

QCOSS

Queensland Council
of Social Service

2014 Retail Competition Review

Submission to the AEMC Approach Paper



28 February 2014

About us

The Queensland Council of Social Service (QCOSS) is Queensland's peak representative body for the community services industry. For more than 50 years QCOSS has been a leading force for social change to eliminate poverty and disadvantage. With more than 600 members, QCOSS supports a strong community service sector.

QCOSS is funded by the Department of Energy and Water Supply and Department of Justice and the Attorney-General to undertake an energy consumer advocacy project in Queensland. The purpose of this project is to advocate on behalf of Queensland consumers and particularly vulnerable and low income households in relation to energy matters. This work is supported by an advisory group involving other key consumer groups in Queensland.

Introduction

QCOSS welcomes the opportunity to provide input to the Australian Energy Market Commission (AEMC) 2014 Retail Competition Review. We note that the AEMC has previously conducted reviews in all jurisdictions within the NEM except Queensland and Tasmania. We are therefore pleased that the AEMC intends to undertake more detailed analysis on South East Queensland (SEQ) as part of this review. Ensuring a robust review of competition with clear recommendations is vitally important as the Queensland Government has announced plans to remove price regulation in SEQ from 1 July 2015. The AEMC's analysis will be an important source of intelligence and advice for the Queensland Government, and the outcomes and recommendations of this review will be of critical importance to SEQ consumers in the coming years.

In developing this submission, QCOSS sought feedback from SEQ based members of our advisory group about their clients' or constituents' experiences with retail competition. This feedback is referred to throughout this submission, and where possible supported by broader evidence. An overview of the consultation undertaken for this submission is provided at **Appendix A**.

Context

The Queensland electricity market is generally divided into two distinct markets: SEQ and regional Queensland. While full retail competition (FRC) commenced across the whole state in mid-2007, in practice there is limited competition outside SEQ. This is because the Queensland Government subsidises the high cost of supplying electricity in regional Queensland by providing a Community Service Obligation (CSO) payment to the government-owned regional retailer, Ergon Energy Queensland (EEQ). As no other retailer receives the benefit of this payment, this presents a barrier to the development of effective retail competition in regional Queensland.

Regional Queensland

While QCOSS understands that these barriers to competition in regional Queensland are out of scope for this review, we believe there may be an opportunity for the AEMC to investigate the experiences of customers in regional Queensland. QCOSS is aware that retailers may occasionally market to customers outside SEQ. While we do not have specific evidence, it may be worth investigating the extent to which some level of competition may have developed in regional Queensland, particularly in urban centres and/or areas close to SEQ where the costs of supply may be lower.

It would also be useful for the AEMC to provide some information and analysis on the level and nature of consumer engagement in regional Queensland through this review. While competition has been non-existent in most regional areas to date, this may change in the future pending the outcomes of the Queensland Government's review of the Uniform Tariff Policy which could result in reforms to facilitate greater competition in the regions.¹ Greater information about the experiences and capacity of customers in the regional Queensland market will be highly relevant in the context of these reforms and it would be useful to incorporate into this review where possible.

South East Queensland

While there are only two competitors in the SEQ gas market, there are a number of electricity retailers operating in SEQ. Electricity customer switching rates in this region have seen Queensland previously classified as a 'hot active market' by energy think tank VaasaETT, although it has been downgraded to a 'warm active market' in the most recent rankings.² Despite the level of switching, there is limited information available to demonstrate that customers are participating in the market effectively and getting positive outcomes from switching.

The majority of comments provided in this submission relate to the experiences of competition from the perspective of individual consumers navigating the market. There is limited information and analysis on customers' experiences of the market gathered and monitoring as part of the regulatory and policy framework. This is because:

- Queensland's experience of FRC has been characterised by minimal monitoring of the development of the market. Reporting by the Queensland Competition Authority (QCA) is limited to the number of small electricity customers on market contracts, and data on disconnections, reconnections, hardship program participation and complaints in electricity and gas. Data and monitoring that would indicate the extent of customer activity or engagement in the market is either not publicly available or difficult to locate and access.
- QCOSS is currently the only organisation in the state to receive funding for ongoing energy consumer advocacy work, which is different from most other

¹ Queensland Competition Authority, *Retail Electricity Price Regulation in Regional Queensland, Issues Paper*. <http://www.qca.org.au/getattachment/b37cdac8-d839-4f93-8339-3e98f2f2fce3/ER-QCA-IssuesPaper-RetailElectricityPriceRegulatio.aspx>

² VaasaETT (2013), *The most active energy markets in 2013 revealed* (press release). Available at: <http://www.utilitycustomerswitching.eu/424/>. Downloaded 24 February 2014.

states with the NEM where multiple agencies can collaborate and prioritise their areas of focus. This has had an impact on the depth and breadth of research into energy consumer issues, and the resources available for building consumer engagement across the diversity of the State.

QCOSS has consulted with a number of community and consumer organisations in preparing this submission. Our submission focuses on the experiences of all residential consumers, with a specific focus on low income and vulnerable consumers where there might be particular challenges. While many of our members and stakeholders tend to work with people experiencing poverty or disadvantage, we note that research conducted during the AEMC's review of competition in NSW supports the view that it is not only low income and vulnerable consumers who have a low level of understanding of energy markets. As such, many of the issues that apply to low income and disadvantaged customers are likely to be experienced by residential consumers more broadly.

We have provided responses to most of the consultation questions listed in the AEMC's Approach Paper. If you have any questions about this submission, please contact Carly Allen, Team Leader – Low Income Consumer Advocacy on 07 3004 6900 or carlya@qcross.org.au.

Recommendations

Customer activity in the market:

- That more research be carried out into customer activity and engagement in electricity and gas markets; and findings from research undertaken by the Queensland Government should be made public.
- Regulation of energy market information should be improved to ensure that consumers have access to accurate, reliable and comparable information when making decisions about energy offers.
- Initiatives to increase consumer engagement should include funding of targeted programs to improve knowledge about energy markets and provide independent advice to vulnerable consumers.
- Any consumer engagement strategy should include raising awareness among consumers about hardship assistance and consumer protections, and the impact on access to these protections when customers switch.
- A demonstrable improvement in customer engagement and the quality of information available about energy offers should be shown before the Queensland Government removes electricity price regulation in South East Queensland.

Independent rivalry:

- That before removing price regulation in SEQ, the Queensland Government establishes a robust market monitoring framework including analysis of both price and non-price indicators, and empowering regulatory bodies with the authority and resources to proactively investigate and address issues to ensure the market is delivering in the best interests of consumers
- The date for removing price regulation in Queensland should not be earlier than 12 months after the implementation of NECF, in order to ensure that a

more robust performance monitoring regime is in place that may provide customers with information and incentivise retailers to improve their performance.

Customer satisfaction:

- That current and future AEMC competition reviews include in-depth consultation with a diverse spread of customers across SEQ, and regional Queensland as competition develops in this area, to determine customers' experiences of retail competition.
- That the Queensland Government incorporates into its price monitoring framework research into customer satisfaction with the range and type of offers available in the market.
- That consumer advocacy is adequately resourced to ensure that emerging issues affecting customer satisfaction in the market can be brought to the attention of relevant industry, regulatory and government bodies.

Market definition

Is there evidence to support alternative market definitions to those that [the AEMC is] proposing to use for the review?

Notwithstanding our desire for information on the extent of competition in some regional areas, QCOSS agrees with the approach of treating SEQ and regional Queensland as separate geographic markets, each with two product markets (electricity and reticulated natural gas). There is a clear distinction between these two areas, with retail competition in electricity virtually non-existent outside SEQ. The reticulated natural gas market is also concentrated in SEQ, with only small pockets where reticulated natural gas is available outside the South East corner.

Customer activity in the market

Are small customers able to access energy related information that is easy to understand, relevant and up to date, that supports their decision-making process to choose an energy offer?

QCOSS considers that the availability and accessibility of relevant, accurate, and easy to understand information about energy offers in Queensland is poor. The Queensland Government has announced plans to implement the National Energy Customer Framework (NECF) which would improve the comparability of market offers and provide access to Australian Energy Regulator (AER) Energy Made Easy website and other resources. However, QCOSS believes it will take considerable time and effort for the benefits of this information to flow through to consumers. There has been limited promotion of the Energy Made Easy website in Queensland. Awareness of the website, and the AER's role as an independent information source more broadly, is likely to be very low amongst Queensland consumers. The ability of small customers to access information that supports their decision-making process about energy offers depends not only on sources of information

being available, but also on the quality of the information and the capacity of customers to understand it. Issues identified in Queensland include:

- Low levels of consumer knowledge and engagement in the market
- Lack of reliable, non-internet based sources of independent information and advice
- Reliance on information provided by marketers
- Deficiencies in the Queensland Competition Authority's (QCA) price comparator
- Issues with the quality and comparability of information provided by energy retailers
- Issues with impaired capacity faced by some vulnerable consumers.

Capacity to understand offer information

Many consumers are unable to access information that supports decision-making about energy offers because their capacity to understand it is limited. Information published about energy offers, and even the market itself, assumes that consumers already have some degree of knowledge about how electricity and gas markets work. For example, websites or fact sheets providing advice about changing retailers usually assume consumers know what the term 'energy retailer' means, and can identify their current retailer. However feedback from QCOSS stakeholders, and our own experience with calls from directly from consumers, suggests this is often not the case. It is not uncommon to encounter consumers who believe that Energex is their electricity retailer. A poor understanding of the energy market means that much of the jargon used in offer information is unlikely to be understood, and this reduces consumers' ability to effectively compare offers.

As mentioned previously, this low awareness is not limited to low income and vulnerable consumers but extends to many residential consumers and the general public. The Newgate Research reported that NSW consumers had a low level of knowledge about the energy market, with many participants not understanding how they are billed for energy usage or the structure of their energy plan, and understanding their plan only in terms of the discount provided.³ As noted previously, since FRC was introduced in Queensland more recently than in NSW, it can be assumed that Queensland consumers' knowledge of how energy markets work would be similarly low, if not lower.

Reliance on information from direct marketing

Feedback from QCOSS stakeholders suggests the main source of information for many consumers is direct marketing. This view is supported by consumer research commissioned by the AEMC in NSW⁴, and the Essential Services Commission in

³ Newgate Research, *op. cit.*

⁴ Newgate Research (2013), *NSW Consumer and Stakeholder Research Report*. Available at: <http://www.aemc.gov.au/Media/docs/Research-Report-by-Newgate-Research-9cc0c313-72f8-4f70-9848-7c6833cb1043-0.PDF>. Downloaded 19 February 2014.

Victoria⁵, showing that door-to-door marketing and telemarketing are significant information sources for consumers in general. Given the relatively recent introduction of FRC in Queensland, direct marketing is likely to be at least as significant an information source in Queensland as in NSW and Victoria, if not more so.

This is problematic as the information provided by door-to-door salespeople or telemarketers is intended to induce customers to enter a contract immediately, rather than to support informed decision-making processes. Community organisations in Queensland report that their clients and constituents generally do not understand the market, and may have impaired cognitive function due to health issues or stress associated with financial hardship. While door-to-door marketing can be counterproductive for many consumers, vulnerable consumers may be more likely to have contact with direct marketers by virtue of the fact that they may be more likely to be home during the hours that marketing activity is permitted. It is likely that many consumers relying on information from salespeople are unable to properly evaluate the reliability of the information they are given and make rational decisions about taking up an energy offer.

Accessibility of other information sources

The reliance on direct marketing as a source of information may be driven by lack of other accessible options. All other information sources in Queensland require consumers to have internet access, an adequate level of English language proficiency and literacy, and sufficient knowledge of the electricity and gas markets to be able to locate these sources and understand the information published. While low income and vulnerable consumers may seek assistance through the community sector, most community sector workers report that they do not have the capacity or consider it appropriate to advise their clients on energy offers. Most are not resourced to provide such advice, and may not be in a position to do so as they themselves lack understanding of the energy market.

Once the NECF is implemented in Queensland, consumers will be able to obtain offer information through the AER's Infoline. However, sustained and active promotion of this resource would be required to build awareness before it could have a positive impact on the level of engagement and capacity of Queensland consumers.

QCA price comparator

For those customers who are able to obtain and understand energy information on the internet, the QCA price comparator is intended to provide an independent source of information about market offers. However there are a number of issues with the useability of the site:

- Although a line of introductory text at the top of the first page specifies that the information applies to SEQ, users searching for electricity offers are not asked to enter a postcode or other information that would allow search results

⁵ Wallis Consulting Group (2013), *Victorians' Experience of the Electricity Market 2013 – Final Report*. Available at: <http://www.esc.vic.gov.au/Energy/Pricing-and-marketing/ddd>. Downloaded 19 February 2014.

to be limited to offers available in the customer's area, or to identify and provide alternative information to customers located in regional areas who may not have noticed the statement referring to SEQ.

- Customers are required to enter consumption information, with no facility for estimating usage where customers do not have this information. This is particularly a problem for consumers moving into a property.
- An explanation of electricity tariff types incorrectly states that tariffs 12 and 13 are only available to customers with smart meters installed, although customers only require an interval meter, and may be able to have their meter replaced at no cost where they do not already have one. It also does not identify that tariff 13 is only available to customers with PeakSmart air-conditioning.
- The comparator provides an estimate of the annual cost at the regulated tariff for the purpose of estimating savings under each market offer, but does not provide details of the regulated tariff for comparison.
- Links to retailers' websites are to their home pages, not price fact sheets or offer information. Price fact sheets and other detailed information about terms and conditions is often difficult to find on retailers' websites, despite the AER Retail Pricing Information Guideline requiring that energy price fact sheets be easily accessible.⁶

QCOSS has also identified problems with the quality of information available through the QCA price comparator. A comparison of search results from the price comparator with information published on retailer websites found:

- inconsistencies between the information provided on the comparator and that on retailer websites for some offers;
- apparent errors in some unit price and fee information;
- unit prices shown inclusive of discounts without clear information stating that this is the case;
- inconsistencies in the way discounts are treated in calculating unit prices; and
- offers listed on the price comparator that are not advertised on the retailer website or vice versa.

These errors and inconsistencies are likely to confuse customers or result in them making less-than-optimal choices when comparing market offers. At the time of writing this submission, the QCA price comparator did not display unit prices on any gas offers. Disclaimers at the bottom of the search results list and offer information pages suggest that the QCA does not take responsibility for the information provided on the price comparator. This is unlikely to build consumer confidence in the QCA price comparator as a reliable and authoritative source of information. Lack of consumer confidence in the market is a key barrier to improving consumer engagement.

⁶ Although this guideline does not currently apply in Queensland, it would be expected that retailers operating in NECF states would use a similar website layout to display information about offers in each state.

Energy price fact sheets

For consumers who go further and seek out detailed information about energy offers for comparison, there are problems with the quality of the information available in Queensland. Although the Electricity and Gas Industry Codes require retailers to publish energy price fact sheets, there are no firm requirements about their contents. Consequently retailers have adopted a range of formats.⁷ For example, at the time of writing this submission:

- AGL shows estimated annual costs inclusive of discounts⁸
- Origin Energy shows unit prices exclusive of discounts.⁹ Origin and AGL are the only retailers in the SEQ gas market.
- The fact sheet for Lumo Energy's Advantage offer shows unit prices both before and after the discount¹⁰
- Australian Power and Gas publishes a 'pricing schedule' showing both unit prices and estimated annual cost exclusive of discounts, displaying supply charges in dollars per month instead of cents per day and GST-exclusive prices to the right of GST-inclusive prices.¹¹ These differences in formatting can mislead customers who do not read the pricing schedule closely into believing that the unit prices are lower than those offered by other retailers.

These variations make it difficult for consumers to independently compare offers. In addition to this issue, QCOSS has also observed other problems with the information provided in price fact sheets. Among price facts sheets available on retailer websites in February 2014, these included:

- A fact sheet that significantly underestimates the annual spend for the consumption levels shown, and does not show unit prices or contract length. Two separate documents had to be located on the retailer's website to identify this information.¹²
- Two retailers whose energy price fact sheets, when located, contained information conflicting with that advertised elsewhere on the site.¹³

⁷ Prior to July 2012, the Electricity and Gas Industry Codes set out requirements for energy price fact sheets, including that they show an estimate of annual costs at specified consumption levels. In contrast, the AER Retail Price Information Guideline applying under NECF requires that price fact sheets display unit prices. Following delays to the implementation of the NECF in Queensland, changes were made to the industry codes in late June 2012 to align parts of them with NECF. These amendments included replacing the requirements for energy price fact sheets with a clause stating that price fact sheets *may* take the form prescribed by the AER Retail Pricing Information Guideline.

⁸ See for example,

http://www.agl.com.au/~media/AGLData/DistributorData/PDFs/Q_PFS_R_E_2SEL4_g4p0f0_a0b0bt0dd0.pdf.

⁹

http://www.originenergy.com.au/files/necf/QLD_Electricity_Residential_Energex_DailySaverPI.us.PDF

¹⁰ http://www.lumoenergy.com.au/cms/images/pdf/20130903_PFS_Elec_QLD_Advantage.pdf

¹¹

<http://www.australianpowerandgas.com.au/documents/pricefactsheet/qld/QLD%20Electricity%20Pricing%20Schedule%20incl%20SS8.pdf>

¹² <http://www.powerdirect.com.au/secure/downloadfile.asp?fileid=1088378>

¹³ EnergyAustralia Flexi Saver – Residential (online) price fact sheet shows the discount amount as 8% while it is advertised elsewhere on the site as 11%. See

https://secure.energyaustralia.com.au/EnergyPriceFactSheets/Docs/EPFS/E_R_Q_GEASY-

- A price fact sheet downloaded on 18 February quoted two different figures for a direct debit fee.¹⁴
- A number of retailers offering evergreen contracts with a discount that is only available for a limited period. Price fact sheets use terminology such as 'fixed benefit term' without defining what this means, while at the same time stating that the contract has no fixed term, or that it continues until terminated by either party.¹⁵ The manner in which the information is presented is confusing, and has resulted in the Queensland Minister for Energy and Water Supply requesting amendments to the Electricity Industry Code to improve notification requirements when a fixed benefit period is about to end.¹⁶

The combination of low levels of consumer engagement and knowledge, issues with the lack of independence and poor quality of information sources, as well as barriers to accessing information, mean that consumers in SEQ have limited basis on which make decisions about energy offers. Without improvements to consumer engagement and the accessibility and reliability of information, deregulating electricity prices is likely to compound this problem by removing an independent standard for comparing offers.

What motivates small customers to:

- ***switch from a standing (or regulated) offer to a market offer?***
switch energy retailers?
- ***remain on a standing (or regulated) offer rather than shopping around for a market offer?***

As previously noted, many consumers have a low level of understanding and engagement in the market, to the extent that some cannot identify their current retailer. It is our experience that most consumers do not consider the extent of their energy market offers when switching, and it is highly likely the vast majority do not understand the difference between a standard or market offer. Feedback from our stakeholders indicates that many consumers who switch do not actively seek out market offers, but instead are influenced by a direct marketing approach. This is supported by VaasaETT findings that the level of customer switching in Queensland dropped from 2012 to 2013¹⁷, a period during which two major retailers announced their withdrawal from door-to-door selling and the Australian Competition and Consumer Commission began targeting the conduct of door-to-door marketers.

[E_EX_8_02-12-2013.pdf](#). Dodo Power and Gas price fact sheet indicates that a 10% discount is available with a 12 month contract, while the offer advertised elsewhere on the site is 10% discount on a no term contract. See

<https://connectto.dodo.com/electricity/PPIS.aspx?postcode=4101&SignUpType=r>.

¹⁴ <https://connectto.dodo.com/electricity/PPIS.aspx?postcode=4101&SignUpType=r>

¹⁵ See for example,

http://www.agl.com.au/~media/AGLData/DistributorData/PDFs/Q_PFS_R_E_2SEL5_g3p2f0_a0b0bt0dd2.pdf

¹⁶ Queensland Competition Authority (2013). Requested amendments to customer notification and consent provisions in the Queensland Electricity Industry Code (Interim Consultation Notice). Available at: <http://www.qca.org.au/getattachment/9c870b39-db77-44d2-88f1-5f17d5f2a140/Interim-consultation-notice-Requested-amendments-t.aspx>. Downloaded 25 February 2014.

¹⁷ VaasaETT (2013), The most active energy markets in 2013 revealed (press release).

Available at: <http://www.utilitycustomerswitching.eu/424/>. Downloaded 24 February 2014.

Motivations for switching, either between contract types, specific offers, or between retailers, are likely to be similar. It is likely that many consumers are motivated to switch by price increases, with large increases in the regulated electricity price in recent years accompanied by messages to consumers about shopping around. One Big Switch has run group switching campaigns in SEQ targeting electricity and solar customers which can encourage switching. Poor performance in terms of customer service, such as that highlighted in a recent Energy and Water Ombudsman Queensland (EWOQ) report, may also be a driver for switching retailers. Several of the consumers who were surveyed by EWOQ reported that they either had switched retailers or would have if they were not prevented from doing so by agreements to payment plans or hardship program participation.¹⁸

It is also likely that many customers who have switched offers have done so as a result of moving to another premises. As suggested by community sector workers, for some vulnerable customers, switching may be triggered by bad experiences with a previous retailer, avoiding disconnection, or trying to escape debt owed to their existing retailer.

Customers who do not know there are different types of offers or contracts cannot be considered to have made a conscious decision to either move from or remain on a standing offer. Anecdotal evidence suggests that many consumers, and even some people employed in the energy retail sector, do not know the difference between a standard retail contract and market contract. QCOSS has received feedback from the Queensland community sector about experiences including:

- Customers who request to remain on the standard retail contract being instead put on the retailer's "no-frills" market contract, which customer service staff subsequently explain is their 'standard' contract
- Retail staff and door-to-door marketers not having any knowledge of what a standard retail contract is or telling consumers there is no such thing
- Non-market customers being charged payment processing fees in error and when calling to address the problem encountering customer service staff who are unaware that standard retail contracts are distinct from market contracts or that regulations restrict the fees that may be charged under standard retail contracts.

Feedback about consumers' engagement in the market and reasons for switching also point to potential reasons why many consumers may remain on a standing offer. Customers who have a poor understanding of energy markets, or are living with significant sources of stress in their lives, may lack either the interest or capacity to shop around for a market offer. While door-to-door selling has been a problem for many consumers, some have had little or no contact with direct marketers. For others, lack of trust in the information they are given leaves them fearful of ending up worse off if they switch, and some consumers are worried about being locked into a contract.

¹⁸ Energy and Water Ombudsman Queensland (2014). Electricity customers' complaints experience. Available at: <http://www.ewoq.com.au/Portals/0/PDFs/Research%20reports/Electricity%20customers'%20complaints%20experience.pdf>. Downloaded 25 February 2014.

Anecdotal evidence suggests that most customers on a standard retail contract in SEQ have not necessarily consciously chosen to remain on it, although there are a small proportion of customers who do so. For low consumption customers, the benefits of moving to a market offer may be small. In Queensland, most market offers that provide a discount apply it to consumption costs only, while the fixed price can account for a significant proportion of the bill for this group of customers. At present Queensland is transitioning to a cost-reflective regulated tariff with a higher fixed price, meaning that the benefits of usage-only discounts for low consumption customers will be further reduced. Some market offers available in SEQ which appear to offer a discount off the total bill have as a condition of the contract a minimum monthly payment which would far exceed the costs of low consumption customers, while another offering a 7% discount with quarterly billing has prices 5% above the regulated tariff.¹⁹ A low consumption customer making an informed decision to remain on a standard retail contract in Queensland would need to balance the relatively low price benefits against the loss of protections not available to market customers, such as a restriction on additional fees and charges.

QCOSS is pleased that the AEMC has recognised in its Approach Paper for this review that churn rates are not necessarily a good indicator of a well-functioning market. While there are certainly some consumers benefitting from informed participation in energy markets in SEQ, many of the reasons for switching behaviour discussed above are not conducive to an efficient and effective market. Issues such as poor understanding or distrust of the market, the influence of marketing behaviour on switching, and switching to avoid debt, point to a need to provide better support to consumers to assist their decision-making about energy offers.

Are there any barriers preventing customers from switching energy plans within their current retailer or offered by an alternative retailer?

Poor understanding of the market, as discussed above, is a barrier to switching for some customers as well as leading others to make poor decisions. Issues that affect people's access to and capacity to comprehend information, such as poor literacy, language barriers, mental health issues or psychological stress related to hardship, can also prevent customers from switching. Other barriers to switching identified by QCOSS stakeholders include:

- Inability to afford phone calls to retailers to arrange switching
- Poor credit histories
- Loss of access to hardship protections where customers have a debt or are likely to experience difficulty paying their final bill
- Concern that misunderstanding or being given misleading information about contract terms and conditions will leave customers in a worse position
- Feeling overwhelmed by the complexity of the market
- For solar customers, fear of losing access to the 44c/kWh feed-in tariff previously offered by the Queensland Solar Bonus Scheme.

¹⁹ See Click Energy Elite, Easy and Connect plans for Queensland at <https://www.clickenergy.com.au/energy-price-fact-sheets/>.

For some customers in hardship, the potential loss of hardship protections is a barrier to switching. Because consumer protections relating to hardship are aimed at preventing disconnection, they do not apply when the customer's account is closed. This may leave customers trapped paying higher energy costs if they are unable to move to a better market offer.

For some other customers in hardship debt is not a barrier to switching, although this type of switching behaviour is counterproductive to effective competition. Community sector workers have reported that they regularly see clients who have switched retailers despite, or because of, a debt owed to their previous retailer. Some customers are enticed by general messaging about shopping around to believe that they are taking a positive step to reduce their bills by switching. However the loss of hardship protections means that consumers who switch retailers with a debt owing pay a high cost for doing so, as they are will not be able to access emergency payments and other hardship assistance.

This issue does not only affect those customers who have switched with a debt to their previous retailer. Servicing debt impacts on customers' ability to pay their bill to their current retailer, effectively transferring the cost of managing hardship from the retailer that owns the debt to the new retailer. While customers may access hardship assistance through their new retailers, switching is likely to have delayed admission to hardship programs or referral to other assistance, resulting in a higher total debt across retailers. If a customer ultimately cannot sustain their debts, the cost of writing them off is spread across all customers. Although market rules allow retailers in Queensland to block transfers where there is an aged debt, the experience of the community sector would suggest it is rarely used when customers are in hardship.

Recommendations – Customer activity

QCOSS recommends that:

- More research be carried out into customer activity and engagement in electricity and gas markets; and findings from current and future research undertaken by the Queensland Government should be made public.
- Regulation of energy market information be improved to ensure that consumers have access to accurate, reliable and comparable information when making decisions about energy offers.
- Initiatives to increase consumer engagement should include funding of targeted programs to improve knowledge about energy markets and provide independent advice to vulnerable consumers.
- Any consumer engagement strategy should include raising awareness among consumers about hardship assistance and consumer protections, and the impact on access to these protections when customers switch.
- A demonstrable improvement in customer engagement and the quality of information available about energy offers should be shown before the Queensland Government removes electricity price regulation in South East Queensland.

Independent rivalry

To what extent do energy retailers compete with each other in terms of price or product/service differentiation to acquire new, and retain existing, small customers?

What sort of product and/or service improvements have retailers delivered to small customers in electricity and natural gas retail markets?

QCOSS does not consider that there is a significant amount of differentiation between retailers in terms of price. A review of electricity market offers listed on the QCA price comparator or advertised on retailer websites at 18 February 2014 shows that there is very little differentiation in base prices among retailers or offers. Apart from one offer with prices 5 per cent higher than the regulated tariff rate, all other offers were within 0.5 per cent of the regulated price. This is largely consistent with earlier findings by St Vincent de Paul, that no retailers had market offers lower than the regulated price, when calculated as annual bills exclusive of discounts.²⁰

Out of 22 offers investigated, 16 offered a discount beyond a direct debit incentive, of which 13 were either fully or partly conditional on on-time payment. Most discounts applied to usage only. Two retailers offered non-price incentives that were not related to payment methods, but overall the market offers available in Queensland appear to adhere to a pattern of providing conditional discounts off the regulated price, with either incentives or requirements for automatic payment via direct debit or credit card. The main differentiation appears to be in the amount of the discount.

There also appears to be a trend of retailers offering benefits for a limited period under evergreen contracts, sometimes with exit fees applying during the benefit period. Nine out of the 16 market offers that provided discounts followed this model. As noted earlier, information about contract terms presented on energy price fact sheets for offers following this model tends to be confusing. Under current regulatory arrangements, this model also allows retailers to avoid their obligation to notify customers that their fixed term contract is approaching expiry. The Energy and Water Ombudsman Queensland has received complaints from consumers who were not aware their discount had expired until they received their next bill, and as a result amendments to the Electricity Industry Code are currently being considered. Until such amendments are made, however, offers of this type bypass a natural step at which customers may be prompted to consider other offers in the market. Rather than competing through product improvement, retailers appear to be adopting a strategy of avoiding competition. Since all offers have prices consistent with the regulated tariff but can include additional fees and charges, this is a strategy that may result in some customers being worse off after their fixed benefit period has expired than if they had reverted to the standard retail contract at the end of a fixed term contract.

²⁰ Mauseth Johnston, M. (2012). Queensland Energy Prices July 2009 – July 2012: A report on the Queensland Tariff-Tracking Project. Available at: http://www.vinnies.org.au/icms_docs/169716_QLD_Energy_Prices_July_2009-July_2012.pdf. Downloaded 24 February 2014.

Similarly, there is little evidence of service differentiation or innovation amongst retailers in Queensland. It is promising that some retailers are beginning to offer monthly billing arrangements, either as part of their offers or a separate option. However, advertising to customers in SEQ is predominantly based around discounts or other incentives, rather than service. While service is important to consumers, it can be difficult for them to determine the quality of service when comparing different retailers and market offers.

There is also limited evidence of improvements in the quality of customer service. The market performance data collected by the QCA does not provide information about customer service. While the AER reports on customer service performance in NECF states, it has only published one annual report so far. When QCOSS surveyed community sector workers about factors contributing to electricity disconnections in 2011, perceptions about how easy or difficult retailers were to deal with were fairly consistent across most retailers, and there was an even spread between respondents who found it easy or difficult to deal with individual retailers. Complaints to EWOQ from electricity and gas customers have been gradually increasing over the past four years, suggesting there has not been a notable improvement in service over time.²¹

In those jurisdictions where price regulation is in place, has retail price regulation encouraged, or impeded tariff innovation or product/service innovation in small customer electricity and natural gas retail markets?

As discussed above, there does not appear to be a lot of differentiation in the Queensland electricity market, with most retailers basing their market offers on the regulated tariff and tending to follow a pattern of offering pay on time discounts. However it is hard to identify to what extent retail price regulation has affected tariff or product/service innovation. Other factors may also contribute to a lack of innovation, including a disengaged customer base that is not actively seeking new products or services, the absence of technology such as smart meters that would support greater innovation, and the ease of marketing discounts compared to more complex tariffs that require more explanation. St Vincent de Paul's analysis of market offers across NEM jurisdictions shows that while the greatest product differentiation occurs in Victoria's deregulated market, South Australia and NSW have similar levels of product differentiation despite different regulatory frameworks. It also argues that the division of Victoria's market into five network areas contributes to tariff differentiation since there is no incumbent retailer for others to copy.²² In contrast, Queensland has only one network area where competition has been viable.

²¹ Energy and Water Ombudsman Queensland (2013). Annual Report 2012-13. Available at: <http://www.parliament.qld.gov.au/documents/tableOffice/TabledPapers/2013/5413T3529.pdf>. Downloaded 25 February 2014.

²² Dufty, G. and Mauseth Johnston, M. (2013). The National Energy Market– Is there a devil in the retail? Observations from the Vinnies' Tariff-Tracking Project. Available at: http://www.vinnies.org.au/icms_docs/178601_National_Energy_Market_-_Is_there_devil_in_the_retail.pdf. Downloaded 25 February 2014.

What types of marketing practices, or business behaviours, have small customers experienced in different electricity and natural gas retail markets?

Door-to-door marketing has received a great deal of attention during the time since retail competition for small customers commenced in Queensland. Although a relatively small proportion of complaints to EWOQ relate to marketing, the behaviour of marketers has prompted it to issue several media releases warning consumers about misleading marketing behaviour in the first few years of full retail competition. More recently, efforts to improve marketing practices and the withdrawal of some energy retailers from door-to-door marketing has seen the number of marketing complaints to EWOQ decrease.²³

However, despite changes in marketing practices, feedback from QCOSS stakeholders suggests that the early behaviour of door-to-door marketers has damaged consumer confidence in the market. Community organisations report that the experience of door-to-door marketing has been overwhelming for their constituents, who have been pressured to enter contracts based on information they do not fully understand because of the nature of marketing and the need for an immediate, face to face response. Stakeholders have noted that while they are now receiving fewer complaints about the prevalence and aggressiveness of door-to-door marketers, their constituents have been left with a poor impression of the market and a general distrust of both retailers and marketers, who are seen as 'all as bad as each other'.

While door-to-door marketing has decreased, stakeholders have also told QCOSS that they are hearing of an increase in telemarketing by comparison services. These marketing approaches are frequently met with similar levels of distrust and cynicism.

Most feedback indicates that customers do not seek independent advice after agreeing to a contract on the spot, despite being aware that they have a cooling off period. Community sector workers have also queried whether retailers and marketers are undertaking proper checks when signing new customers. As noted earlier, it has been common for customers in hardship to switch retailers despite debts owed to their previous retailer. Concerns about the responsibility of retailers' marketing practices are heightened by one case recently reported to QCOSS, where a community sector worker was told by a client that after making arrangements to enter their retailer's hardship program, their call was transferred to an internet provider for direct marketing of another product.

QCOSS stakeholders have also provided feedback that business practices unrelated to marketing may stifle competition by making it difficult for consumers to compare offers. In particular, billing issues make it difficult for consumers to know their consumption and understand what their costs may be under different market offers. Problems experienced by consumers have included bills being sent late or not at all, incomprehensible bills, and simultaneously receiving bills showing different amounts.

²³ Energy and Water Ombudsman Queensland (2013), *op cit*.

Recommendations – Independent rivalry

QCOSS recommends that:

- Before removing price regulation in SEQ, the Queensland Government establishes a robust market monitoring framework including analysis of both price and non-price indicators, and empowering regulatory bodies with the authority and resources to proactively investigate and address issues to ensure the market is delivering in the best interests of consumers
- The date for removing price regulation in Queensland should not be earlier than 12 months after the implementation of NECF, in order to ensure that a more robust performance monitoring regime is in place that may provide customers with information and incentivise retailers to improve their performance.

Customer satisfaction

Are customers satisfied with the service quality they receive from their energy retailers and the value for money?

Based on anecdotal and indirect evidence gathered via our stakeholders, it appears that many SEQ customers are not satisfied with the quality of service or value for money received from energy retailers. As noted earlier, complaints to EWOQ have steadily increased over the past few years.²⁴ Complaints to retailers reported by the QCA have not shown a clear trend, but after fluctuating at around 28,000 to 33,000 over the preceding four years, the total number of complaints in 2012-13 increased to over 43,000, and data for the September 2013 quarter suggests the number of complaints received by retailers remains unusually high. Consumer reviews on the website Product Review give most energy retailers currently offering market contracts in Queensland average ratings of 1.5 out of 5 or less.²⁵ Media attention and increased policy focus on addressing rising electricity prices confirms the general public is dissatisfied with the value for money received from retailers.

QCOSS stakeholders have identified a number of problems with the quality of service received by their clients and constituents. These include:

- Difficulty getting through to hardship teams. One community sector worker gave an example of taking 20 minutes to persuade a retailer's credit department to transfer her call to the hardship team.
- Customer service staff who speak quickly or use technical language, making it difficult for customers to understand the information they are given.
- Long wait times for call centres, and retailers being unwilling to call back when a customer is calling from a mobile phone.
- Barriers to challenging high bills, with reports of retailers demanding payment before investigating bills and threatening disconnection if customers cannot pay.
- Disconnections for non-payment where the retailer has not provided information about hardship assistance.

²⁴ Energy and Water Ombudsman Queensland (2013), *op. cit.*

²⁵ See <http://www.productreview.com.au/c/energy-providers.html>.

- A range of billing issues, including estimation of bills. An example was given where a retailer failed to identify a customer was on the wrong tariff even after placing her on their hardship program.
- Retailers requiring that certain transactions only be performed online, creating barriers for some customers.
- Solar customers unhappy with the outcome of their investment because they were not given sufficient information to understand the deal they agreed to.

Some stakeholders reported that their clients have had positive experiences with hardship programs, particularly with energy efficiency assistance and other help provided through the program. However, most of the feedback to QCOSS about the quality of service provided by retailers is negative. The survey of community sector workers we conducted in 2011 found that significant numbers encounter examples of poor performance by retailers in relation to customers in hardship. These included allowing debt to build up over multiple billing cycles, refusing to consider capacity to pay when negotiating payment plans, and failing to provide adequate assistance when contacted by customers experiencing payment difficulties.²⁶

Recently published EWOQ research supports the view that retailers are not providing an adequate standard of service. A sample of customers who had made billing or credit complaints, were surveyed on how they rated their retailer on seven customer service factors. All were rated as poor or very poor by more than 80 per cent of customers despite having achieved positive outcomes to their complaint in the end. Although it could be argued that a sample drawn from customers who had complained to EWOQ may be biased, the research identified to a number of ways in which retailers may have averted complaints by improving their performance. This included ensuring front line customer service staff have the authority to resolve issues, speaking to customers in a respectful manner, and avoiding long wait times when transferring calls between departments.²⁷

Are customers satisfied with the level of choice available in the market?

Feedback from the community sector suggests that low income and vulnerable customers in particular are not sufficiently engaged in the market to express a view about the choices available to them. QCOSS's research indicates that there is not a great deal of choice available in the market. Although there are several retailers currently listing market offers on the QCA price comparator, most are similarly structured and nearly all base their price as a discount off the regulated tariff.

QCOSS has heard comments from time to time about options that consumers or community sector workers would like to see in the electricity and gas markets. These include prepayment meters and offers that set a consumption target to encourage consumers to better manage their costs. While QCOSS does not necessarily endorse these options, it does appear that there may be a desire for products that are not currently available in Queensland.

²⁶ Queensland Council of Social Service (2012). Energy Hardship and Electricity Disconnections in Queensland. Available at: http://www.qcoss.org.au/sites/default/files/Disconnections_Report_Final_1.pdf.

²⁷ Energy and Water Ombudsman Queensland (2014), *op. cit.*

Are customers satisfied with the ease and speed with which they can switch retailers?

Transfer-related issues were the third most common type of complaint to EWOQ in 2012-13; however this category includes customers who did not want to transfer as well as those who are dissatisfied with the process.²⁸

The Electricity Industry Code permits transfers to be completed on the basis of a special meter read as long as customers give explicit informed consent to any meter read fee passed on to them. However there is no data on how often retailers offer this option to new customers. The AEMC's issues paper on electricity customer switching suggests that Queensland's performance on switching times is similar to other NEM jurisdictions that have full retail competition, with the exception of Victoria.²⁹

Is there evidence of any long term jurisdictional or cross-jurisdictional trends in the number and nature of customer complaints to retailers or ombudsman?

As noted above, complaints to EWOQ by energy customers have been increasing over the past four years. Statistics to the end of January 2014 are consistent with a further increase in 2013-14.³⁰

Complaints reported by retailers to the QCA do not show any clear trend, but do appear to have spiked from mid-2012. This coincided with the introduction of the carbon price, the Queensland Government's 'freeze' on tariff 11 which passed on the carbon price impact, and publicity about market price increases above the regulated tariff rate. These events may have contributed to an increase in complaints, however figures for the September 2013 quarter suggest that the number of complaints may still be higher than was previously reported. Billing and credit issues have consistently been the most common type of complaint to both retailers and EWOQ.

Recommendations – Customer satisfaction

QCOSS recommends that:

- Current and future AEMC competition reviews include in-depth consultation with a diverse spread of customers across SEQ, and regional Queensland as competition develops in this area, to determine customers' experiences of retail competition.
- The Queensland Government incorporates into its price monitoring framework research into customer satisfaction with the range and type of offers available in the market.

²⁸ Energy and Water Ombudsman Queensland (2013), *op. cit.*

²⁹ Australian Energy Market Commission (2013). Review of Electricity Customer Switching (Issues Paper). Available at: <http://www.aemc.gov.au/Media/docs/Issues-Paper-484f6212-ab85-4f52-a06a-3e7cb3552afc-0.pdf>. Downloaded 25 February 2014.

³⁰ Energy and Water Ombudsman Queensland (2014). Complaint statistics 2013-14 (webpage). Available at: <http://www.ewoq.com.au/Complaints/Complaintstatistics201314.aspx>. Accessed 25 February 2014.

- Consumer advocacy is adequately resourced to ensure that emerging issues affecting customer satisfaction in the market can be brought to the attention of relevant industry, regulatory and government bodies.

Appendix A - Engagement process

Engagement undertaken to develop this submission includes:

Organisation or person engaged with	Engagement outcome
St Vincent de Paul Society Qld, UnitingCare Community, MS Australia – Qld, Council on the Aging Qld	Provided information on constituents' experiences in the market for input into submission.
Members of QCOSS Energy Reference Group, which includes: <ul style="list-style-type: none"> • St Vincent de Paul Society Qld • UnitingCare Community • MS Australia – Qld • Council on the Ageing Qld • Queensland Consumers Association • Tenants Union Queensland • Australian Pensioners and Superannuants League • Financial Counselling Australia • Indigenous Consumer Assistance Network (currently unrepresented) • Legal Aid Queensland • Financial Counselling Association of Queensland (not represented at time of consultation) 	Opportunity to provide input into development of draft submission.