Retail Market Review implementation – Bills & marketing – workshop 1 (version 1.1)

Pre-workshop material and questions

27 April 2018

Purpose

To set out key material and questions for discussion at the first workshop of the customer outcomes work stream of our retail market review (RMR) implementation project, to be held on 27 April 2018.

Gathering your response to this material

This document is divided into two sections:

- **Update** – Our proposed way of thinking about headline matters relating to recommendation 3G, such as the relevant problem definition, what the recommendation means in practical terms, and the outcomes the recommendation is seeking to produce.
- **Questions for discussion at the workshop** – A list of questions we will seek your views on during the workshop
- **Follow up questions –** Additional questions that, due to time limitations, we will seek written responses on after the workshop.

We consider the headline matters covered in the update section to be substantively defined by the work undertaken by the independent panel that undertook the retail market review itself. Consequently, we do not propose to workshop these in a wide ranging sense. We are instead focused on explaining our broad approach, subject to any refinements or alternative points of emphasis or detail that you think we should consider.

The questions represent the areas where we are seeking your direct feedback and input, and will occupy the majority of our time during the workshop.

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

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. Update

This section outlines our current thinking in relation to the following matters:

- A working problem definition (applies to recommendation 3 more broadly)
- what the independent panel recommended in relation to customer bills (recommendation 3G)
- recommendation 3G in practical terms
- how the recommendation responds to the problem definition
- the outcome the recommendation is seeking to produce

1.1. Working problem definition

For the purposes of the 'bills and marketing' work stream, we propose adopting the following problem definition, which is derived from the analysis and findings contained in the independent panel's report:

> *Many Victorian customers are paying more than is necessary for their energy.*
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> - *This is in part due to the difficulty customers experience identifying the energy deal 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.*

1.2. What is recommendation 3G?

Recommendation 3G is to require retailers to include the following information on customer bills:

- How customers can access the Victorian Energy Compare website
- The retailer's best offer for that customer based on their usage patterns
- The total annual bill for that customer based on the customers current offer and usage patterns.[1]

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[1] Note, the full recommendation 3G developed by the independent panel included a requirement that retailers also include 'information about how the customer can access the Basic Service Offer', a reference to recommendation 1A. However, the government is still considering whether to proceed with recommendation 1A. In light of this, we have removed this line from recommendation 3G for the purposes of implementing it by 1 October 2018, subject to a final government decision.

1.3.   What does this recommendation mean in practical terms?

In considering what recommendation 3G would mean in practical terms, we have looked at the recommendation in the context of the wider recommendation 3, as well as the background analysis contained in the independent panel's report.

On that basis, we propose the following description of the practical result of implementing recommendation 3G:

> *In addition to the material they currently contain, bills would now also include:*
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> - *The annual bill for that customer based on their current deal and energy usage pattern.*
> - *Information about the retailer's best offer for that customer based on the retailer's knowledge of the customer's usage patterns, including:*
>   - *What they would owe for the current bill if they had been on that 'best offer'*
>   - *What the anticipated annual bill would be for that customer if they were on the 'best offer'.[2]*
> - *Practical information about how to switch to the 'best offer'.[3]*
> - *Information about how the customer can access the Victorian Energy Compare website.*

1.4.   How does recommendation 3G relate to the problem definition?

Recommendation 3G is one of a suite of changes to marketing and information disclosure standards that the independent panel proposed within its broader recommendation 3. Together, these changes are aimed at making it easier for customers to understand, compare and switch energy deals.

Recommendation 3G can be seen to respond to the problem definition outlined above in the following ways:

- prompting customers, at a timely moment, to consider changing to a better energy deal (primarily focused on the offers available from their current retailer).
- requiring retailers to provide key information to customers about their current and potential alternative deal in a clear and easily comparable way, so that customers avoid some of the confusion and effort associated with identifying a better deal.
- requiring retailers to provide a simple choice architecture which is free of large amounts of extraneous information (such as dozens or hundreds of subtly different offers), so that

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[2] Recommendation 3G does not explicitly call out the requirement to include an annualised bill for the 'best offer', but considering the focus on making energy deals easily comparable, we propose this be included because the bill will now include an estimated annualised bill relating the customers current deal.

[3] Similarly, recommendation 3G does not explicitly call for practical information about how to switch onto the featured 'best offer', however in keeping with the problem definition and the analysis in the independent panel's report, we suggest this would be necessary to make the 'best offer' information meaningful.

customers are more likely to follow through and change their deal in the event of being presented with a better offer

- facilitating customer awareness of 'shopping around' aids by providing information about the government comparator website, Victorian Energy Compare, so that motivated customers can undertake wider research.

1.5.   What is the outcome recommendation seeks to produce?

We propose that the outcomes recommendation 3G is seeking can be summarised as:

Providing customers with a low effort means of identifying a deal that is more suitable to their individual circumstances, at a point in time when they are more likely than normal to be considering the suitability of their energy deal, along with information about how to switch onto that deal.

Providing customers who want to search offers from other retailers with practical information about how to access Victorian Energy Compare.

The end result of the recommendation should be that more customers on deals that better suit them.

2. Questions for discussion at the workshop

This section outlines questions for stakeholders that we propose to go through during the workshop, grouped under the following topics.

- meaning of key terms
- opportunities
- risks and difficulties
- regulatory approach

Respond to these questions in writing if you prefer

We will discuss these questions at the workshop. However, in the interests of running an efficient event, we are open to instead receiving your responses to these questions in writing either before or soon after the workshop.

2.1. Meaning of key terms

'Best offer'

We have identified at least three ways of thinking about the term 'best offer':

- prescribed narrowly – the offer expected to lead to the lowest annual bill
- prescribed broadly – accounting for all features of the offer, including non-price features
- outcomes based – according to the retailer's judgement

Q1. What are the advantages and disadvantages of each?

Q2. Which one do you prefer?

Q3. How should discounts be accommodated? For instance, should the amount quoted for the 'best offer' be inclusive or exclusive of any discounts associated with that offer, or should it show both amounts?

Other

Q4. Are there are any other terms within the recommendation that you believe require clarification?

2.2. Opportunities

Recommendation 3G is specific in terms of what new information must appear on bills. However, there is some latitude around the detailed aspects of implementation. For instance, the recommendation does not specify *how* the information must be presented on bills. Similarly, there

may be other information that could be added to, removed from, or rearranged on the bill that could enhance the benefits for customers of the recommendation.

We will need to make decisions about these detailed aspects when implementing the recommendation.

We are interested to understand how details of the implementation can affect the benefits produced by this recommendation.

Q5. How can 3G be implemented to deliver the most benefits to customers? Are there specific ways we can include this new information on bills to draw out the best results?

2.3.   Risks and difficulties

We want to understand the potential risks, difficulties or unintended consequences that may arise from various approaches of implementing the recommendation. For instance, is there a risk of customer confusion, and how to we mitigate that risk? In the inverse to the discussion of 'opportunities' above, exploring the potential risks will help us understand the potential negative consequences of our decisions when thinking about the implementation details.

We also want to identify areas that retailers may struggle to implement, and to understand the materiality of these difficulties.

Q6. Are there any potential risks for customers or retailers in implementing recommendation 3G? For instance, are there any ways the desired benefits for customers could be undermined under certain implementation approaches. If so, how can we mitigate these risks when deciding on implementation details?

Q7. (For retailers) Are there any elements of this recommendation that you consider particularly difficult to implement? If so, please provide details.

2.4.   Regulatory approach

In implementing the recommendation, we will need to decide on the appropriate regulatory approach. Different regulatory approaches include principles/outcomes based approaches, which do not contain detailed specifications of compliant conduct, and prescriptive approaches, which do contain such details. There are also approaches that blend these two styles.

We want to understand the potential advantages and disadvantages of the different regulatory approaches.

Q8. What are the advantages and disadvantages of different regulatory approaches that might be applied when implementing recommendation 3G?

3. Follow up questions

This section outlines questions for stakeholders that, due to time limitations, we do not propose address during the workshop. However, if you have views on these topics you can send us written responses following the workshop. [confirm once we decide format: Please send written answers to retailenergyreview@esc.vic.gov.au marked 'RMR workshop questions' by 4 May 2018.]

The questions in this section are grouped under the following topics.

- sources (of analysis and information)
- points of interaction

3.1. Sources

For our work in relation to recommendation 3 we intend to draw upon analysis and evidence developed in the discipline of behavioural insights[4]. We want to identify the most seminal studies, frameworks and reports for use in our work.

Regulators and policymakers in other jurisdictions, including overseas, have made (or proposed) changes with comparable aims to those recommended by the independent panel. For instance, there are a number of rule changes and other processes being undertaken by the Australian Energy Market Commission (AEMC) and the Australian Energy Regulatory (AER). And similar changes have been considered or implemented in other sectors, such as the banking and telecommunication. We want to ensure we capture relevant insights and evidence produced by these processes.

> Q9. What are the leading reports, frameworks and/or studies that you think we should consider in our work?
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> Q10. Are there specific policy and regulatory processes in other jurisdictions or industries that we should be taking account of? How do they relate to the recommendations we have been asked to implement?

3.2. Points of interaction

Our implementation of recommendation 3G takes place in the context of subsequent our implementation of 3A-F & H, which is to be completed a few months later. We want to ensure we understand the potential interaction between recommendation 3G and the remaining detailed recommendations we have been asked to implement.

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[4] We use these term as a catch all for work typically grouped under the labels 'behavioural science', 'behavioural psychology' and 'behavioural economics'.

This will help us understand whether there are opportunities to streamline the implementation of any recommendations, or avoid any unintended consequences.

For instance, recommendation 3H requires bills to include GST-inclusive pricing. Is there merit in considering that aspect of recommendation 3H at the time of implementing recommendation 3G?

Meanwhile, recommendation 3A requires retailers to market their offers in dollar terms, rather than as percentages or unanchored discounts. Does this have any implications for how the 'best offer' information should be displaced on bills when we implement recommendation 3G?

Q11. Are there any points of interaction between recommendation 3G and 3A-F & H that you think we should take account of when we implement the former?