INFORMATION

Retailer price variations in market retail contracts

Draft decision to help improve consumer understanding of energy contracts

The AEMC has made a draft 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 draft rule

The AEMC's draft rule improves the information given to consumers when entering energy contracts. Improved information enables consumers to engage more confidently in retail energy markets and make decisions that better meet their needs. This in turn is likely to enhance competition in retail energy markets.

The Commission's draft 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 that is offered for a specific period.

The Commission conducted extensive stakeholder engagement and consumer research and concluded that the key issue raised by the rule change request is that some consumers may be entering contracts unaware that prices may change. The Commission's draft 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 set out in the National Energy Retail Rules (retail rules). The terms and conditions of *market retail contracts* however must only comply with minimum standards in the retail rules.

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. To address these issues, the rule they proposed would prohibit retailers from changing their prices during *market retail contracts* that have a defined period or a benefit that is offered for a specific period.

The Commission considers that the rule they proposed could result 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 largely outside the control of retailers. If retailers are

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

The draft rule will better inform consumers about how prices may change in their energy contracts.

Submissions on the draft determination close on 11 September 2014.

unable to change their prices to pass on unmanageable changes in these costs, prices are likely to increase.

If retailers are unable to change their prices they may also reduce the length of contracts or stop offering some types of contracts. The Commission considers that this could reduce the choice of contracts available to consumers.

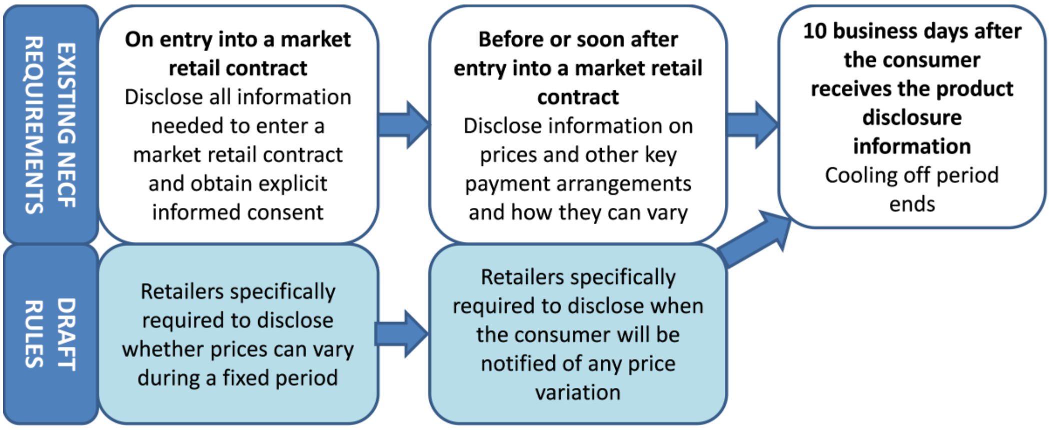
Some retailers already offer contracts where the price cannot change. These fixed price contracts are generally more expensive, but allow consumers that prefer price certainty to choose a contract that better meets their needs.

The Commission considers that it is important to allow consumers to choose an energy contract that best meets their needs, so long as they have enough information to make an informed decision. Consistent with this approach the Commission's draft rule seeks to improve the information given to consumers to promote consumer engagement and competition in retail energy markets.

The Commission's more preferable draft rule

The Commission's draft rule enhances existing consumer protections under the National Energy Retail Law and the retail rules. These protections require retailers to inform consumers 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 draft rule will operate to enhance the existing disclosure requirements.

Figure 1: Changes under the Commission's draft rule



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

The Commission also notes that the Australian Energy Regulator has a role in regulating how retailers market offers and prices to consumers. Improvements in these regulatory requirements could work alongside the Commission's draft rule to assist consumers to make more informed decisions when selecting an energy contract.

Next steps

Submissions on the Commission's draft determination will close on 11 September 2014. The Commission's final rule determination will be published in late 2014.

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