

Minutes

Retail Market Review – Stakeholder Reference Group Meeting #16

Date and Time: Tuesday 16 July 2019, 9:30 am – 11:00 am, and Monday 22 July 2019, 1-2pm

Location: Brussels Room, Dialogue Conference Centre, 50 Lonsdale Street, Melbourne VIC 3000. and Level 37, 2 Lonsdale St, Melbourne VIC 3000.

Present:

Name	Organisation	16 July	22 July
Ben Barnes	AEC	✓	✓
Anh Cao	AER (observer)	✓	
Elizabeth Molyneux	AGL	✓	✓
David Bryant	Brotherhood of St Laurence	✓	✓
Jake Lilley	CALC	✓	✓
Sarah Shepherd	DEWLP (observer)	✓	
Aaron Yuen	ESC	✓	✓
Asanga Seneviratne	ESC	✓	✓
Zac Gillam	EWOV	✓	✓
Michael Beneviste	Powershop	✓	✓
Stefanie Macri	Red Energy	✓	✓
Gavin Duffy	St. Vincent de Paul	✓	
Susan Quinn	VCOSS	✓	
	Onsite Energy Solutions		✓

Apologies:

- Larissa Nicholls (Monash University)
- DHHS

1.1. Agenda items

1.1.1. Welcome and general update

- We are currently reviewing the submissions that we received on our issues paper on Ensuring contracts are clear and fair.
- An issues paper on the second iteration of the Victorian Default Offer (VDO) will be released in late July.
- We are intending to consult on a draft approach for our competitiveness review in October. We may issue information requests to stakeholders to assist with early thinking. We will have an agreed approach at a high level by the end of the year.
- We intend to set out our approach for recommendation 9 in February 2020, noting that this will be a longer-term process (and will include a review of other codes and guidelines as well as the Energy Retail Code).

Questions/comments from stakeholders

What is the timeline for the life support work program?

- A draft decision will be released in early August and a final decision in October or November. Our starting position has been the national framework and implementation is subject to consultation.

Is there an overall timeline for retailer obligations and the compliance program?

- There are several areas that we need to address as a priority such as life support. For other areas, the approach papers that we will outline our proposed plan. We are also hosting a stakeholder forum on 23 July that will provide insight into our compliance work program.

1.1.2. Clear and fair contracts

We conducted a facilitated discussion on the desired customer outcomes focussing on two problems: (1) customers experiencing price increases soon after starting a new contract with a new retailer and (2) customers on fixed benefit periods or contracts that did not re-engage after that period, and ended up with much higher prices. The following table captures the discussion and various views of stakeholders.

The original problems identified by the independent review	A. Do these problems still exist in the market today? How many customers are affected by these problems today?	B. How far do the 1 July 2019 reforms go to addressing these problems? Have other potential problems emerged?	C. What could we consider as part of the Rec 4 recommendations do you think could further assist? (Options?)
<p>1. Customers experienced price increases soon after starting a new contract with a new retailer</p>	<ul style="list-style-type: none"> It is theoretically still possible to ‘bait and switch’, but how many customers might be affected by this practice today? What is the materiality of the issue? <ul style="list-style-type: none"> Brotherhood of St. Laurence’s indicated that the issue was still reported to occur in 2019. EWOV also indicated they had received complaints of customers who have experienced this in 2019 (not currently categorized separately, but are captured under ‘high billing’ complaints). <p>Note: ‘Bait and switch’ was referred to as a practice where a large discount is offered for a short time (e.g. three months) before prices are changed.</p> Several issues potentially still arise after contracting: <ul style="list-style-type: none"> Market contracts could still be linked to a standing offer where if the standing offer price increases, the market offer price also increases. A price change may occur soon after a customer signs up to a new contract, potentially due to a scheduled price change, e.g. the set price change times of the VDO. Do we need more time to see the effect of the issue post 1 July 2019? 	<ul style="list-style-type: none"> All the reforms go some way to addressing the issue, namely the best offer, price change notification and clear advice entitlements, noting that: <ul style="list-style-type: none"> it may be too early to tell the effect of the <i>best offer</i> to address unexpected price changes price change notification potentially addresses the issue of a customer paying higher prices without knowing about it beforehand there is a question on how effective these disclosure entitlements may be for disengaged compared to engaged customers there is a recognition that there will be a limit to how effective disclosure-based reforms can assist customers new information disclosure provisions mean that retailers have a reduced incentive to ‘bait and switch’ For vulnerable customers, does the payment difficulty framework go some way to provide protections against unexpected price increases due to large discounts, i.e. there are customer entitlements to receive information on the most suitable energy offers. Should the VDO be a suitable offer for customers who can’t commit to pay on time for large discounts? VDO provides some price certainty over a 12 month period. The best offer provides some protection if the market does evolve and there is a better market offer that you can access. 	<ul style="list-style-type: none"> There is a balance of customer outcomes to consider: <ul style="list-style-type: none"> A desire to give price certainty and for customers to have price risk managed by their retailer as much as possible A price premium (for retailers to manage more risk on behalf of customer) and potential reductions in service quality (to lower retailer costs) There is a recognition of different customer preferences in the market: <ul style="list-style-type: none"> Engaged vs disengaged Empowered (who can make choices and have options available to them) vs disempowered (who have no choices of what they can get, or are vulnerable customers) Different appetites for price risk <p>Recommendations could consider the following:</p> <ul style="list-style-type: none"> Should we make incremental changes, or focus on the most effective changes? Should we be mandating what offers or contracts customers should be on? If all market contracts are fixed for 12 months, issues could arise, such as referencing to the VDO will potentially change. Retailers are restricted by the pricing reset timeline for the VDO. If wholesale prices go up, you are forced to offer the VDO at a certain price and once the VDO is reset, readjust market offers. As a result, retailers will charge a premium for every contract. What is the effect of price changes on legacy

The original problems identified by the independent review	A. Do these problems still exist in the market today? How many customers are affected by these problems today?	B. How far do the 1 July 2019 reforms go to addressing these problems? Have other potential problems emerged?	C. What could we consider as part of the Rec 4 recommendations do you think could further assist? (Options?)
--	--	---	--

			<p>customers?</p> <ul style="list-style-type: none"> Given fixing prices might induce retailers to have higher prices, the real problem with 'bait and switch' lies in large price changes. So should there be a cap to price changes to a reasonable amount (i.e. if there is a wholesale price change)? As service levels changed, need to consider the accessibility of offers (i.e. not all customers are able to access web chat as call centres have reduced availability). How would this interact with retailers that offer bill smoothing? It may be appropriate for the market to allow customers to choose an energy product that may be exposed to regular price changes. <ul style="list-style-type: none"> Opportunity over the next 6 months for consumer testing on what options customers might be interested in. Will a customer favour a fixed vs. variable option? <p>Further transparency in the market through public reporting:</p> <ul style="list-style-type: none"> Further transparency on poor retailer practices (such as 'bait and switch') should be publicly reported on. What does 'success' look like for the market? Could EWOV introduce additional complaint categories to try and understand the size of the identified problems? A need for more detailed data and information about customers on legacy offers as a result of a 'bait and switch', noting that the AER has some initial reporting on expired offers and the AEMC has requested data as part of their competition review.
--	--	--	--

2. Customers on fixed	<ul style="list-style-type: none"> Legacy customers may still be on a high price from a 	<ul style="list-style-type: none"> Current practice is that fixed price contracts will default 	<ul style="list-style-type: none"> Recommendation 4C if implemented consistently and
------------------------------	--	---	---

The original problems identified by the independent review	A. Do these problems still exist in the market today? How many customers are affected by these problems today?	B. How far do the 1 July 2019 reforms go to addressing these problems? Have other potential problems emerged?	C. What could we consider as part of the Rec 4 recommendations do you think could further assist? (Options?)
<p>benefit periods or contracts did not re-engage after that period, and ended up with much higher prices</p>	<p>legacy ‘bait and switch’ offer.</p> <ul style="list-style-type: none"> Regulation of late termination fees led to an increase in the use of fixed benefit periods. Consider similar unintended consequences. People are disengaging in the market and not ending up on a fair offer. Legacy contracts will be an issue. A need for detailed data and information for transparency. 	<p>to the VDO price.</p>	<p>fairly remains a strong option for electricity and gas.</p> <ul style="list-style-type: none"> Should there be consistency in the way customers defaults after a fixed benefit period? A consistent mechanism is important because a retailer can have an offer with no benefit period and variable prices which would mean there is no obligation to transfer to VDO.
<p>3. Discounting is difficult to understand (off different references between retailers, on different parts of the bill)</p>	<ul style="list-style-type: none"> There remains a difference between how offers are advertised and how they are constructed. The reference price framework focuses on advertising, which could be interpreted as being different to ‘pricing’ an offer. <ul style="list-style-type: none"> This means that there could be offers that are 5% below the reference price if all conditional discounts are met, but the offer is 40% off a base rate much higher than the VDO. Therefore, if conditional discounts met for this type of offer, a customer could pay well above the VDO rate. Is this a transition issue, or a common practice of retailers post 1 July? For example, there are offers on Victorian Energy Compare which have pay on time discounts where the VDO price is not the base rate for tariffs. Is a comparison against a reference price confusing? Is an annual bill amount clearer? Not well understood that a retailer can change price at any time with unexpected timing & magnitude changes. Difficult to compare legacy offers and new offers introduced post-1 July, e.g. 40% discount (pre-1 July 2019) vs. 7% discount (post 1 July 2019). Observation that some offers with incentives are not anchored to a reference figure, i.e. a consumer may receive a \$50 incentive but the underlying rates for that offer may be higher than the VDO price (without the customer being made aware of this). 	<ul style="list-style-type: none"> Does the Order in Council (No. S 208, 30 May 2019) fix the discounting problem? Customers are still learning about the different discounts that apply in this transition period? Should we observe what the results are? Customers on a legacy offer may be incentivised to act via the best offer message but all customers may not act. Is the distinction between dollar and percentage terms still causing confusion? (i.e. the Victorian Energy Fact Sheet and best offer messages refer use dollar terms but the OIC uses percentage discounts). 	<p>Potential need to recognise different customer preferences:</p> <ul style="list-style-type: none"> Engaged – who want to engage with different products <ul style="list-style-type: none"> Very Engaged (e.g. battery bundling, Powershop packs) Moderately Engaged (e.g. use Victorian Energy Compare, engage with market when moving house) Reactive (e.g. in response to a service issue, such as a billing system error) Vulnerable (e.g. may need further support such as those under the payment difficulty framework or URGs) A silent majority in the middle of the market with a trust deficit issue.

The original problems identified by the independent review	A. Do these problems still exist in the market today? How many customers are affected by these problems today?	B. How far do the 1 July 2019 reforms go to addressing these problems? Have other potential problems emerged?	C. What could we consider as part of the Rec 4 recommendations do you think could further assist? (Options?)
4. Gas Discounting	<ul style="list-style-type: none"> No gas reference price mechanism in Victoria (or nationally). It would be counterintuitive to have a reference price for electricity but not gas. A reference price resolves the issue of comparing offers with different discounts. Note that even with a reference price mechanism like the one in electricity, there may be problems for legacy contracts (and we may need further detailed data and information on legacy electricity and gas contracts and prices). 	<ul style="list-style-type: none"> Recognition that the reference pricing mechanism for electricity has been useful but may need to be refined. There is a benefit in having the electricity and gas discounting approach aligned (important that both types of offers are presented from a reference point) 	<ul style="list-style-type: none"> Unanchored discounts in advertising could be solved by a gas reference price. Consider other reforms currently ongoing in the market, such as the Australian Energy Market Commission's reasonable discount cap. <p>Consider the following issues for gas reference pricing:</p> <ul style="list-style-type: none"> There is more variance in tariff structures: <ul style="list-style-type: none"> Different calculations for block structure Summer/winter components Difference between retailers Need to be able to accommodate variance in tariff structures within VEC inputs. Potentially complex for customers due to many distribution sub-zones (more than in electricity)? <ul style="list-style-type: none"> Does this present a problem in advertising? But there may be ways to overcome this as a simplified view presented to customer. But there will be implications for general advertising as customers cannot inherently be targeted. How many gas reference prices are necessary (could be complex for operators)? Issues may remain when comparing dual fuel or bundled offers which are currently not fully accounted for on VEC.
Other Comments?	<ul style="list-style-type: none"> What is the appropriate balance between providing customers with price certainty vs. protection against unforeseen price changes? 	<ul style="list-style-type: none"> What is success for the market? 	<ul style="list-style-type: none"> Are complementary mechanisms available? Detailed categorization of complaints by EWOV will allow a deeper understanding of the problems that are affecting consumers.

1.1.3. Any other business

- There was no other business raised by members.

Appendix A – Agenda

No.	Item	Presenter	Duration
1	Welcome & general update		
	<ul style="list-style-type: none">VDORecommendations 8 & 9	Aaron Yuen (Chair)	10
2	Clear & fair contracts		
	<ul style="list-style-type: none">Facilitated discussion on desired customer outcomes	Aaron Yuen (Chair)	70
3	Other		
	<ul style="list-style-type: none">Any other business	All	10