

28 March 2014

Australian Energy Market Commission  
Project Reference Code RRC0001  
PO Box A2449  
Sydney South NSW 1235

Level 18, 215 Adelaide Street  
Brisbane Qld 4000

GPO Box 1450  
Brisbane Qld 4001

Phone 07 3233 9100  
Fax 07 3211 9339

[policy@nationalseniors.com.au](mailto:policy@nationalseniors.com.au)

## Retailer Price Variations in Market Retail Contracts

Thank you for the opportunity to comment on the proposed rule change request to the National Energy Retail Rules (the Rules).

National Seniors is the largest organisation representing Australians aged 50 and over, with around 200 000 members nationally. We provide a well-informed and representative voice on behalf of older Australians and contribute to public education, debate and community consultation on issues of direct relevance to them.

National Seniors members report that they are struggling with the growing cost of electricity, are confused by the complexity of their electricity contracts and are overwhelmed by choice in some States.

Our research has revealed that over the five years to March 2013 non-discretionary (essential) items, such as electricity, water, gas, insurance, medical services and rates, all rose by more than double the inflation rate. Electricity alone rose by 83.1 per cent or 6.2 times CPI.

This **rapid increase in the cost** of electricity combined with the **increasing complexity** of retail electricity contracts emphasizes the necessity for the Rules to be amended to protect consumers from misleading introductory offers, unclear information and unexpected price increases.

The current Rules allow for retailers to vary the price of fixed term contracts as long as the retailer states this somewhere in their contract. A large number of retailers offer low introductory rates and then increase the price once the consumer is locked into the contract.

Many consumers are not familiar with the terms of their electricity contract and are not aware of the retailer's ability to raise prices within fixed term contracts. This lack of awareness leads to consumers being unprepared for price rises increasing the likelihood of bill shock and financial distress. The use of the terminology "fixed term" and in some cases "fixed rate" adds to the level of confusion.

The ability to vary the price within fixed term contracts unfairly allows retailers to shift the risk of an increase in costs in the electricity market onto consumers.

If retailers were no longer able to vary the price within fixed term contracts the risk would be shifted back to retailers who could utilize traditional business risk management measures, such as purchasing electricity futures or options to hedge against this risk.

**Fixed-term fixed-price contracts** would remove the current focus on providing the lowest discounted introductory price and may force retailers to compete by providing additional value to consumers. Restricting retailers' ability to vary prices would also simplify the contracts and reduce the consumer search costs of comparing them. This could increase the likelihood that consumers will engage in the electricity market and switch to a better deal.

The current variable price fixed term contracts provide the market and consumers with incomplete pricing information that is not reflective of the true cost of electricity. The true cost is only communicated to the consumers once they are locked into the contract.

Restricting retailers' ability to vary prices within fixed term contracts would improve transparency and produce a more efficient market. It could also increase the number of informed consumers.

**Exit fees** create a barrier to switching electricity retailers and restrict competition. High exit fees also incentivize retailers to offer low discounted introductory prices and then increase the price. The current notification period under the Rules of "as soon as practicable and in any event no later than the customer's next bill" does not provide sufficient notification to allow consumers time to adjust to the price increases.

The increasing number of pensioners and low income people who are unable to pay their electricity bills on time is resulting in many of them seeking support under the hardship provisions. National Seniors believes that **the definition of hardship customers** should include all Pension Concession Card holders.

To ensure the Rules provide the necessary level of consumer protection, National Seniors requests that the Australian Energy Market Commission amends the Rules to:

- Prohibit retailers from including terms in their contracts that allow retailers to vary the price during fixed term contracts.

Although not a key focus of the current consultation, the following opportunities exist to improve consumer protections under the Rules:

- Ban retailers from charging hardship customers an exit fee for early termination of electricity contracts; and

- Extend the definition of hardship customers to include all Pension Concession Card holders.

If the Rules are not amended to remove the retailer's ability to increase the price during fixed term contracts, then at a minimum they should:

- Obligate retailers to provide a minimum notification period of 12 working days for any change in the price during the fixed period.

If retailers are allowed to continue to vary the price within fixed term contracts, consumers will continue to be at a disadvantage and exposed to an unnecessary and unjust level of risk and exploitation.

I look forward to seeing an increase in consumer protections under the National Energy Retail Rules.

Yours faithfully



**Michael O'Neill**  
**Chief Executive**

---