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National Energy Retail Rules Amendment 2025 – Improving the Ability to Switch to a Better Offer

AGL Energy (AGL) welcomes the opportunity to comment on the Australian Energy Market Commission's (AEMC) *Improving the Ability to Switch to a Better Offer* Consultation Paper, dated 6 February 2025.

AGL strongly advocates for a fair and competitive energy retail market which promotes positive consumer outcomes and encourages innovation and diversification of energy products. AGL recognises the benefits of consumers engaging with the energy market to find the plans and products which best meet their energy objectives. To facilitate improved market engagement, AGL is committed to making the product switching process as smooth and accessible for our customers as possible, including by offering our customers:

- The option to use conventional communication channels such as AGL's webchat and contact centre functions where frontline staff can take the customer through AGL's suite of energy products to find the most suitable plan for the customer's energy, telco and entertainment needs.
- A seamless digital experience to switch to the better offer using the AGL MyAccount Portal for customers who value a streamlined online experience.
- The AGL App also has the functionality to allow customers to switch to different plans with ease.

While AGL recognises the importance of the better offer regulatory framework and the positive outcomes that can be achieved through improved customer switching, there is no compelling evidence to suggest that regulatory barriers are impeding consumers' ability to switch energy plans or that low switching rates can be resolved through further regulatory intervention. Consistent with [AGL's submission to the Essential Services Commission's (ESC) Energy Consumer Reforms Consultation](), AGL does not support the proposed rule change, and we do not believe that, in its current form, it will materially improve customer switching rates because:

1. The concept of a 'better offer' as it stands today, is predicated on price being the sole determinant of whether an alternative plan is better or not. In a market of increasing and varying benefits, features, and bundling, there is a very real question to be asked as to whether this notion of 'better' remains fit for purpose.

2. The proposed rule change does not sufficiently address the variety of potential root cause issues preventing individual customers from switching to the better offer, particularly relating to consumer behaviour, sentiment and perceptions.

3. Retailers already utilise various channels to facilitate easier switching to the better offer including phone, webchat, digital portals and/or Apps. Codifying new requirements without adequately considering switching mechanisms available in the market could conflict with, or undo, existing systems, applications and online functionalities which currently exist.

4. The AEMC should first exhaust non-regulatory options to understand consumer behaviour and barriers associated with switching to the better offer following which it could create a multi-faceted strategy to improve uptake.

With respect to current trends and customer behaviours, AGL has robust processes, systems and teams in place to monitor customer product switching and conversion rates. We generally observe that customer switching rates tend to fluctuate from time-to-time and can vary widely from one week to another. Fluctuations in customer switching rates can be more pronounced during particular times of the year, for example, around the time of a price change event there is a notable influx of customers switching to a new energy plan. Factors influencing customer switching behaviours are dynamic and should be considered as just one part of a complex, multi-faceted problem, rather than in isolation. AGL strongly recommends that prior to progressing these reforms, the AEMC first consider whether the below rule changes and initiatives could sufficiently achieve the desired customer outcomes without wide-reaching regulatory reforms to the better offer mechanism:

- The *Assisting Hardship Customers* rule change is likely to increase the proportion of vulnerable customers moving onto a better offer (if the AEMC elects to pursue the *Automated switching to the better offer* solution).

- The *Removing unreasonable conditional discounts* changes should result in customers being migrated off of grandfathered plans, thereby addressing one of the proponent's concerns about customers remaining on legacy plans.

- *Preventing price increase for a fixed perio*d as well as *Ensuring energy plans benefits last the length of the contract* rule changes could have the cumulative effect of further narrowing price dispersion between offers and further reducing the potential savings achieved through product switching.

- The outcome of the AER's post-implementation review of the Better Bills Guidelines which, as AGL understands, will include comprehensive consumer-testing.

AGL notes that the above rule changes seek to address similar concerns to the *Improving the customer ability to switch to a better offer* consultation about customers remaining on legacy products and paying significantly above the reference price/Default Market Offer (DMO). Well-drafted and soundly implemented regulations as part of the *Changes to retail energy contracts* and *Assisting Hardship Customers* rule changes could avoid the significant costs and build out to retailers' IT systems, processes and customer facing material associated with changing the better offer framework.

However, if the AEMC elects to progress this rule change in its current form, AGL strongly recommends:

- Adopting a more balanced principles-based approach to regulation rather than highly prescriptive obligations.

- The AEMC should ensure that any changes to the better offer regulations are not inconsistent with the digital functionalities and options for switching already available to customers through their retailer.

- Avoid the 'like-for-like' product switching option which has the potential to create new complexities and compound the costs associated with the ECMC reforms across multiple jurisdictions.

- The AEMC and ESC should coordinate an aligned switching solution between the NECF and Victorian jurisdictions to promote greater harmonisation, avoid duplicative build-out to retailers' customer management and billing systems and create a consistent experience for consumers across the National Energy Market (NEM.

Implementation & Costs

If the AEMC progresses with a regulatory solution that will necessitate substantial changes to retailers' existing systems and process, it is critical to allow an appropriate implementation timeframe. AGL recommends a period of 18 to 24 months noting the complexity of the changes to the better offer mechanism, digital portals, online applications and AGL's products portfolio. AGL anticipates that the impact to our enterprise billing and customer management system and other software will be significant and there will be an intense program of work associated with designing, building, deploying and testing new changes.

The proponent has not proposed a specific mechanism to give effect to the improved better offer switching making costs difficult to estimate at this stage. As a general rule, implementation costs for retailers tend to be higher if:

- The rules are prescriptive rather than principles based as this can limit the degree of flexibility retailers have to achieve compliance using existing technologies. An example of this would be the 2-step digital experience outlined in the Consultation Paper.
- The AEMC pursues the "like-for-like" proposal as this would lead to significant implementation costs, because it would require retailers to rework their better offer logic to take into account a higher number of comparable plans and product attributes to present multiple potential different outcomes. This places a higher daily calculation load on retailers' billing systems and introduces an added layer of complexity for retailers to ensure ongoing compliance with the rules and transparency to customers.
- The AEMC does not allow for a sufficient implementation timeframe or if the commencement date overlaps with a myriad of other rule changes coming into effect at a similar time. A spike in implementation resource requirements will require AGL to engage short-term contractors and third-party vendors to respond to the peak in workload.
- The AEMC's and ESC's rule changes do not align. Retailers operating across the NEM already experience higher implementation and maintenance costs for the Best Offer/Better Offer regulations due to misalignment on elements such as message frequency, generally available vs. restricted offers and different bill presentation and messaging requirements between the two jurisdictions.

AGL's detailed responses to the AEMC's questions in the Consultation Paper are appended to this letter.

If you would like to discuss any aspect of AGL's submission, please contact Valeriya Kalpakidis at vkalpakidis@agl.com.au.

Yours sincerely,

Liam Jones

Liam Jones

Senior Manager Policy and Market Regulation

Appendix A

Question 1: Do Stakeholders agree that transaction costs are a barrier to customer switching?

There are many varied reasons as to why consumers may choose not to engage with the energy market; these range from rational conscious decisions through to an inability to engage with the market. For some customers, perceived transaction costs may indeed be the barrier to switching to the better offer. More likely however, is that transaction costs are no more of a barrier than any of the other factors identified by the AEMC that may prevent customers from switching energy plans. As a preliminary point, AGL notes the importance of undertaking empirical consumer research to understand the drivers as this will undoubtedly inform the correct policy response.

An alternative proposition is that the better offer regulatory framework is working as intended and has reached its limit of efficacy. However, in absence of any research or empirical evidence on this matter, all deductions are, in essence, purely speculative. There is no evidence to suggest that the low better offer uptake is a failure of the market or is a result of high transaction costs. Furthermore, the proliferation of additional benefits, features and bundling of products may mean that the concept of 'better offer' being based on price is no longer fit for purpose.

AGL disagrees with the underlying proposition in the rule change that high transaction costs are the dominant reason preventing customers from switching. Understanding the true reason(s) for customer behaviour is critical to avoid fixing a process which is not necessarily broken. The AEMC and the proponent should give more consideration to the notion that retailers are incentivised to create streamlined and frictionless product switching processes to improve customer satisfaction, loyalty and retention, and decrease the need for repeated contact with the retailer. For many retailers, a significant portion of effort and resources have already been invested (and continue to be invested) in supporting our customers to find and switch to the plan that best meets their energy needs. The AEMC should be cautious that further better offer reforms could undo and potentially downgrade the available digital sign-up channels and experiences already being offered to and utilised by customers.

AGL's observation is that low customer engagement with the better offer message is not necessarily reflective of lacking or ineffective regulation, but rather, underlying consumer perceptions of the energy retail industry, customer apathy and poor sentiment towards energy bills. As such, AGL does not agree that further regulation of the better offer to address transaction costs will materially improve the overall customer switching outcomes. As the proponent does not give adequate consideration to existing switching processes and channels available in the market to facilitate better offer switching and does not point to any empirical evidence to substantiate the rule change, AGL anticipates only limited or modest improvements to actual better offer switching rates.

There are a number of alternative avenues that the AEMC should first explore to drive improved switching outcomes, such as:

1. Working with the Australian Energy Regulator (AER), the ESC and the Behavioural Economics Team of the Australian Government (BETA) to explore the drivers and barriers of consumers switching to the better offer. The findings of the AER's post-implementation review of the Better Bills Guidelines may be informative to this process.

2. Launching a concerted campaign sponsored by energy policymakers, regulators and government departments to educate and inform customers on the better offer regulatory framework, how to action the better offer message on their bill and the different ways that customers can interact with

their retailer. To improve uptake of the better offer, it is critical that we continue to foster trust and confidence that the energy retail industry is working in the best interests of consumers.

3. Improving the customer experience for switching to the better offer by addressing the lengthy, highly scripted and disengaging ‘explicit informed consent’ requirements associated with changing energy products. This could include delivering information through Apps, mobile push notifications, emails, web landing pages, automated IVR recordings, or any other way that allows the customer to absorb information at a time and in the format that suits them.

4. Working with the AER to amend the Better Bills Guideline to give retailers more flexibility within the better offer message itself so that they can expand on any offer eligibility requirements upfront.

5. Undertaking a trial/pilot with retailers to test alternative approaches to switching before rolling out changes to all of industry.

With respect to AGL’s observations of its own customers, the volume of product swaps completed online [redacted]. These volumes are even higher at specific times of year, for example during the annual price change window. We continuously monitor the conversion rate (i.e. customers going through the whole journey and selecting to complete the product swap), and on average [redacted]

To assist the Commission to conceptualise the customer switching journey via AGL’s digital channels, AGL has included the below pictorial process flow which contains information as to why each step in the process is important. Any AGL customer can also join this process flow at the third step at any time by logging into their account online.

Confidential information has been omitted for the purposes of section 24 of the Australian Energy Commission Establishment Act 2004 (SA) and sections 31 and 48 of the National Electricity Law.

Diagram 1. AGL’s Digital Better Offer switching process flow

[redacted]

[redacted]

What other factors do stakeholders consider influence customer switching?

AGL has identified that the below factors have a material impact on whether the customer will switch to the better offer:

- How well the customer understands and trusts the energy industry. Customers generally display a low level of engagement and interest in the energy retail industry, and customer sentiment continues to be poor.
- Low engagement with specific contents of the energy bill beyond the amount due. Prior to progressing this rule change, the AER and the AEMC should establish how many customers are aware that the better offer message exists as this will indicate whether an awareness programme will be a more valuable and effective tool.
- Mistrust in the better offer message despite disclaimers that the message is required by the NECF energy regulations, i.e., some customers still perceive the message as marketing.
- The low level of savings available in many cases. As the Consultation Paper notes, with the market converging on standing offers, the level of savings achieved through switching may not be sizeable which further acts as a disincentive to customer switching. This scenario is likely to become more prominent in future years.
- It is also important to note that many customers will actively choose a higher cost plan because of other benefits associated with it. For example, customers choosing AGL's Netflix Plan. Customers electing not to switch to the better offer should not necessarily be construed as a failing of the regulatory framework, but rather as customer preference. AGL believes these kinds of scenarios are likely to become more common as retailers create value through attractive product propositions and bundling of services/benefits.

Have stakeholders observed higher rates of switching since the implementation of the Better Bills Guideline?

AGL notes that this is hard to determine as switching rates tend vary seasonally often reflecting other activities in the market rather than exclusively the better offer bill messaging. For example, product switching rates tend to increase over the annual price change window in winter and decrease over the summer period. Switching rates can also be influenced by campaign and new product launches.

When analysing customer behaviour in the months following the deemed better offer message appearing on the bill, churn rates and product swap levels observed at AGL are generally similar regardless of whether the better offer message is positive or negative, which indicates it may not be the bill message specifically which leads the customer to take action. This underlines the importance of retailers having general processes in place to facilitate product swaps at any time rather than specifically designed to just be part of the better offer message process.

Question 2: Do stakeholders agree with the potential benefits identified in the proposal?

AGL does not agree that the problem described (a lack of better offer switching) will be addressed by 'enhancing' the existing better offer framework because the rule does not address the underlying root causes of the issue. AGL does not believe that the rule change will result in customers seeing energy bill savings.

Furthermore, with price dispersion between better offer and standard retail contracts/DMO continuing to contract, any savings achieved through switching will likely have diminishing returns.

Question 3: What are the costs associated with providing a streamlined switching process?

AGL already provides a streamlined better offer switching process via digital and traditional channels. Notwithstanding AGL's view that the case for change has not been adequately made out, there are a range of different approaches that could be adopted to tackle the perceived problem. To provide an estimate of further incremental improvements requires a clearer view on the proposed rule change to enable calculation of likely system and process change costs.

A principles-based approach is likely to be lower cost than a prescriptive rule, as it will still allow for flexibility of solution which can be designed within retailer's existing technology platform. Given that there is likely a wide spread of product switching processes developed across retailers, some retailers may already be more compliant with any new principles, whereas others may have to develop new functionalities.

It is also important to note that a rule change which differs from Victoria will lead to higher costs for retailers due to the need to manage two different requirements within our systems and call centre processes.

Question 4: What are stakeholders views on the best way to implement an improved approach to switching?

First and foremost, AGL contends that the case for change has not been adequately made. In the absence of quantifiable and reliable insights as to the barriers to engagement, AGL is concerned that any solution would be misguided and speculative.

However, should the AEMC proceed with a rule change, it is AGL's strong recommendation that a principles-based approach is pursued to implement the better offer switching changes. This may take the form of an obligation such as: "*Retailers must ensure that their processes for customer-switching to the retailer's deemed better offer are simple and accessible".*

We anticipate lower implementation costs if retailers retain a degree of flexibility and discretion over how to meet the objectives of the rule change. This approach will allow the retailer to continue to flex to meet future developments in product and tariff innovation, and the freedom to create optimised and innovative processes based on their own customer research and testing. AGL also believes there would be significant risk in implementing a prescriptive rule, where the solution prescribed has not been robustly tested through consumer research first.

AGL refers to the AEMC's example within the Consultation Paper of a prescriptive approach, specifically a 2-step process via a link on the customer's bill to access a consent form for switching to the better offer, followed by "one more click" to trigger the switch. AGL strongly suggests that the AEMC reconsider this solution and consult closely with industry and retailers to resolve a number of practical, operational and customer experience concerns relevant to this idea:

- The 'two stage process' does not consider the impracticality of including uniquely generated better offer links on every bill. AGL generates over 27 million email bills annually. To build system capability to generate, present and store unique, secure links in every one of those bills and the corresponding digital functionality would require extensive and costly build out. It would add little, if any, incremental benefit, given that AGL already provides functionality for customers to securely login to their accounts at any time to switch products.

- Before seeking customer consent to swap to the better offer, retailers must first provide customers with information about the features of the better offer and in particular any conditions or eligibility criteria. This sort of information should be provided upfront in the process. (e.g. an e-bill-only plan, or only available to customers who are Seniors or who have solar panels). Since the deemed better offer message regulations under the Better Bills Guideline do not allow for this level of detail, it must be provided in the subsequent switch process. The 'two stage process' consent form does not account for this.

- A retailer's best offer can change at any time. Depending when the customer clicks on the proposed hyperlink in their better offer message (which could be days or weeks after the customer receives their energy bill), retailers would have to provide functionality to display an up-to-date, re-calculated estimated annual cost which may have changed since the better offer calculation was performed. The proposed 2-step process does not allow for this. A preferable alternative approach would be through the use of a generic link and having the dynamic better offer calculation occur 'on request' within the retailer's online environment.

- The consent form proposed by the AEMC does not have clear benefits over an online sign-up journey. However, an online sign-up journey which is built based on customer-led design has the ability to be more dynamic, user-friendly and responsive to the customer's choices. Asking retailers to rebuild their digital journeys as a static "consent form" offers no incremental value to the customer or retailer but may undo retailers' existing processes to the detriment of the customer.

- The approach does not consider the need for proper cybersecurity. For example, AGL uses two-factor authentication when customers attempt to sign in and make the changes to their current plan. AGL considers this to be fundamental to avoid unauthorised access and changes to the customer's account by anyone who has access to their bills or emails.

Question 5: Do stakeholders consider there is merit to the proposed alternative?

AGL does not support the 'like-for-like' better offer product substitution and encourages the AEMC to avoid introducing this requirement. AGL does not believe that a 'like-for-like' approach will have any bearing on customer uptake of the better offer as this also does not address the root causes of the low switching rates discussed throughout AGL's submission.

It does, however, have the potential to fundamentally change the better offer calculation logic that all retailers have recently built into their systems to meet the requirements of the AER's Better Bill Guidelines. AGL sees a number of issues with this proposal, including:

- Retailers have a vast array of different benefits and conditions that pertain to their plans and the definition "similar" is very subjective. To make this proposal feasible, the AEMC and AER would need to release (and periodically revise) a detailed matrix of energy plans and product features and how each should be treated. The AEMC should be wary that this will stifle innovation and cause substantial delays in releasing products to market.

- Some features are agnostic of the energy plan itself and can be “bolted on” to any plan the customer chooses. For AGL customers, GreenPower and Carbon Neutral options can accompany different plans, however, the AEMC’s ‘like-for-like’ proposal assumes this is not the case.

- AGL already takes into account within its better offer calculations some of the examples that the rule change proposal assumes are not considered today. We do this to ensure that we are offering the better offer that is relevant to the customer’s needs. For example, when identifying the deemed better offer for a solar customer, we will compare the customer’s current plan to our lowest cost generally available offer in market as well as AGL’s Solar Saver plan which has a higher Feed-in-Tariff. If the Solar Saver offer is deemed to have a lower annual cost based on the customer’s usage, then that will be the energy plan that is displayed as the better offer. No change to the rules is required to accomplish this.

- From a customer perspective, displaying a “similar” better offer instead of the deemed better offer may appear less transparent and reduce trust in the retailer. By overlaying a qualitative judgement on which offers to put in front of the customer (which may not line up with the cheapest offer they see on a retailer’s website or EME), the perception may be that the better offer message cannot be trusted after all.

How material are the additional costs this would impose on retailers?

AGL anticipates that the costs of accommodating a ‘like-for-like’ rule change of this nature would be significant. For AGL, it would necessitate a fundamental rebuild of our customer management and billing system to accommodate a far heavier calculation and computation logic, as well as revisions to the better offer calculation itself.

There is also a hidden cost associated with delaying the delivery of new and innovative products to market which will have to be force-fitted into the calculation methodology each time.

Question 6: Assessment framework

While the assessment criteria are reasonable, AGL is concerned as to how these have been or will be measured ahead of making any rule change. For example, it is right to have “outcomes for consumers” as an important assessment criterion, but the regulator must first conduct a thorough analysis into why customers are not switching today in order to ensure the right outcomes. Similarly, under “principles of market efficiency” there is an assumption that today “transaction costs” are high, and that lowering them will result in higher engagement in the market. Neither the proponent nor the AEMC have produced evidence in this proposal to demonstrate that these costs are high and how this has been measured as no benchmark has been presented against which lowering of costs could be measured.