

# Consumer Education required to make the market work

Dr Martin Gill

Electricity pricing is now so complex it is no longer possible to meaningfully compare prices without using tariff comparison tools. While the Government provides these tools they have failed to provide sufficient customer education or to require retailers to present information allowing consumers to easily use the tools.

## Introduction

Relatively recent changes allow consumers to choose their electricity retailer. It was assumed giving consumers the freedom to choose their retailer would lead to lower electricity prices. The fatal flaw with this assumption is the complexity of electricity tariffs. To highlight the issue consider if petrol was sold like electricity:



If petrol companies tried to sell petrol like electricity there would be a consumer revolt! So why do consumers accept electricity tariffs which are so complex the only meaningful way to compare them requires the use of a tariff comparison tool?

Consumers able and willing to use tariff comparison tools are likely to lower their electricity costs. Failing to use the tools allows retailers to advertise attractive 'headline figures' encouraging poor tariff choices, resulting in higher electricity costs for consumers.

Protecting consumers from exploitation requires consumer education and simple to use tariff comparison tools. The following suggests a minor change to achieve these goals.

### The suggested change

Information shown on consumer electricity bills is regulated by the Government. It is suggested a new section be added to all consumer bills clearly showing information needed to use tariff comparison tools.

## Energy Comparison Tools

The Government provides independent energy comparison tools. These tools allow consumers to accurately compare available tariffs.

**With the potential to save 20%  
why don't consumers use tariff comparison tools?**

Put simply tariff comparison tools are too difficult to use

- They do not allow consumers to compare the cost of their current tariff to alternatives
- They ask for information which is not easily found

Current tariff comparison tools fail a simple test:



Essentially consumers want to reduce their electricity costs. Instead of addressing this requirement tariff comparison tools present 'pages of numbers' which are too difficult to turn into useful actions.

Minor modifications to information shown on electricity bills could make tariff comparison tools easy to use. These changes include showing:

- A code identifying the customer's current tariff
- Figures required to compare tariffs in exactly the same format used by tariff comparison tools

Addressing these points enables consumers to easily compare electricity tariffs. They can then quickly find the cheapest tariff.

While much more could be done the above two simple changes are within the power of the Government. The following discusses the critical points.

## A code identifying the current tariff

Most consumers want to find the cheapest tariff. This requires answering one question:

### *Can I save by selecting a different tariff?*

It is impossible to answer the above question without knowing how much the current tariff is costing. Despite this obvious requirement none of the tariff comparison tools attempt to answer this vitally important question!

### How much is the current tariff costing?

The designers of tariff comparison tools fail to understand why consumers are using the tools. After entering numerous values (the following section discusses these values) the tools present the yearly cost of 100's of available tariffs. This 'list of numbers' completely fails to answer the question "Can I save by selecting a different tariff?"

To answer the question the consumer must first attempt to find their current tariff in the long list of numbers. Not only is the cost of the current tariff not highlighted, the list does not provide guidance which tariff it might be.

Even more alarming the current tariff may not even be included in the list! For example the retailer has updated the tariff or the consumer is on a 'special tariff' (refer to the appendix for a discussion of special tariffs).

The designers of tariff comparison tools incorrectly assume consumers can use their current electricity bill to find how much they are currently paying.

Electricity bills show the cost of '90 days' of electricity. Tariff comparison tools show the cost of 365 days of electricity. These costs cannot be compared unless consumers adjust the figures to the same number of days (which the tools could do but don't).

Perhaps more importantly consumers don't want to know how much they COULD HAVE saved if they changed tariff 90 days ago. The question is how much they CAN SAVE by choosing a different tariff today. This requires presenting costs of the current tariff against alternatives. Retailers are no longer restricted to increasing prices on the 1<sup>st</sup> July, so this is an increasingly important point.

There is a simple way to identify the current tariff. The Australian Energy Regulator (AER) requires retailers to provide details of all offered tariffs. The AER already assigns each retail tariff a number. This number can form the basis of a simple code.

### **Electricity bills should include a short code identifying the consumer's current tariff**

By entering the AER tariff code the comparison tool can find the tariff and use it to estimate yearly costs on the current tariff. This value can be compared directly to alternative results.

## Consumer Education

For the vast majority of Australian consumers the contestable retail electricity market is new. Many consumers remain unaware how recent changes affect them. For example many incorrectly assume electricity prices are still fixed by the Government.

Australia's energy market was created with the promise of delivering lower electricity costs. What is missing is the consumer education showing them how they can benefit from the contestable market.

Importantly complacency is no longer an option.

### **"If you snooze you lose"**

Gavin Dufty, St Vincent de Paul

The Government is relying on consumers to participate in the new market. By choosing cheaper tariffs consumers can reduce their electricity costs while simultaneously encouraging retailers to develop tariffs allowing consumers to save.

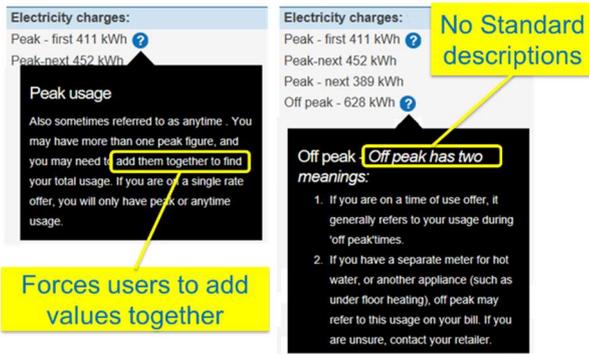
### **Retailers are free to increase prices at any time. Consumers should be encouraged to regularly check the cost of their current electricity tariff**

Most consumers are only reminded of their electricity costs when the bill arrives. Adding information to the standard bill helps provide the consumer education required to deliver the promised consumer benefits.

## Making the comparison tools easy to use

Tariff comparison tools are too difficult to use. This is primarily because the information they require is not clearly shown on current electricity bills.

Referring to the section "How to read your bill" provided on the Energy Made Easy website:



The Government defined bill format does not show the information required to use tariff comparison tools. Consumers will encounter unclear terms and be forced add multiple values together. Since the bill format is defined by the Government these issues could be easily fixed.

The following table shows eight values which if included on the standard electricity bill would greatly simplify the use of tariff comparison tools:

Value	Description
Current Tariff Identifier	To calculate current costs
Post Code	To identify available tariffs
Number of Days	To allow values to be scaled to a year
Rate 1 Electricity Use	ToU: Peak Use Single Rate: Total Household Use
Rate 2 Electricity Use	ToU: Shoulder Use Single Rate: Left blank
Rate 3 Electricity Use	ToU: Off Peak Use Single Rate: Left blank
Controlled Load	Left blank if no controlled load
Exported Solar Output	Left blank if no Solar Export

With the exception of the Current Tariff Identifier all the above values are already included on electricity bills. The problem is the values are not easily located on current bills. The suggestion is to list the above eight values in one section on all consumer bills.

Note the proposed changes remove multiple questions asked by current tariff comparison tools. For example it is no longer necessary to specify if they are currently on a Time of Use (ToU) or Single Rate tariff or if they have a controlled load. This also makes the tools easier to use.

### “Identifying the Essential”

Consumer education starts by highlighting how much consumers could save by choosing another electricity tariff. The first page of results should highlight the

consumer benefits of participating in the contestable market. For example showing:

- Annual saving by selecting another retailer
- Annual savings by selecting a tariff ‘similar’ to their current tariff (e.g. time of use)
- Annual saving by selecting another tariff from their current retailer

The above summaries answer the key question “Can I save by selecting a different tariff”. They show the financial benefits of choosing a new retail tariff.

The Current Tariff Identifier provides several benefits. Firstly it allows the tool to calculate savings from the current tariff. The Identifier also allows further tailored results to be presented matching the consumer’s apparent preferences, e.g. for a particular retailer and/or tariff type.

This is in stark contrast to current tariff comparison tools which make no attempt to tailor the results. They simply present consumers with a list of 100’s of different prices.

Importantly simplifying the information allows results to be viewed on smaller devices, e.g. a smart phone. This should encourage more consumers to regularly check their electricity tariff.

If a consumer wants to investigate the range of available tariffs they simply click on the listed tailored result and are then presented with a list of available tariffs sorted from cheapest to most expensive.

### More consumer education is required

The Australian energy market is complex. While the Government introduced the new market with the promise it would lower prices they have failed to educate consumers to ensure they can benefit.

Worse the lack of consumer education leaves consumer vulnerable to exploitation. For example until recently the Government set electricity prices. This creates a problem with retailers now advertising ‘discounts’ which are almost completely meaningless. If the discount is genuine then consumers benefit, but if the discount is offered on inflated prices consumers are worse off (refer to the Appendix for further discussions on this point).

A common concern expressed when discussing low cost retailers is fear of disconnection should the retailer “go broke”. Consumers need to be made

aware this fear is completely unfounded. Legislation ensures electricity will continue to be supplied even if the chosen retailer “goes broke”. This is a market failure since the lack of consumer education is restricting many consumers from shopping for lower electricity prices.

### **The future**

The Australian Energy Market Commission (AEMC) has introduced changes requiring retailers to offer smart meters to all their customers. As more consumers are able to access smart meter data tariff comparison tools should use the meter data to make the tools more accurate and even easier to use.

For example the Victorian Government’s SwitchOn tariff comparison tool no longer requires consumers to type in their energy values, instead they can use their own smart meter data.

Australia’s National Energy Retailer Rules (NERR) allows consumers to ask for their historical billing data including smart meter data (the AER’s failure to enforce these consumer rights is discussed in the Appendix). Unfortunately Energy Made Easy does not allow consumers to use this data for tariff comparisons.

Other AEMC rule changes ensure tariffs are going to become even more complex, in particular cost reflective network tariffs. The only way to accurately compare many future tariffs is likely to require tariff comparison tools to use smart meter data.

### **An example of retail competition**

The American retailer Amazon is coming to Australia. Amazon’s online business model encourages consumers to compare prices. For example Amazon offers an application allowing users to scan a product barcode. If Amazon sells that product they are shown Amazon’s price or their alternative product(s). Amazon hopes consumers will shop for products at competitor’s stores but ultimately buy from Amazon.

As Amazon opens ‘bricks and mortar’ stores they have patented the idea of blocking customer access to tariff comparison websites. In the patent application Amazon suggest they will attempt to block consumer attempts to compare prices against other retailers while they are inside the store. There is no suggestion they are currently doing this.

It raises a question. Are Australian retailers deliberately making electricity bills difficult to read so they can’t be used to compare tariffs?

A simple test would be to ask retailers to include easy to read information supporting tariff comparison tools. The eight values needed are listed above.

### **The role of the ACCC**

The Australian Competition and Consumer Commission (ACCC) website claims:

*We are Australia’s competition regulator and national consumer law champion. We promote competition and fair trading and regulate national infrastructure to make markets work for everyone.*

If there is a genuine desire to make the Australian Electricity market “*work for everyone*” then more consumer education is required. Tariff comparison tools are vitally needed in the rapidly changing electricity market where they enable consumers to choose tariffs lowering their electricity costs. Despite the importance of tariff comparison tools they remain notoriously difficult to use.

The ACCC oversees the Australia Energy Regulator (AER) who provide the Energy Made Easy tariff comparison tool. The ACCC should encourage the AER to improve the tool.

On the regulatory front the ACCC should investigate questionable retail offers which exploit the lack of consumer education in the rapidly changing electricity market. This includes misleading discounts and commercially operated comparison services. These are discussed in the Appendix.

### **Conclusion**

Major changes to Australia’s electricity market were introduced with the promise they would result in lower electricity prices. The catch is potential savings are only available if consumers are prepared to shop around for electricity deals.

Consumers will immediately encounter a significant problem. Electricity tariffs are so complex tariff comparison tools are the only way to meaningfully compare costs. Current tools are difficult to use and rely on the consumers to extract information from across their electricity bill. Minor changes could make these tools significantly easier to use.

The proposed changes require retailers to clearly show the information consumers are required to enter into the comparison tools. Consumers are then presented with information essential to making wise electricity decisions.

The changes are within the power of the Australian Government.

### Citation

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### Comments or Questions?

The author is happy to receive comments or questions about this article. He can be contacted at [martin@drmartingill.com.au](mailto:martin@drmartingill.com.au)

### Appendix

The following discusses some important consumer issues the ACCC may wish to consider

- Meaningless Discounts
- The 'Special Offer' loophole
- Support for Solar Systems
- Commercial tariff comparison websites
- AER's failure to protect consumer rights
- Collect data showing the market is working

#### *Effectively Meaningless Discounts*

Advertised discounts in the electricity market are effectively meaningless. Electricity prices are no longer fixed so the discount can apply to an inflated figure. While the ACCC has taken action against some retailers offering meaningless discounts they chose to allow the practice in the electricity market.

In January 2016 the ACCC imposed a financial penalty on a leading electronics supplier. The penalty was imposed after the ACCC found "reasonable grounds to believe the retailer had made false or misleading representation about discounted prices".

The case involved the retailer advertising discounts of 20% on a range of their products. The ACCC found immediately before the advertised discount came into effect the retailer had increased the prices. The result was rather than receiving a discount of 20% the actual discount was only 9%.

The ACCC imposes penalties on an electronics retailer but allows exactly the same practice to be regularly used by electricity retailers.

The fine print accompanying these electricity discounts outlines often onus requirements consumers must meet to qualify for the discount, for example establishing direct debt payments. For many consumers the discount is actually the size of the penalty applied for failing to meet the stipulated conditions.

#### *Special Offers*

Energy Made Easy does not list all available tariffs. The AER claims retailers must provide information about all tariffs, but if the retailer does not want it listed on Energy Made Easy they simply claim it is a 'special offer'. This loophole leaves consumers vulnerable to attractive headline figures.

For example: As the NSW Solar Bonus Scheme drew to a close at the end of 2016 one retailer made a special offer offering to double the standard solar Feed in Tariff. This attractive headline figure was used to hide extra fees and charges. These fees and charges meant the average NSW solar household was almost \$200 a year worse off on the tariff.

Unfortunately because the tariff was a 'special offer' it was not listed on Energy Made Easy leaving consumers vulnerable to exploitation.

This does not affect the suggested Current Tariff Identifier. The AER claim all retail tariffs must be provided allowing an Identifier to be assigned. The details of the tariff can still be used to calculate costs on the current tariff even if it's claimed status as a 'special offer' ensures it is not listed in comparisons.

#### *Support for Solar Systems*

Federal Government subsidies have allowed over 1.5 million Australian households to install a solar system. Solar systems allow consumers to lower their

electricity costs. Alarming consumers with solar systems cannot use tariff comparison tools.

With no ability to compare solar tariffs consumers are misled into choosing tariffs offering the highest feed in credit. Many of these tariffs actually hide increased annual electricity costs. Tariff comparison tools must be modified to support solar tariffs.

The suggested changes include Total Energy Export allowing this significant failing in existing tariff comparison tools to be addressed.

#### *Commercial Tariff Comparison Websites*

It is relevant to note electricity retailers support tariff comparison websites, but only commercially provided (non-independent) websites. The operators of these websites receive commissions from retailers for every customer they manage to sign up.

The problem with commercially operated websites is the undisclosed and therefore hidden commission. The commercial operators only offer retail tariffs for which they receive commissions and these tariffs are usually not the cheapest.

The author tested a commercial website. After entering exactly the same information required by Energy Made Easy this commercial site presented a limited number of results. The cheapest listed tariff was within the top five listed on Energy Made Easy.

The next day a staff member from the commercial comparison service called. They attempted to use pushy sales tactics including misleading claims this was a limited time 'special offer' (misleading since the same tariff was listed on Energy Made Easy - refer to 'special offer' discussed above).

Over the coming weeks the same comparison service called again offering Life Insurance, Health Insurance, Pet Insurance, etc. It took three emails and two phone calls to unsubscribe from their comparison "service".

The author's experience with a commercially offered tariff comparison service leads to a suggestion the ACCC investigate this industry for misleading conduct. At the very least the ACCC should address concerns over confidentiality of the personal information entered into these sites.

#### *No enforcement of Consumer Rights*

The National Energy Retailer Rules (NERR) detail legally binding requirements for all retailers. For example the NERR allows consumers to ask their retailer for a copy of their billing data. Clause 9.4 states:

*Upon request, we must give you information about your electricity consumption for up to 2 years free of charge.*

The author asked his retailer for a copy of his billing data. Several calls later the retailer continued to deny any legal responsibility to provide the data. He was forced to escalate the request to the ombudsman. When the data finally arrived it showed the retailer had failed to comply with the NERR.

The Australian Energy Regulator (AER) is responsible for enforcing consumer protections detailed in the NERR so the author raised the retailer's non-compliance with the AER. Despite documented evidence the retailer was not complying with their legal requirements the AER chose to do nothing.

Unless the AER is prepared to undertake its role of enforcing consumer rights retailers will continue to ignore the NERR.

#### *Collect data showing the market is working*

The Australian Energy Market Commission (AEMC) claims the market is working. This claim is based on analysis showing consumers can lower electricity costs by choosing the right tariff and data showing consumers are changing their retailer. This data does not show if by changing retailer consumers have lowered their electricity costs.

Without easy to use tariff comparison tools it is easy for retailers to use an attractive headline to encourage consumers to change to tariffs resulting in higher electricity costs, e.g. a large (meaningless) percentage discount or high feed in tariff hiding other higher fees.

While the AEMC claims the data shows the market is working this claim is incorrect. The data only shows some consumers are changing retailer. It does not show the market is lowering consumer electricity costs.

### *Commercial-in-Confidence?*

In the new electricity market retailers compete for customers. Most treat information about their customers as part of their competitive advantage. Requests for information relating to their customers including their tariff is not revealed because it is 'Commercial-in-Confidence'.

Foreseeing resistance it is noted electricity bills are prepared by the retailer for the customer. Both should already know the applicable tariff and the bill should include specific tariff related information. **Hence adding the Tariff Identification Code does not reveal any additional information.**

### *Not all 'special offers' are bad*

While it is suggested the ACCC investigate both meaningless discounts and special offers it is emphasised some discounts and special offers indicate the market is working.

For example: After comparing tariffs a consumer chose a different electricity retailer. During the mandated cooling off period their previous retailer rang them and offered to beat the new prices. He was offered a special discount 8% above the advertised market discount. He accepted the special offer from his previous retailer and cancelled the transfer to the new retailer.

### **References**

ACCC ([acc.gov.au](http://acc.gov.au))

AER ([aer.gov.au](http://aer.gov.au))

AEMC ([aemc.gov.au](http://aemc.gov.au))

Energy Made Easy ([EnergyMadeEasy.gov.au](http://EnergyMadeEasy.gov.au))

SwitchOn ([compare.switchon.vic.gov.au](http://compare.switchon.vic.gov.au))

NERR (available from the AEMC website)

Analysis of a bad solar tariff ([drmartingill.com.au](http://drmartingill.com.au))

### **About Dr Martin Gill**

Dr Martin Gill is an independent consultant specialising in the provision of consumer advice. This advice is based on a deep understanding of the Australian energy industry and strong analytical skills. As a consultant he has prepared advice for consumer advocates, government regulators, electricity distributors, electricity retailers, asset operators and equipment vendors.

Dr Gill is a metering expert. During the National Smart Metering Program he facilitated the development of a specification for Australian smart meters. Innovative metering products developed by his teams have been externally recognised with the Green Globe Award, NSW Government's Premier's Award and Best New Product by the Australian Electrical and Electronics Manufacturers Association.

He has a broad technical background having personally developed advanced communication modems, burglar alarms, electricity meters, high voltage fault monitors and power quality analysers.