retailers. That is because retailers have built their systems and processes to comply with existing frameworks, and any amendment will result in a need to amend these systems and processes to meet the new obligations.

While that in itself does not suggest the regulatory framework shouldn't be simplified, but rather, that the AER should consider approaches that enable retailers to transition to any simplified obligations over time, or alternatively, allow greater flexibility in the Guideline to enable retailers to deliver the simplified obligations in a manner that best aligns with their systems and processes.

As noted above, the obligations in the current Rule 25 of the NERR could be made optional for retailers to include on the bill itself, and instead, impose an obligation on retailers to provide the information to customers in an agreed form. This approach would enable retailers to simplify the bill, without disadvantaging those customers who valued having access to all information for transparency and should something go wrong. Alternatively, the AER could identify a number of pieces of information that it might consider to be crucial for customers to benefit from a bill, and others less crucial. In effect, a tiered classification would enable the AER to provide greater certainty to customers that the information they need to action a bill would be provided on the bill itself, while still allowing an increase in flexibility in how the retailer engages with their customers. Clearly, there are incentives for retailers to provide enough information to their customers so that they feel comfortable making the payment, however, the increase in flexibility would enable more digitally engaged consumers in particular to access more dynamic, real time information than is possible on a bill issued quarterly in arrears.

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Question 6: Would this reduce the cost to serve? If so, how?

The AEC considers that greater flexibility in how retailers present their bills would reduce costs over time. While there may be additional costs as retailers seek to amend their systems and processes to seek to utilise the increased flexibility, these costs would be mitigated by the ability to undertake these changes at a time where other changes are already scheduled, or when there is a positive business case to make the change.

While mandatory simplifications may reduce the cost to serve over time, it would be likely to increase system change costs, which may outweigh the long term benefits.

Any questions about this submission should be addressed to me by email to ben.barnes@energy.council.com.au or by telephone on (03) 9205 3115.

Yours sincerely,

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