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Submitted via email: ConsumerPolicy@aer.gov.au

Dear Mark

Developing the Better Bills Guideline consultation

Thank you for the opportunity to make a submission to the Australian Energy Regulator (AER)’s consultation on the development of the Better Bills Guideline (the Guideline).

The Australian Competition and Consumer Commission (ACCC) has a strong interest in energy bills providing clear information to consumers and consumers being able to engage in the market and secure the best deal. The Guideline will complement other consumer protections in energy that ensure consumers have the information necessary to manage their energy costs. In this submission, we outline four key themes: increasing comprehension and simplicity for consumers; the balance between prescription and principles-based approaches; consideration for the preferences of small business customers; and encouraging market engagement.

We consider that, while increasing consumer comprehension by simplifying content and standardising terms should be the Guideline’s key priority, enabling market innovation, competition and consumer engagement are also important objectives. To achieve this, the Guideline will need to strike the right balance in applying prescription and principles-based approaches, where consumer research can inform the regulatory approach and necessary requirements of the Guideline. We consider consumers would benefit most from a guideline that includes principles-based approaches to facilitate innovation and consumer preference while mandating the level of prescription required to assist and protect consumers.

The ACCC acknowledges the significant benefits of using consumer research and testing to inform the development of the Guideline and welcome the AER’s work in this regard. We note the findings from the recent consumer testing that indicate consumers value the inclusion of comparison information on energy bills. The best retailer offer has benefits in its simplicity, and we consider it could be complemented by information that allows consumers to compare across different retailers. We consider adding the reference price comparison to the best retailer offer information on residential customers’ energy bills could encourage greater consumer engagement across the market.
Increasing comprehension and simplicity for consumers

In our Retail Electricity Pricing Inquiry, we received considerable feedback from stakeholders in relation to energy bills and the need to increase comprehension. We provided suggestions to enable consumers to easily read and understand bills.\(^1\) Energy bills are the primary medium through which consumers understand how much they consume, how their bill is calculated, how to ask a question, dispute a bill, report a fault or emergency, compare their energy plan and consider options for energy supply and storage. Improvements in consumer comprehension will increase the utility of bills in providing this wide range of valued information.

Consumer testing and research should inform any introduction of information requirements intended to benefit consumers. We welcome the interim report on improving energy bills prepared by the Behavioural Economics Team of the Australian Government (BETA). It prioritises consumer-focused outcomes and promotes approaches that align with consumer preferences. This research adds to the growing literature on this topic, which will also help inform other related initiatives.

BETA’s literature review confirmed that energy bills include complex information that can cause confusion for consumers. Further, it found that bill simplification, founded on evidenced-based behavioural principles, ‘can reduce the cognitive load that bills place on consumers, making them easier to understand and effectively use’. We note that BETA’s literature review identified numerous gaps in the literature, where priority content, reducing information overload and maximising comprehension needed to be tested. BETA’s testing highlighted a number of findings on what consumers want on their bill and how to communicate it in a clear manner. We note the useful findings from the research where, in a well-designed bill, the overall length and layout is not a significant barrier to consumer comprehension.

The balance between prescription and principles

In our previous inquiry and our submissions to the Australian Energy Market Commission (AEMC)’s rule change consultations on bill contents and billing requirements, we highlighted the significant risks of allowing retailers the freedom to choose what information is relevant for consumers. The ACCC’s experience in taking enforcement action for misleading and deceptive conduct in the energy sector demonstrates that retailers do not always provide clear information to their consumers, resulting in significant consumer confusion and harm.

However, we consider that overly prescriptive requirements for energy bills could increase costs for retailers and lessen the opportunities for retail market innovation. Given this, we consider that neither an entirely principles-based or prescription-based guideline would be appropriate. Consumers would benefit most from a guideline that includes both prescriptive requirements where there is clear evidence for inclusion, and principle-based requirements where there may be benefits to facilitating innovation or consumer preference. The findings from BETA are helpful in informing what information could be prescribed and where other information could be based on principles. Specifically, if there is a clear benefit for consumers on including content on a bill in a particular format, we consider prescription would likely be appropriate.

As an example of where prescription may be appropriate, we note the findings from BETA’s literature review around the priority content of a bill\(^2\), where there would be benefits to requiring the inclusion of this content on bills, and prescribing where that content appears.

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We also refer to BETA’s findings where plan summaries made it easier for consumers to understand their bill. We consider that there could also be benefits in requiring plan summaries and prescribing where summaries may appear on a bill and what content is included. We also note the findings that standardisation of key terms between retailers will help consumers make better decisions when comparing plans, and the potential benefits of prescribing standard language and key terms for energy bills.

We also consider that comparison information included on bills could benefit from prescriptive requirements in the form of standardised statements. As we have stated previously, direct and enforceable regulation is appropriate where there may not be strong commercial incentives for retailers to comply with requirements, such as providing clear billing information and prompts to switch to a better offer. Prescribed standardised statements may be most effective in ensuring such information is clearly presented.³

Relevant findings from the Behavioural Insights Team’s testing of the reference price found that specific and descriptive language, such as clearly telling consumers that the reference price is a benchmark price set by the Australian Government, is effective in increasing consumer comprehension.⁴ Similarly, the best retailer offer statement could be standardised to ensure it is clear to consumers that the ‘best retailer offer’ is the cheapest plan offered by their current retailer, to avoid consumer confusion and misunderstanding of the concept.

Conversely, we consider that where the research findings indicate that there is not a particular format that necessarily increased consumer comprehension more than others, a principles-based approach could be more appropriate. For example, there were no clearly preferred formats for cost tables, benchmarks and energy usage, as long as they followed ‘good design principles’, which could be specified in the Guideline.

Specific needs of small business customers

Although the Guideline will apply to both residential and small business customers, the BETA research focused on residential customers. Small business customers are likely to have different preferences, levels of comprehension and uses for energy bills compared to residential customers. These two groups may value different information being included on bills and their responses to the presentation of information may differ.

One way in which small business customers differ from residential customers is that small businesses’ usage levels vary a lot more across businesses, which makes comparisons based on average usage levels or profiles less useful than for residential customers.

Like residential customers, small business customers would also benefit from being able to use billing information in managing their energy costs. We found in our May 2021 report that more than double the proportion of small business customers compared to residential customers remain on standing offers. They could save $349 annually by switching to a market offer.⁵ Small business electricity debt for 90+ days is also significantly higher now than it was before the COVID-19 pandemic.⁶ Small business customers could benefit from information included on their bill that encourages them to switch to market offers, such as the best offer information, or information about schemes like the Business Energy Advice Program, which is an Australian Government initiative that gives free independent energy advice to businesses.

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³ ACCC, Submission to AEMC Bill contents and billing requirements rule change consultation, October 2020, p.2.
⁶ AER, Retail market data dashboard – 9 August 2021 – COVID-19, Figure 4.5, p.7.
Specific research focused on small business customers may be needed to determine where the greatest value is for improvements to small business customers' energy bills.

Switching and market engagement

In our submission to the AEMC’s draft rule, we suggested that the consumer research required to inform the development of the Guideline afforded an opportunity to test the comparison function of an energy bill to help consumers find the best deal. We note there are different concepts that were considered in BETA’s testing to encourage consumer switching and market engagement, including the ‘best retailer offer’ information, the prompt to visit Energy Made Easy, and the reference price information.

BETA’s literature review identified that making bills easier to compare and more actively promoting switching services are important steps in encouraging switching. BETA highlighted that the presentation of calls to action for switching behaviour is a key gap in the literature that should be tested to improve the understanding of consumers and minimise distrust. BETA also found that small friction costs, like clicking a link, might limit consumers’ actions to seek further information. Although this finding applies to the comprehension of information on energy usage and generation, we consider there may be applicability to links included on bills to compare plans on Energy Made Easy. We consider comparison information included wholly on the bill, such as the best retailer offer and reference price, is needed to complement a link to compare plans to mitigate friction costs and encourage consumers to engage with the market.

Best retailer offer and reference price information

BETA investigated best retailer offer information and the reference price to identify how they can be used to aid consumer switching. BETA found that over 70% of respondents said they would value having the best retailer offer or reference price information on their bill. Although these forms of comparison information are less comprehensive than the Energy Made Easy price comparator website, they may be effective for motivating otherwise disengaged consumers who may be on older and more expensive energy plans. We know that there are consumers on older market offers without contract term limits that have not switched since the introduction of the reference price in July 2019, when electricity prices were generally higher than they are today.

BETA’s testing shows that the best retailer offer substantially increased bill recipients’ intention to compare their plan or switch to a better one. The best retailer offer information requirements are about to come into effect in the Australian Capital Territory and are already a requirement on bills in Victoria. Consumers could be more motivated to switch offers where they can see actual dollar savings based on their past usage. The personalised and dollar value nature of the best retailer offer aligns with consumer preferences and can limit confusion. BETA’s previous studies have shown that participants endorsed personalised dollar savings as important information and it increased their confidence in using their bill to look into switching.7

While this information can help consumers to get onto a better deal with their existing retailer, the reference price is a tool that helps consumers compare offers between retailers. BETA tested including the reference price on bills and found including it may prompt some consumers to shop around. BETA found that, for plans equal to the reference price, 40% of respondents said they would shop around for a better deal. This proportion decreased for those with a plan less than the reference price, where 26% of respondents said they would shop around for a better deal if their plan was 22% less than the reference price.

The reference price provides a simple comparison of offers from different retailers. Including this information on bills would also provide consistency in information across the key steps in customers’ retail experiences, where reference price comparison information is required in the advertisement of market offers in south-east Queensland, NSW, SA, and soon to be in the ACT. As the AEMC noted, consistency across these steps would ‘build consumers’ familiarity with energy market language, terms and concepts’, where ‘improved consumer understanding of the market is likely to foster consumer engagement’.  

The comparison percentage is a reliable ‘rule of thumb’ guide on the relative values of offers, especially for residential flat rate offers. However, there are opportunities to enhance the reliability of this information for small business offers, such as by adjusting regional usage benchmarks to better reflect actual usage data. The ACCC will continue to assist the AER to enhance the reliability of the comparison framework for small business customers as part of the Default Market Offer methodology review.

BETA’s findings also highlighted that including a comparison to the reference price on energy bills could induce some complacency for consumers whose plans are less than the reference price. BETA found that, for plans 11% less than the reference price, 29% of respondents said they would shop around, and 26% of respondents said they would shop around when their plans were 22% less than the reference price. While this may be true, there is already a high level of complacency and disengagement from consumers in the market, which was highlighted in the Newgate Research. The Newgate Research informed the Australian Government’s review of the Default Market Offer and reference price, and considered consumers’ general perceptions, behaviours and preferences regarding the electricity market, where its findings on consumer preferences could be helpful in developing the Guideline.

We consider that both the best offer and the reference price concepts on a bill seem to be highly valued by consumers and could be complementary. We consider the best retailer offer information would help a consumer get onto the best offer from their existing retailer by showing them how much they could save if they switched to that offer. By also including the reference price comparison on that best offer, a consumer would have the information to enable a simple comparison with other offers in the market. Linking to Energy Made Easy provides another option for a personalised offer search. We consider that the reference price comparison percentage should be required only for applicable residential bills at this time. We consider there are benefits in requiring these multiple layers of information on a bill and appreciate that the AER would need to consider how to communicate these different concepts clearly.

If you have any questions in relation to this submission, please contact Lyn Camilleri, General Manager, Electricity Markets Branch, on .

Yours sincerely

Anna Brakey
Commissioner

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8 AEMC, *Rule determination – Bill contents and billing requirements*, March 2021, p.15.