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Australian Energy Market Commission

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AEMC Consultation - National Energy Retail Amendment (Advance notice of price changes) Rule 2018

AGL Energy (AGL) welcomes the opportunity to comment on the National Energy Retail Amendment (Advance notice of price changes) Rule 2018 consultation paper.

AGL support providing customers information that will help inform them of changes to their energy plan charges, noting that informed customers can make better energy choices. To this end, communication should be done in a simple way that allows customers to understand the reason for the notice, a concise explanation of what changes are occurring, and how to access more information (such as through the EnergyMadeEasy website).

Improvement to access to information should be technology agnostic to allow greater utilisation of digital options. As businesses transform and enhance digital capabilities, the type of information that can be delivered to a customer is much more customisable through digital solutions (such as AGL's MyAccount). Digital options provide far greater support to customer needs and preferences. For example, customers who sign up to digital communications can have immediate access to price change information through an embedded URLs.

AGL suggest that to ensure timely and accurate information is provided to customers, the AEMC should consider more than just changes to retailer processes. Network businesses are required to submit their pricing proposals to the AER no later than 31 March each year. The AER complete an annual review of network pricing in 30 business days from this date. The network pricing determination is effective from 1 July 2018 and impacts the way retailers charge customers for energy. Therefore, most retailers vary electricity prices on 1 July each year (but are not required to), to ensure, amongst other things, that an increase in network costs is not absorbed by the retailer.

The above process and timings would leave retailers approximately 24 business days under the rule change to do all that is necessary to finalise price changes. This includes managing all the different scenarios across product suites and network zones, developing communications for these scenarios, coordinating third parties, quality assurance and systems testing and finally notifying customers. This is a massive task and becomes more complicated as a retailer's customer base and product suite gets larger. This timeframe can also be reduced by any delays in the AER approval process, for example, recent network price approvals were published later than the required 30 business days.

We recommend therefore, that the AEMC consider other matters that can impact the timeliness of information provision, including AER decision times, postal timeframe impacts, and retailer scenario planning ability based on network timings and resubmissions after 31 March. We also recommend that prior notification should be sufficient, however if the AEMC are seeking a minimum protection period, we would support no later than 2 business days prior to the change.

AGL support the principle of the rule change, however we are providing information to ensure that AEMC's final decision considers the complexities involved with notifying customers of price changes from a retailer, regulation and network perspective. By considering these other aspects, the AEMC can minimise the chances of unintended or negative customer outcomes or increased costs to industry.

The following submission provides comment on AEMC's consultation paper and offers insight into the processes undertaken by AGL during the price review process. For this reason, we request that the attachments not be published publicly.

Should you have any questions or comments, please contact Kathryn Burela on (03) 9273 8654 or kburela@agl.com.au.

Regards

Elizabeth Molyneux

General Manager Energy Markets Regulation

Primary purpose of Notice

The primary purpose of the Notice is to inform customers that the prices of their energy plan are changing. By providing customers advanced notice, it allows them to decide what action to take (if any) regarding their energy plan future.

Following the PM Commitments, there have been a number of rule changes, with more currently being consulted on, that seek to provide customer information to increase their engagement with the market. Any decision made by the AEMC should consider the other rule changes, to ensure that the primary purpose, of ensuring customers are informed of a price change (which is a potentially significant event), is not diluted by additional messaging or information.

Notice Content

The content of the communication should be based on principles, that future-proof regulations and facilitates the advancement of customer preferences. Therefore, AGL consider that the key information for the customer is that:

- Their prices are changing
- The date of that change taking effect
- How they can find out more information about energy plans
    - New offers will be available on EnergyMadeEasy from <price change date>
    - Visit EnergyMadeEasy – a free Government website.

AGL considers that this approach gives the core information to a customer without overburdening them with information. Individual customer threshold for information can differ, but as the volume of information increases the more likely a customer is to feel overwhelmed. Customers who are disengaged are more likely to remain disengaged when presented with a surplus of information.

Our own customer research shows that customers want simple, concise information. This is supported by other available research, and messages from consumers that energy information is too complex.

As well as customer impacts, and the risk of disengagement, including additional information also increases the complexity and difficulty to coordinate the price change notification within the short time frame available to retailers between mid-May and mid-June. Condensing the quality assurance period available to retailers of these communications to attempt to include more information increases the likely of errors, complaints and customer detriment.

We understand that the Behavioural Economics Team of the Australian Government is currently conducting research on customer behaviours regarding energy bills and strongly encourage the AEMC to consider/review any findings in relation to customer engagement and delivering effective messages.

Timely provision of information

Notice to customers should be technology agnostic and include the ability to communicate with customers with current methods (i.e. by mail or by e-mail) as well as possible future methods, including app notification, SMS or other, in line with customer preferences. We do not consider additional regulation on communication methods is necessary as the customer provides consent to be communicated with digitally as their preference.

AGL support providing customers information on how their prices can vary ahead of that change. We consider that this allows customers to consider the changes and determine whether they wish to stay on their plan under the new prices. To this end, AGL supports the use of principle-based regulation as this ensures regulation is future-proofed and designed in a way that considers both current and future scenarios regarding communication and pricing methods.

There has been significant research undertaken on the increasing community expectation to be able to utilise digital solutions in their everyday life, from managing finances to researching or communicating with friends, family or businesses. In 2017 Deloitte noted that digital can provide opportunities in terms of connectivity, mobility and social networks and found that Australia and South Korea have the world's highest levels of digital banking penetrations. They note that across all countries, the potential to harness consumer engagement is high with digital.[1] Regulation in this space should therefore consider community expectations and the expanse of digital as a main source of growth, connectivity and information.

AGL does not consider that 10 business days' time remains relevant in today's digital climate, nor are we aware of the policy rationale to set the Queensland Derogation as 10 business days. We also note that 10 business days is more achievable on a smaller scale, whether it is for a Queensland population or for a smaller retailer but does not necessarily scale easily for larger retailers. Customers are more likely to act on information when it is fresh in their mind, either at the time of receiving the notification or within a day or two preceding this. AGL's preferred position is that the regulations should simply require prior notification to occur, however if the AEMC want a safety net, we consider *no less than 2-business days* as being appropriate, particularly with the immediacy of information in the digital environment.

In lieu of changing the requirements on Networks to lodge earlier than 31 March or reducing the AER's decision time from 30 business days to less, then it is unclear how retailers can sufficiently meet the timing requirements. We do not see the inherent value in maintaining a 10-business day rule if other conditions or timing limitations for other participants in the process are similarly not impacted.

In relation to price decreases, we agree that this information should be provided to customers but believe the way this is communicated to customers should be left to retailers rather than be prescribed in regulation. Retailers are incentivised to communicate good news stories to customers to foster a positive relationship. We do not consider that 10 business days' notice is necessary for either increases or decreases of prices. Where the price change is a clear decrease, the regulation should exclude those from the notice

[1] https://www2.deloitte.com/au/en/pages/media-releases/articles/asia-beating-global-peers-on-digital-engagement-170517.html

requirements. This is based on the same principle as the recent AEMC rule change on preventing discounts on inflated energy rates.[2]

Retailer impacts

As the AEMC note in the Consultation paper, retailers are given a limited timeframe of 6 weeks for these actions, however it is better described as around 24 business days for consistency. Other timeframes, including the communication time to customers, time for AER consideration of Network tariffs etc, are communicated as business days.

The steps a retailer must carry out for a price change notification are greater than those listed by the AEMC, and involve data-testing, coordination of third party providers (sellers and mail-houses[3]), approvals, Auspost delivery timeframes, and the processing of all the information that needs to be altered for the various products/scenarios. Further information about the timing required to communicate with our current customer base is provided in the Attachment.

AGL notes that there are several factors that impact the timeline, including:

- Decision time – until a final decision is made by the AER, retailers are only able to scenario plan. Both scenario planning and the final decision require several approval rounds that take substantial time given the wide impact of a change decision.
- Regulatory requirements (i.e. 10 business days will bring retailers to mid-June for communication)
- Communication development – messaging and prepositioning (described further in the Attachment).
- Postal limitations (i.e. Auspost estimated delivery times for city and rural is 2-6 business days which retailers would have to build into their timelines).[4]
- Mail-house timing requirements, system builds approvals and quality assurances
- Mail-house printing capacity.

AGL currently has approximately 2.2 million gas and electricity residential customers across QLD, NSW and SA. Approximately [redacted] of our customers continue to receive a paper bill, and our current contract with our mail-house sits at [redacted] letters a day. AGL would need to utilise mail-houses across different states, increasing the chance of error and disruption, and would still [redacted] business days to ensure that all notices can be printed with 6 business days added for postage.

Letter coordination and mailing is more complex than providing a pre-generated template to a mail-house, as different products (and therefore different customers) will be impacted differently, requiring several versions of pricing letters. Each letter will contain its own logic mapped to customer products and testing to reduce errors cannot occur until the actual data is finalised and approved – which cannot occur until the pricing decisions are made.

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[2] https://www.aemc.gov.au/rule-changes/preventing-discounts-on-inflated-energy-rates

[3] A case-study of urgent communications relating to AGL is available on ComputerShares website: https://www.computershare.com/au/Pages/Communications-case-study-AGL-utilities.aspx

[4] Example, Sydney to Sydney delivery still estimates 2-6 business days. See, https://auspost.com.au/parcels-mail/calculate-postage-delivery-times/#/option/domestic/2000/2000 <accessed 15 May 2018>

We advise against counting back from the regulatory and postal timings to determine what number of days should be given to retailers to communicate to customers. A regulatory decision regarding timings should not be based on the current split of customer preference for written or electronic communications, nor on the largest retailer's customer base, as both these can change and may impact retailer's abilities to then comply with a decision that was very strict on timeframes. We recommend the AEMC give consideration to the complexity of the task for retailers, not just in making a decision but in coordinating large-scale communication to customers in a condensed period, in comparison to other matters in the timeline such as the AER review and decision release period, or timeframe for Network submissions.

Information on EnergyMadeEasy

Regarding the AEMC's questions on publishing offers, AGL offer the following comments. The AER would have to ensure that EnergyMadeEasy could manage thousands of offers being removed and added by retailers in a 2-day period. Under section 23 of the Retail Pricing Information Guideline (RPIG) that was just finalised retailers are required to submit information on generally available plans within two business days of the plan becoming available.[5]

As such, retailers should not publish the new plans that will be available to customers until those offers are available. During consultation on RPIG, the AER noted that they received complaints from consumers and consumer groups regarding their inability to access offers that were published on EnergyMadeEasy. If retailers were required to publish the offers from the date they notified customers, then there could be a mismatch in timing. This issue may be more prominent for larger retailers who may need to begin mail-outs earlier than smaller retailers if retailers were required to publish offers before their competitors. This would be a significant risk for retailers, as well as an unequal application of requirements depending on the size of the retailer.

The time between notifying a customer, and the price change event, (assuming the 10 business days requirement and not taking into account the consideration of the other postage and mailing limitations), is essential for retailers. Under the new RPIG requirements, retailers must take several more steps when managing new offers, including the way this information is marketed, linked on their website and third-party websites, links to EnergyMadeEasy and other maintenance matters. Reducing this timeframe or requiring retailers to publish the offers before they are available would be in contradiction to the RPIG's purpose.

AGL suggests that a minimum the requirement should state for price change events on the price change date, all offers must be published by this day. Therefore, as noted in the 'content' section above, customers should be notified that their prices are changing, the date of that change, and where to find more information, noting that offers will be updated on EME from the price change date.

[5] https://www.aer.gov.au/retail-markets/retail-guidelines-reviews/retail-pricing-information-guidelines-2018

Other matters

Compliance and performance reporting

Currently, because the messaging can appear across 4 months (i.e. from June until October due to the mix of prior and post notification), our call centres typically manage the influx of calls on price change notification over a 5-month period. However, this period will be truncated significantly if all customers are being made aware in a narrow pre-10 business day window.

AGL uses the same call centre agents for Victoria, Western Australia and NECF States. These agents will not only have to handle any issues regarding the rates change, but also manage a potential increase in sales activity if customers seek to switch from their current retailer. Given the average 3% increase in activity we see with QLD, it would be fair to expect an increase in call activity to the tune of approximately 70,000 customers in a few days if NSW and SA were given prior notification, rather than the current spread over a 3-month period.

Retailers may look to manage the increase in call volumes through sourcing temporary call agents. By getting additional temporary agents, retailers will not only be increasing their costs (and therefore cost of energy) but also their risks, as temporary agents will require induction and training, and if this is not managed correctly then compliance errors may occur.

Retailers are required to report on Key Performance Indicators to both the Australian Energy Regulator and the Essential Services Commission of Victoria regarding call centre performance. These indicators include the number of complaints received, customer wait times, call drop-out rates etc. AGL consider that all these indicators will be negatively impacted if all customers are attempting to contact their retailers in a significantly shorter period.

If retailers are forced to rush technological solutions for customers (i.e. the inclusion of personalised rates tables and other calculations) within a short 20-24 business day period, on top of pricing decisions, then it is more likely an error will occur, which will drive complaints both to the retailer and to the ombudsman.

All these factors impinge on customer trust for energy retailers and the well-intentioned Rule change to provide customers with prior notice of a price change may be well outweighed by the negative impact customers experience from poor customer experience because retailers window to inform customers of a price change is significantly reduced from 5 months to 24 business days. AGL would request the AEMC consider these secondary but important customer experience issues when determining the appropriate timeframe retailers require to provide prior notice for price change events.

Language

We recommend the AEMC also give consideration to the language used in the Rules to ensure the information is not potentially misleading for customers. This is because there are many scenarios in which a decrease may not necessarily be clear and therefore the communication to the customer, and the information provided to them could be misleading or incomplete. For example, a product's daily supply charge goes up, but the usage charge goes down. A retailer would be required to map each notice back to customer usage (or an estimate of their usage if they are new) to forecast the potential for this change to be an increase or a decrease. This would require a complex technical solution and would not be achievable within the 24 business days. The word change also allows for a change in customer consumption behaviour which may impact whether they see an increase or decrease in their prices. For example, customers may change their consumption behaviour if they have seen that their peak charge has increased, but off-peak has decreased.

However, in circumstances where there is a clear decrease (i.e. the daily supply charge goes down and the usage charges remain the same), the communication should be left to the retailers.

Exclusions

There are limited scenarios in which an exclusion should apply, because fundamentally customers should be able to access timely information about their energy plan. Regarding the AEMC questions, AGL offers the following comments:

- **Pre-change information** - A short-term exemption should apply where the customer is made aware of the forthcoming price change with their new retailer when they enter a new contract. Where a retailer has recently acquired a customer and that customer was made aware of the nature of the change at the time the contract was entered in to. However, it should be made clear what constitutes information of the nature of change to ensure consistent practice by retailers (i.e. simply telling a customer that the prices may change would be insufficient prior-notice).
- **Regulator set prices -** AGL does not consider that businesses who have their prices set by the regulator should be exempt. The purpose of the Notice requirements, whether prior or post change, is to inform customers that the plan they signed up to is changing.
- **Innovation -** AGL would like to further understand how the notification requirements would be applied to new and emerging product types. [redacted]

Messaging

AGL consider that there is a role for the Australian Energy Regulator to play in informing customers of how prices can change. This could include information on EnergyMadeEasy that provides objective information about how and why price change events occur. This could include information about the role network pricing and AER decision and timing play in to retailer decisions.

System build

It is difficult to comment on the time required to implement changes without knowing the full complexity of the rule change. The inclusion of a rates table, or personalised customer information (as required for the Benefit Change Notice guidelines) can add significant time and complexity into a system solution.

We note as well that the current energy climate is highly changeable with multiple major changes from State and Federal regulatory makers requiring complex technological solutions. This has made it increasingly difficult for retailers to implement timely changes, and the typical 3-4-month lead time for smaller changes is increasingly difficult to meet. The concurrent nature of many of these changes also exacerbates the timeline, as system solutions are being built concurrently and need to be built and tested in concert with each other.

Given these limitations, AGL suggest that a minimum 6-month lead time be provided to retailers to coordinate communication, systems and third-party changes to allow for system-ready by mid-2019.