

Retailer price variations in market retail contracts

Final decision to help improve consumer understanding of energy contracts

The AEMC has made a final rule to improve the information given to consumers when entering retail energy contracts.

Previous AEMC analysis has shown that consumers can save between five and sixteen per cent on their annual electricity bill by shopping around for the best deal and switching away from regulated standing offer contracts.¹ However, consumers need clear information to be able to shop confidently.

Overview of the Commission's final rule

The AEMC's final rule requires retailers to improve the information they give to consumers when entering energy contracts about whether prices can change and when they will notify consumers of any price changes. Improved information enables consumers to engage more confidently in retail markets and make decisions that they consider better meet their needs. This is likely to enhance competition in retail markets.

As has always been the case, retailers are required to comply with the terms and conditions of their contracts. This will remain unchanged under the AEMC's final rule.

The Commission's final rule has been made in response to a rule change request submitted by two Victorian consumer groups, the Consumer Action Law Centre (CALC) and the Consumer Utilities Advocacy Centre (CUAC). Their request sought to prohibit retailers from changing their prices during energy contracts that have a defined period of time or a benefit, such as a discount from a retailer's standard energy rates, that is offered for a specific period.

The Commission conducted extensive stakeholder engagement and consumer research and considered that the key issue raised by the rule change request is that some consumers may be entering contracts unaware that their prices may change. The Commission's final rule provides a proportionate response to address this issue.

Current regulatory requirements for retail contracts

There are two kinds of retail energy contracts, *market retail contracts* and *standard retail contracts*. The terms and conditions of *standard retail contracts* are largely prescribed in the National Energy Retail Rules (retail rules). The retail rules contain a minimum set of standards for market retail contracts and retailers build on these to compete for customers.

The current minimum standards that apply to *market retail contracts* do not regulate how often or by how much retailers can change their prices. However, retailers are required to notify consumers of any price changes as soon as practical to do so or at the latest in the consumer's next bill. There are also obligations on retailers to disclose key information to consumers at the point of entry into a *market retail contract*.

The Commission's consideration of the rule change request

CALC and CUAC consider that a retailer's ability to change a consumer's price shifts the risk of cost increases from retailers to consumers. They also consider that this negatively affects consumer participation in retail energy markets. CALC and CUAC submitted their rule change request to address these issues.

¹ See AEMC, 2013 Residential Electricity Price Trends report, 13 December 2013, Sydney.

The final rule requires retailers to better inform consumers about how prices may change in their retail energy contracts.

The final rule will commence on 1 May 2015.

The Commission considers that their proposed rule could have resulted in increased prices and reduced choice for consumers. Retailers manage a range of costs on behalf of consumers. About 60 per cent of the costs that make up a retail energy bill are determined by processes external from individual retailers. If retailers were unable to change their prices to pass on unmanageable changes in their costs when they occur, prices would have been likely to increase.

If retailers were unable to change their prices they may also have reduced the length of contracts or stopped offering some types of contracts. This could have reduced the choice of contracts available to consumers and the effectiveness of retail competition.

Some retailers already offer contracts where the price cannot change. These fixed price contracts are generally more expensive, but allow consumers that prefer price certainty to choose a contract that they consider better meets their needs.

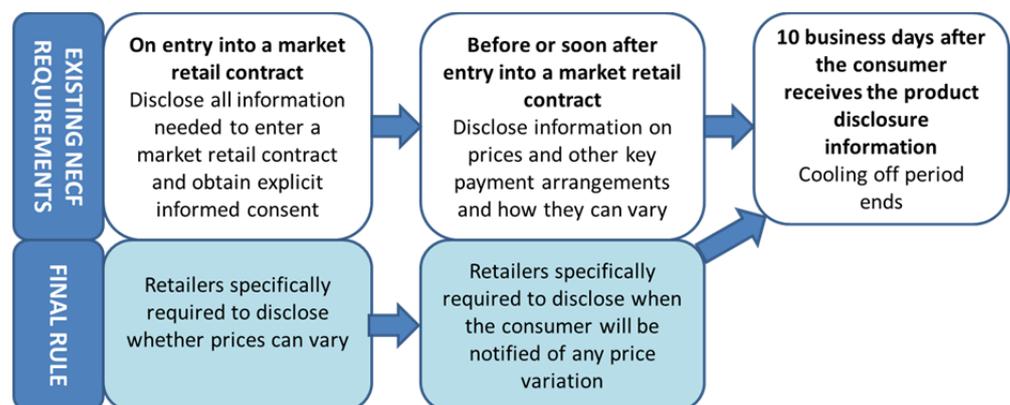
Consumers should have the ability to choose an energy contract that they consider best meets their needs, so long as they have enough information to make an informed decision. Consistent with this approach the final rule requires retailers to improve the information they provide consumers to promote consumer engagement and competition.

The Commission's more preferable final rule

The Commission's final rule enhances existing consumer protections under the National Energy Retail Law and the retail rules. These protections require retailers to inform consumers more clearly on contract entry of key aspects of their contract and how they may vary over the duration of the contract.

The figure below shows how the final rule will operate to enhance the existing disclosure requirements. Retailers may provide additional services or information that goes beyond these requirements, where they consider that consumers are likely to value these services.

Figure 1: Changes under the Commission's final rule



This final rule will apply from 1 May 2015 to all new electricity and gas *market retail contracts* in South Australia, New South Wales, the Australian Capital Territory, and Tasmania. These are the jurisdictions where the retail rules currently apply.

The final rule will allow consumers to continue to select a contract that they consider meets their needs. The final rule is not likely to affect the level of risk faced by retailers and is likely to have limited implementation costs. This should limit its impact on prices.

The Commission also notes that the Australian Energy Regulator (AER) has a role in regulating how retailers market offers and prices to consumers. The Commission supports a proposal by the AER to improve these regulatory requirements and notes that such improvements could work alongside the Commission's final rule to assist consumers to make more informed decisions when selecting an energy contract.

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