QCOSS Queensland Council of Social Service

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Australian Energy Market Commission

PO Box A2449

Sydney South NSW, 1235

For the Attention of:

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Introduction

Queensland Council of Social Service (QCOSS) is the state-wide peak body representing the interests of individuals experiencing or at risk of experiencing poverty and disadvantage, and organisations working in the social and community service sector. For more than 55 years, QCOSS has been a leading force for social change to build social and economic wellbeing for all people and communities in the state.

Thank you for the opportunity to provide a submission in response to the consultation paper on the National Energy Retail Amendment (Preventing discounts on inflated energy rates) Rule 2018.

We welcome the recognition that retailer pricing practices that involve percentage discounting are causing confusion and poor outcomes for customers in the retail electricity market. Through our community engagement QCOSS can confirm from that current percentage discounting practice is especially detrimental for people who are on a discount market offer that was based on an inflated base price. These customers are struggling to pay their bills on time which means they will lose their discount, possibly incur a late payment fee and ultimately pay more. Our view is that percentage discounting practices are too complex and confusing and lead to unfair outcomes.

The rule change request

A concern was raised with the Prime Minister in August 2017 that percentage discounts contribute to consumer confusion and that energy offers with large percentage discounts do not always lead to the lowest bills for consumers. In response, the Federal Government has made a rule change request to the Australian Energy Market Commission (the Commission) that proposes to prohibit a retailer applying a percentage discount to a market retail contract if any of the energy rates in the contract are higher than the retailer's equivalent standing offer rates.

The Commission's initial position
The initial view set out in the Commission's Consultation Paper supports the intent of the proposed rule change but sets out an alternative approach:

- The Commission and the Australian Energy Regulator (AER) have proposed that a penalty apply to retailers who do not comply with the Retail Pricing Information Guideline (RPIG); and
- Introduce a National Energy Retail Rule: If all of a retailer's energy rates in the market offer are above the equivalent rates in their standing offer, then they will be prevented from offering a discount on the market offer.

The main difference between the two is that the:

- Federal Government thinks the rule should apply if any energy rates in a retailer's market offer are above the equivalent in their standing offer
- Commission's initial position is that all of a retailer's energy rates would have to be above the equivalent standing offer before the rule would apply.

Our view

While we support the proposal to impose a penalty to retailers who do not comply with the Retail Pricing Information Guideline (RPIG), QCOSS does not support the proposed rule change, and are seeking greater explanation of the Commission's alternative approach in their final determination so that we can understand the impact and implementation approach.

Reasons for our view

The proposed rule change asks that all percentage discounted market offers to be pegged to the standing offer price. While QCOSS agrees that percentage discount pricing is a very confusing practice for all customers, and one where people experiencing vulnerability may be adversely impacted, we do not believe that this issue can be resolved by pegging the percentage discounted market offer prices to the standing offer prices.

Our reasons for this view are threefold:

- the proposed rule is likely to put upward pressure on standing offer prices
- the adverse impact on vulnerable customers in SEQ
- the flow on effect for regional prices.

Impact on standing offer prices

The retailers' current competitive strategy involves offering higher percentage discounts to consumers. In the main, this is enabled through the setting of percentage discounted market offer prices above standing offer prices. We agree with the Queensland Consumers Association's view[1] that to maintain their discount levels under the proposed rule change retailers could increase their standing offer prices. Indeed, there may be a movement up across all

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[1] Queensland Consumers Association (2018), Submission to the National Energy Retail Amendment (Preventing discounts on inflated energy rates) Rule 2018.

retailer's standing offers. This is because, in our view, the market is still not working effectively for consumers. The 2017 AEMC customer survey shows that in SEQ 34 per cent of residential customers did not know whether they were on a market or standing offer contract[2]. Only 13 per cent of residential customers and small business customers were aware of the AER's *energymadeeasy* service which is the main independent information mechanism to support people to shop around.

Impact on vulnerable customers

Those residential customers in SEQ who are still on standing offers typically fall into a number of different categories.[3] For many it is likely that the customer has never taken up a market offer in the 11 years (2007) since retail competition was extended to all customers. These customers are showing considerable inertia and resistance to change. They have not been swayed by the marketing in SEQ that promotes switching to a market offer to save money. We accept that some may be price inelastic, however we know from our considerable experience[4] in SEQ that there are difficulties which consumers face in navigating an inherently complex market. These customers are often in hardship and have some barrier to switching such as medical issues, language barriers or lack of confidence in decision making that prohibits them from participating in the competitive market.

Standing offer prices are already higher than the efficient cost of supply and this gives the incumbent retailer an incentive to maintain the status quo and benefit from these customers' inertia. This situation would only be exacerbated by this proposed rule change as it has the potential to cause even higher standing offer prices.

Impact on Queensland regional prices

Retail electricity prices in regional Queensland "notified prices", are set by the Queensland Competition Authority (QCA) to reflect the expected prices of small customers on standing offers in SEQ. Indeed, for the 2018/19 notified prices, Minister Lynham has instructed the QCA to "*give consideration to maintain the Standing Offer Adjustment at the current level*[5]*.* This indicates

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[2] AEMC (2017) *Retail Energy Competition Review*, P223.

[3] Other categories include customers: who fall back onto a standing offer if they do not enter a new market contract when their existing market contract ends; who ask a retailer for a standing offer rather than a market offer, even though they have market offers available to them; and who may move into premises where the electricity is already connected and not immediately contact a retailer. Also a customer may be transferred to a retailer of last resort if their existing retailer fails before transferring its customers to another retailer.

[4] QCOSS & CCIQ (January 2017), *Apples with Apples: Outcomes of electricity price deregulation education activities in South East Queensland*, unpublished report to the Queensland Department of Energy and Water Supply. 2 QCOSS, (September 2017), and September 2017, *Switched on Communities* Final Report, unpublished report to the Queensland Department of Energy and Water Supply.

[5] Department of Natural Resources, Mines and Energy (2017), Letter to Prof Roy Green, Chair of the Queensland Competition Authority for the delegation for notified prices 2018/19.

how the Queensland Government had to intervene on how to implement the Uniform Tariff Policy for the next financial year.

As the SEQ retail market matures there is increasing divergence between the differential between the standing offer and percentage discounted market offers. This proposed rule change is likely to exacerbate these differences in SEQ and this has direct implications for regional prices.

The Commission's Initial Position

At this stage, in QCOSS' view, it is not clear how the Commission's alternative approach will address the issue of customer confusion and detriment. In the final determination we hope that the Commission will provide more information about the change and why they expect it to work (without unintended consequences on standing offer prices).

If the rule change does go through, we request the Commission to monitor, and review within six to 12 months, the impact of the change on:

- customer outcomes, including whether it has succeeded in reducing customer confusion
- market offers, ensuring that they are an honest discount that will in fact lead to lower bills for consumers
- standing offers.

We do support the proposal to impose a penalty if retailer's do not comply with the retail pricing information guideline about communication of market and standing offer prices. It is important to build on these positive steps to provide clearer information for customers to help them to shop around. This includes ensuring adequate steps to enforce compliance.

Going forward

Fundamental and systemic reform is required to address the complexity of the retail electricity market and to reduce poor customer outcomes that result from this.

As set out in our submission to RPIG[6], the primary source of confusion and failure to understand the market is the use of complex and inconsistent terminology. In our view this makes it difficult for customers to compare "apples with apples" when shopping around. The bill is the primary source of information that consumers have to compare their current offer with those available on the market.

QCOSS is seeking the introduction of standard terms, consistency and reduced complexity in bills across all retailers. This would enable customers to shop with confidence.

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[6] QCOSS (2017), *Customer Price Information* Submission *to the AER Issues Paper Retail Pricing Information Guideline.*

There is also a need for more targeted intervention to assist low income and vulnerable customers to engage with the retail market. These people are often difficult to reach and engage with through mainstream channels. We have found that one of the most effective mechanisms to reach low-income and vulnerable customers is via community based organisations. These community based organisations have a strong reputation and trust within their community. QCOSS has been able to engage community organisations in this work providing a central point of policy development and capacity building.

We thank you again for the opportunity to make this submission and we would encourage you to contact us if you have any comments or queries. Please contact Rose McGrath, Senior Policy Officer, on rosem@qcoss.org.au.