

Fact sheet: Research on consumer experiences of energy price changes

The AEMC commissioned Newgate Research to conduct research into consumer understanding, experiences, and preferences in relation to price changes in their energy contracts. This research has informed the Commission's analysis and draft determination on the Retailer price variations in market retail contracts rule change request.

Why did we undertake the research?

The AEMC commissioned this consumer research to inform its consideration of the Retailer price variations in market retail contracts rule change request which was submitted by two Victorian consumer groups. The rule change request sought to prohibit retailers from changing their prices during energy contracts that have a defined period of time or a benefit that is offered for a specific period, such as a one, two or three year contract.

Retailers currently have no regulatory limitations on how often or how much they can change their prices by for contracts that have a specific period of time.

The research provides information on key issues for the rule change request, including:

- how consumers interpret different terminology in energy contracts;
- consumers' awareness of price changes during energy contracts and how they react to the changes; and
- consumers' preferences in relation to contracts with a higher fixed price compared to contracts with a lower price that may change.

Further information on the Commission's draft determination on the rule change request can be found [here](#).

How did we undertake the research?

The research included both a survey and focus groups conducted in capital city and regional locations in Victoria, NSW, Queensland, South Australia and the Australian Capital Territory. The participants involved in the research comprised a representative sample of the demographic profile of each location, including both residential and small business consumers. There were 2,213 respondents to the survey and 162 participants in the focus groups.

Research findings

Key findings from the broader research project

The research was conducted as part of a broader research project conducted for the AEMC's 2014 Retail Competition Review. A number of headline findings from this broader research are relevant to the rule change request, including that:

- most consumers surveyed were satisfied with their electricity and gas retailers;
- the main driver for consumers to switch is the potential to save money, while the main barriers to switching are satisfaction with their current retailer, inertia, and disengagement;
- many consumers thought that all energy companies offer virtually the same price and that comparing options is too confusing; and
- many consumers wanted it to be easier for them to compare different energy offers, but had low awareness of existing independent price comparator websites.

The full results from the broader research project will be published by the Commission by September 2014.

Some consumers don't know if prices can vary in their contracts.

Consumer awareness of contracts is low

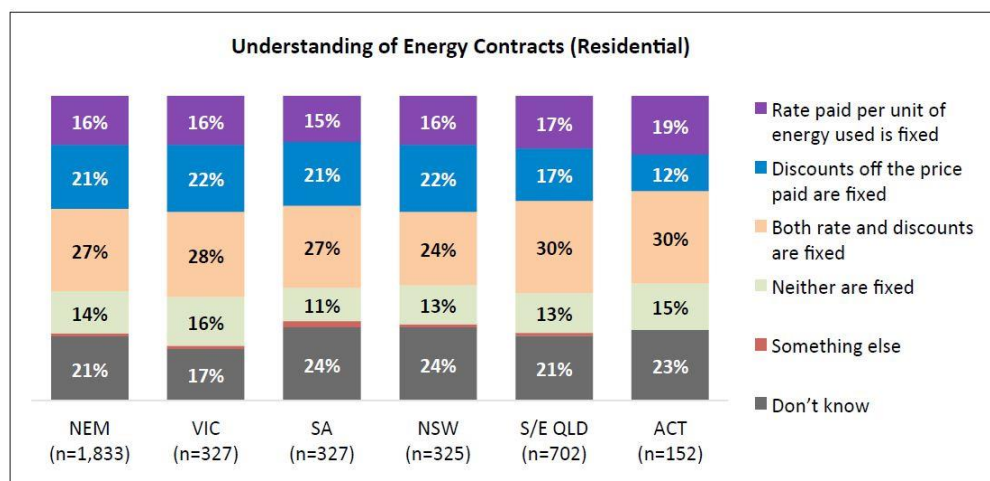
The results from the focus groups suggest that many consumers were not aware of the type of energy contract they were currently on. This was supported by results in the survey.

In the survey just over half of residential consumers and small business consumers said they recalled previously signing up for a contract for a specific period of time, such as a one, two or three year contract. The proportion who had done this were significantly lower amongst residential consumers in southeast Queensland and the Australian Capital Territory as well as amongst small business consumers in the Australian Capital Territory. This may reflect the various stages of competition in each of these jurisdictions.

Consumer understanding of price changes in energy contracts is low

Both the focus groups and survey results suggest there is some confusion about what elements of an energy contract are subject to change during contracts with a specific period. Surveyed participants were asked what they would expect to be fixed in their energy contracts.

A large proportion of residential consumers in each jurisdiction that have entered a contract with a specific period considered that the rate per unit of energy, discounts off prices, or both rates and discounts would remain unchanged over the duration of the contract. Less than 20 per cent of surveyed residential consumers considered that neither the rate per unit of energy nor the discounts off prices are fixed and a further 21 per cent did not know. Similar results were found when the same questions were asked of small business consumers.



Base: All Respondents

Q42. While on an energy contract, which of the following do you think applies?

Many participants in the focus groups found it hard to articulate whether the price they expect to pay for energy would remain the same. Initially, the majority said they thought it would be fixed for the duration of the contract. However, on further discussion, the majority clarified that they actually had hoped it would be fixed because it would shield them from rising energy prices. However, they assumed that, realistically, it would probably not be fixed in practice.

There were a number of differences in responses in the focus groups depending on the demographics of the participants and whether they had recently signed up to contract for a specific period of time:

- those who were aware they had signed up to a contract were typically aware that the price they paid per unit of energy could vary. Most said the retailer advised them of this when they signed onto the contract;
- some residential consumers were more likely to expect that the rate they would pay per unit of energy would be fixed;
- other residential consumers and owners or managers of small or medium sized enterprises, were more likely to expect that it was not realistic for energy companies to fix the price per unit of energy.

Consumer experiences of and reactions to price changes

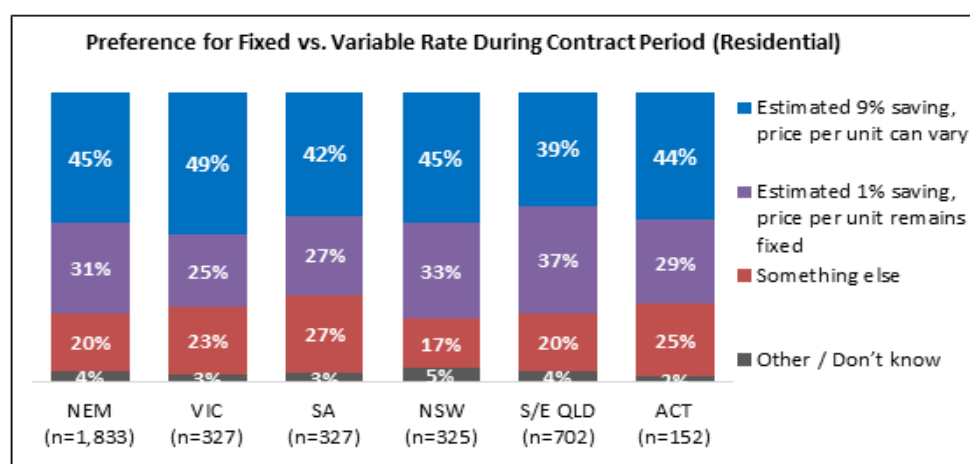
The survey asked those who had signed up for a contract for a specific period of time whether, while on the contract, they had ever found that the rate per unit of energy had changed. Half of residential consumers and three in five of the small business consumers surveyed reported that prices had changed during the period of the contract.

Those that reported that prices had changed were asked what they did in response to the price change. 37 per cent of residential consumers and 26 per cent of small business consumers said they did nothing and paid their account. 20 per cent of residential consumers and 24 per cent of small business consumers contacted their energy company to query the price change.

Of those surveyed consumers that reported that prices had changed, six per cent of residential consumers and one per cent of small business consumers said they looked at switching to other energy companies, while eight per cent of residential and seven per cent of small business consumers actually changed their energy company.

Consumer preferences for fixed or variable prices

The survey asked all participants to choose from a list of contracts with different levels of price risk. The results indicated a mix of preferences regarding the level of risk consumers are willing to bear. Consumers were asked whether they preferred a contract with a nine per cent discount and a variable price, a contract with a one per cent discount and a fixed price, or something else. Almost half of residential and small business consumers preferred a lower variable price for energy, while a third of residential consumers and a quarter of small business consumers preferred a higher fixed price.



Base: All Respondents

Q45. In principle, which of the following options would you prefer for a fixed term contract of say, two years?

Broader context of the Newgate consumer research

While some participants in the focus groups found price changes a source of frustration, it did not appear to greatly exacerbate negativity towards energy retailers. Rather it appeared to be yet another factor contributing to overall consumer frustration and distrust of the energy industry.

The issue appeared to contribute to the perception that retailers provide unclear information to consumers and hide information in fine print. Some consumers considered that this makes it difficult to compare energy companies and products and means they don't save as much as they expected to.

For information contact:

AEMC Chairman, **John Pierce** (02) 8296 7800

AEMC Senior Director, **Chris Spangaro** (02) 8296 7800

Media: Communication Manager, Prudence Anderson 0404 821 935 or (02) 8296 7817

31 July 2014