

# Retail Market Review – Bills & marketing Workshop II

## Pre-workshop material and questions

11 July 2018

### Purpose

To set out key questions for discussion at the second workshop of the bills and marketing work stream of the retail market review (RMR) project. This workshop is focused on recommendations 3A to 3H.

### Structure of the document

This document provides an overview of key matters associated with implementing recommendations 3A to 3H.

These key matters typically impact a number of recommendations. Accordingly, the document is structured by matter rather than by recommendation. We have included a more detailed discussion of each recommendation in Appendix A.

The material assumes a degree of familiarity with the final report of the [Independent Review into the Electricity and Gas Retail Markets in Victoria](#).

### Gathering your response to this material

This document sets out key questions we will seek your feedback on during the workshop. We invite you to provide written responses following the workshop by **18 July 2018**.

### Status of this material

This material has the status of a staff working paper and does not necessarily represent the views of the commission.

# Framing the discussion

## Introducing recommendations 3A-H

Recommendations 3A-H are a set of interlocking proposals primarily focused on improving the information available to customers via marketing channels and information disclosure tools. The improved information is intended to promote customer trust and confidence by making it easier to understand, compare and switch energy plans.

As noted, because a number of these recommendations are intended to work together, we have distilled the key matters that relate to their implementation *as a package*, rather than simply stepping through the recommendations one by one (instead, we do a step through in an attachment).

Furthermore, a number of the recommendations allow a level of discretion in terms of how the recommendation should be practically implemented. These recommendations are the primary focus of our discussions during the workshop. By contrast, some recommendations provide for minimum discretion. During the workshop, we will also provide a short briefing on these recommendations. The recommendations in each category are set out below.

### Recommendations we will provide a short briefing on

- **3A** Require retailers to market their offers in dollar terms, rather than as percentages or unanchored discounts.
- **3C** The ESC to develop a small number of typical customer usage profiles (3–4) for use in standardised marketing material (for 2,000 kWh, 4,000 kWh, and 6,000 kWh per year).
- **3F** Require retailers to notify a customer of the best offer available by that retailer, and reference the Victorian Energy Compare website, in advance of any price or benefits change.
- **3H** Require marketing material and bills to provide GST-inclusive pricing (note, we are intending to implement this via our October code amendment, along with recommendation 3G)

### Recommendations for primary focus during the workshop discussion

- **3B** Where the retailer knows the actual usage profile for a specific customer, the marketing to that customer to be based on the estimated annual costs of the offer for that customer, and the dollar costs if conditions attached are not met.
- **3D** Marketing of prices to appear in a standardised format and display the actual annual cost for the 3–4 standardised customer usage profiles. Annual energy costs for the standardised customer usage profiles to be the comparison rates in marketing materials.
- **3E** The ESC to develop a standardised format for retailer information disclosure and marketing material.

## Links to our existing work on changes to bills (recommendation 3G)

Through our existing work to implement recommendation 3G, which requires retailers to publish their 'best offer' on bills, we have explored a number of topics that will also have a bearing on recommendations within this next tranche of work.

We don't propose to revisit those topics during this workshop. Rather, our final positions on these topics will be resolved through our existing work on recommendation 3G and then applied to the remaining recommendations. If you would like to engage on these topics, please do so via that separate line of work. These topics include:

- The definition of 'best offer'
- Methods for estimating a customer's annual energy cost, including in circumstances in which 12 months of data is not available.

# Key matters for discussion in this workshop

## Introduction

From our initial analysis, we have identified the following key matters for discussion:

- The definition of 'marketing', including the distinction between 'general' marketing the marketing that is directed
- Marketing for culturally and linguistically diverse (CALD) and aged populations
- The scope of potential standardisation of marketing formats
- The scope of potential standardisation of information disclosure formats.

The remainder of this section sets up the discussion on each matter.

## Definition of marketing

Where does marketing end and information disclosure begin?

How should the commission think about the distinctions between different marketing channels?

What are they? Should they all be in scope?

## Marketing for CALD and aged populations

How can the regulation requirements take account of marketing for CALD and aged populations?

Can you tell us about any campaigns that retailers have targeted towards these groups and what worked successfully and what obstacles were faced?

## Scope of standardisation – marketing

How should the scope be determined for standardising marketing material?

What is the spectrum of options for setting this scope, and how should the commission consider these options?

Are there examples of other industries where this standardisation has occurred that you would recommend the commission examine? (eg telco, banking, insurance) What can we learn?

## Scope of standardisation – information disclosure

How should the scope be determined for standardising information disclosure material?

What is the spectrum of options for setting this scope, and how should the commission consider these options?

What can we learn from recent AER processes?

Are there examples of other industries where this standardisation has occurred that you would recommend the commission examine? (eg telco, banking, insurance) What can we learn?

# Appendix A: Recommendations 3A to 3H

## 1.1. Overview

Recommendations 3A to 3H of the retail market review include a suite of changes to marketing and information disclosure standards. Together, these changes are aimed at making it easier for customers to understand, compare and switch energy offers.

This attachment outlines the key information about recommendations 3A to 3H. For each of the recommendations, the document outlines:

- the independent panel's recommendation,
- our initial understanding what the recommendations would mean in practical terms, which we have developed by considering each recommendation in the context of the wider recommendation 3 as well as the background analysis contained in the independent panel's report,
- how the recommendation responds to the problem definition,
- our initial analysis of the outcome the recommendation is seeking to produce, and
- working definitions of any key terms.

One exemption to this approach is recommendation 3H, which is to require marketing material and bills to include GST-inclusive pricing. We are proposing to include this in the first round of code changes (those associated with recommendation 3G) to help balance our first and second round code amendments. Consequently, recommendation 3H is not presented in any detail in this document.

## 1.2. Status of this material

This material has the status of a staff working paper and does not necessarily represent the views of the commission.

## 1.3. Problem definition

As advised previously, for the purposes of the 'bills and marketing' work stream we derived the following problem definition from the analysis and findings contained in the independent panel's report:

*Many Victorian customers are paying more than is necessary for their energy. This is in part due to the difficulty customers experience identifying the energy offer that best suits them. The difficulty that customers experience stems in part from the variety and complexity of the offers available in the market place, which include a range of: unanchored discounts, benefits, and fixed and variable charges. In response to this complexity, even motivated customers appear to be reluctant to shop around. Other customers do not even try.*

## 2. Recommendation 3A

### 2.1. Recommendation 3A

Require retailers to market their offers in dollar terms, rather than as percentages or unanchored discounts.

### 2.2. What does this recommendation mean in practical terms?

In practical terms, we understand the implementation of recommendation 3A to mean:

- retailers can continue to offer discounts but the discounts should be displayed in monetary terms, not percentages (for example, discount of \$X or Yc/kWh). Discounts must be anchored to an actual tariff, or cost (for example monthly, quarterly or annual bill).

### 2.3. How does recommendation 3A respond to the problem definition?

Recommendation 3A responds to the problem definition by:

- reducing the confusion and complexity associated with comparing offers marketed with unanchored percentage discounts, thereby enabling customers to more readily compare energy offers and identify the one that best suits their needs.

### 2.4. What is the outcome recommendation 3A seeks to produce?

Our initial analysis is that recommendation 3A is seeking to:

- eliminate a key point of confusion in the market – the practice of quoting discounts without referencing the underlying rate or cost, usually in percentage terms, thereby making it difficult for customers to understand the materiality of the discount.

### 2.5. Working definitions of key terms

**Dollar terms** – monetary terms (dollars and cents).

**Unanchored discounts** – discounts that are not anchored to a particular base cost.

**Marketing** – this is a key definition that applies across recommendations 3A-3F and is a subject for discussion at the workshop.

## 3. Recommendation 3B

### 3.1. Recommendation 3B

Where the retailer knows the actual usage profile for a specific customer, the marketing to that customer to be based on the estimated annual costs of the offer for that customer, and the \$ costs if conditions attached are not met.

### 3.2. What does this recommendation mean in practical terms?

In practical terms, we understand the implementation of recommendation 3B:

- applies to direct marketing about energy plans by a retailer to one of their individual customers, in circumstances in which the retailer knows that customer's usage profile.

And that it means:

- marketing in this context should be made with reference to the estimated annual cost to that customer, based on their usage patterns, of the energy plan being marketed, and
- if the offer also includes conditional discounts, the marketing must clearly indicate the dollar impact on that annual bill if the customer does not meet those conditions.

### 3.3. How does recommendation 3B respond to the problem definition?

Recommendation 3B responds to the problem definition by:

- reducing customer confusion and effort by requiring retailers to tailor marketing to customers, and
- increasing transparency for customers by requiring retailers to clearly disclose the financial implications of not meeting any offer conditions.

### 3.4. What is the outcome recommendation 3B seeks to produce?

Our initial analysis is that recommendation 3B is seeking to:

- enable customers to more easily understand and compare energy offers by ensuring that, where a retailer has knowledge of the customer's profile, direct marketing from that retailer is relevant to that customer.
- give customers clarity around conditional discounts by informing them of the cost of not meeting the necessary conditions.



### **3.5. Working definitions of key terms**

**Actual usage profile** – Options include a maximalist approach of linking this term to the customer’s unique load profile, and a minimalist approach of linking to a generic profile for customers with similar characteristics to that customer (ie profiles developed with reference to a specific appliance mix or household composition).

## 4. Recommendations 3C and 3D

### 4.1. Recommendations 3C and 3D

- The ESC to develop a small number of typical customer usage profiles (3-4) for use in standardised marketing material (e.g for 2000 kWh, 4000 kWh, 6000 kWh per year).
- Marketing of prices to appear in a standardised format and displayed in actual annual cost for the 3-4 standardised customer usage profiles. Annual energy costs for the standardised customer usage profiles to be the comparison rates in marketing materials.

### 4.2. What do these recommendations mean in practical terms?

In practical terms, we understand the implementation of recommendations 3C and 3D to mean:

- the commission will develop:
  - a series of representative electricity and gas customer usage profiles.
  - a method or approach for retailers to calculate the annual cost of any marketed plan using the usage profiles.
  - a standardised format for retailers to present the annual cost of a plan in marketing material, using the usage profiles.

Our assumption is that work on these recommendations will link in with our work on 3E, which focuses on marketing standards more generally.

### 4.3. How do recommendations 3C and 3D respond to the problem definition?

Recommendations 3C and 3D respond to the problem definition by:

- mitigating the complexity and confusion for customers by making it easier for them to quickly understand the potential annual costs of different energy offers they see in the marketplace, including in advertising they may encounter day-to-day (as opposed to when they are explicitly researching energy deals).

### 4.4. What outcomes do recommendations 3C and 3D seek to produce?

Our initial analysis is that recommendations 3C and 3D are seeking to:

- make marketing of energy plans more informative and transparent for customers, specifically so customers can swiftly identify the potential costs (including for customers like themselves), associated with different energy plans.

### 4.5. Working definition of key terms

n/a

## 5. Recommendation 3E

### 5.1. Recommendation 3E

The ESC to develop a standardised format for retailer information disclosure and marketing material.

### 5.2. What does this recommendation mean in practical terms?

In practical terms, the implementation of recommendation 3E means:

- the commission is required to establish standards for:
  - how information is presented in marketing material, and
  - information disclosure on energy plans.

The scope of any new standards is yet to be determined, and we note that under this recommendation the scope could be quite wide. We see the definition of this scope to be a key question in the development of the work program associated with this package of recommendations.

### 5.3. How does recommendation 3E respond to the problem definition?

Recommendation 3E responds to the problem definition by:

- promoting clarity and transparency in the market by standardising relevant elements of marketing and information disclosure material.

### 5.4. What is the outcome recommendation 3E seeks to produce?

Our initial analysis is that recommendation 3E is seeking to:

- apply minimum standards to ensure the marketing that customers experience is appropriately transparent, easily understood and a sufficient basis on which to make quick comparisons between energy plans, and
- apply minimum standards to ensure customers who access information disclosure material can easily understand the key details of energy plans, and make informed comparisons between them.

### 5.5. Working definition of key terms

**Marketing** – for discussion during the workshop.

**Information disclosure material** – for discussion during the workshop.

## 6. Recommendation 3F

### 6.1. Recommendation 3F

Require retailers to notify a customer of the best offer available by that retailer, and reference the Victorian Energy Compare Website, in advance of any price or benefits change.

### 6.2. What does this recommendation mean in practical terms?

In practical terms, we understand the implementation of recommendation 3F to mean:

- retailers need to notify customers in writing in advance of any price or benefits change (already applies to benefit changes), and that those notifications would include:
  - information about the customer's rates and benefits (current and new),
  - information about the retailer's best offer to that customer (calculated and presented in a manner consistent with similar notifications under recommendation 3G, which includes reference to the customer's estimated annual bill), and
  - a reference to the Victorian Energy Compare website.

We have identified potential efficiencies here by leveraging the notice requirements developed for recommendation 3G.

### 6.3. How does recommendation 3F respond to the problem definition?

Recommendation 3F responds to the problem definition by:

- promoting trust and confidence in the market by giving customers better visibility of changes to their energy plans.
- promoting engagement by alerting customers to their retailer's best offer at a time when their costs may be increasing.
- promoting engagement by giving customers a 'nudge', in the form of a reminder about the Victorian Energy Compare website, to examine alternative offers in the market.

### 6.4. What is the outcome recommendation 3F seeks to produce?

Our initial analysis is that recommendation 3F is seeking to:

- promote trust and confidence by ensuring customers are given prior warning about changes to their energy costs.
- provide customers with a low effort means of identifying whether they could access a better offer at the point in time that their energy costs are increasing.

## 6.5. Working definition of key terms

**Best offer** – propose this is defined in a manner consistent with the equivalent definition under recommendation 3G.

**Price change** – any change to an energy plan's rates, tariffs or fees.

**Benefits** – options include financial only (e.g discounts), or financial and non-financial (e.g movie tickets).

**Notification** – propose notification is to be in writing (through post, email or other mediums).