

Simplifying Tariff Comparisons

Dr Martin Gill

Retailers should be required to provide sufficient information on bills (and tariff contracts) to ensure consumers can easily compare tariffs. It is also recommended a review be undertaken to determine how to simplify consumer access to their historical electricity use.

Introduction

The ACCC's Retail Electricity Pricing Inquiry shows over the past decade electricity prices have risen by 64%. What this figure fails to reveal is many consumers are making poor energy choices and now pay significantly more.

Access to electricity is an essential service. Until recently the Government regulated the price. There was no choice and all consumers paid the same price.

Then everything changed. The local electricity company was sold or leased and consumers could choose who billed them for their electricity use.

The biggest change for consumers was Governments stopped regulating the price of electricity. Retailers were free to offer a range plans including both high and low prices. Consumers choosing the wrong tariff paid significantly more than they should.

St Vincent de Paul describes the problem:

Significant price dispersion becomes a serious issue when customers do not have the tools or the ability to assess available offers

Without the tools or ability to compare tariffs complacent and/or naïve consumers continue to make the wrong energy choices. Providing consumers with both the tools and ability to compare tariffs will enable more to lower their electricity costs.

The following submission highlights the problems by attempting to find a cheaper tariff for a Sydney based consumer. It shows interpreting the output of tariff comparison tools could be made significantly simpler if one small piece of information was added to customer electricity bills.

Recommendations

Consumers need to know they are paying the lowest price for electricity. Instead of answering this question current tariff comparison tools show a long list of meaningless numbers. Unless consumers can find their current tariff in the list they are unable to determine if they are paying the lowest price.

Regular price rises and changes to tariff structures mean consumers cannot compare tariffs using the amount owing on their electricity bill. It is suggested retailers be required to show two values. The amount owed (as already shown) and the 'Calculated cost using the latest tariff'. Consumers can use this second value with tariff comparison tools to determine if they are paying the lowest price for their electricity.

The accuracy of tariff comparisons is improved using historical meter data. Currently consumer access to their meter data is too complex (excluding Victoria). If consumer electricity bills were accompanied with the meter data (in a useful format) it would allow consumers to accurately compare available tariffs.

Providing consumers with simple access to their meter data is also likely to promote the third party services the AEMC's smart meter rollout is supposed to enable.

The following submission to the ACCC's Retail Electricity Pricing Inquiry uses analysis of a retailer's offer to 'renew' a consumers electricity rates to illustrate how the recommendations address identified issues.

Retailer ‘tricks’

Retailers are currently offering attractive bonuses to attract new customers. The trick is after a period of time the bonuses expire. The retailer then quietly switches the consumer onto more expensive tariffs.

A consumer recently received a letter from their retailer offering to “renew” their energy plan. While the retailer claims this is a renewal the letter details a totally new electricity tariff. Comparing the original and new tariffs:

	Original	New	Next Bill
Discount	22%	18%	5% higher
Daily Charge	86.44c	92.4c	7% higher
Usage Charge	20.22c	26.16c	30% higher

The dramatic increase in usage charges is a result of the retailer changing the tariff structure. This detail is not revealed in the letter (refer to the appendix for analysis of how the increase is hidden).

The retailer is operating within current rules and regulations. It is suggested the lack of transparency highlights current Government regulations are failing to protect both the short and long term interest of consumers.

A question for the ACCC is “How extensively should retailers be allowed to vary the terms of an energy plan while still referring to it as a ‘renewal’?” Further should retailers be required to summarise the effect of the changes (for example the above table)?

Comparing tariffs

St Vincent de Paul analysis suggests NSW electricity prices rose an average of 9% in 2017. The conclusion is the above consumer should select a new retailer.

It is not possible to compare a single value when comparing tariffs. For example a retailer may offer a large percentage discount, however these discounts often hide inflated daily charges and usage rates.

The only way to accurately compare tariffs requires the use of a tariff comparison tool. These tools use the consumer’s measured electricity use to compare the price of available tariffs. To demonstrate this process the following section undertakes a tariff comparison.

Using the Existing Electricity Bill

The starting point a tariff comparison should be the last electricity bill. The last electricity bill for the above consumer shows the amount owing is \$777.21 (including the discount).

Entering data from their bill into the independent tariff comparison website Energy Made Easy results in highly misleading results:

Retailer	Offer name and ID	Estimated bill incl. GST	Estimated bill with all discounts incl. GST
dodo POWER & GAS	Ausgrid Res No Term Market Offer (E2EAR-MAT1) DOD337109MR	\$974	\$796
Simplyenergy	NSW Simply Extra 20 SIM438071MR	\$998	\$814
Simplyenergy	NSW Simply Extra 20 Online SIM438107MR	\$998	\$814
Powerdirect	Powerdirect New South Wales residential electricity market offer POW431278MR	\$1,051	\$818
amaysim	electricity 2 - Domestic AMA434091MR	\$1,367	\$820
COMMANDER POWER & GAS	Ausgrid Commander Residential No Term Market Offer (Single Rate) (CE2EAR-MAT1) M2E337160MR	\$1,005	\$821
alintaenergy	Fair Deal 23 (Single Rate) ALI419603MR	\$1,047	\$826
EnergyAustralia	Secure Saver - Home - Peak Only ENE432583MR	\$1,062	\$847
red energy	Living Energy Saver - Residential RED390151MR	\$947	\$852

Amount owing \$777

All listed tariffs are more expensive than the amount owing?

The results suggest the consumer is already on the cheapest available tariff. **This is incorrect.**

The problem is the \$777 bill does not show the effect of the new tariff and prices. To highlight the problem we calculate two additional costs

Calculated cost using:	Cost
Original tariff and prices	\$695
New tariff and prices applied half way through billing period	\$777
Latest tariff and prices	\$880

Only the calculated cost using the latest tariff and prices can be meaningfully used with various tariff comparison tools.

It is therefore recommended.

Retailers be required to show the amount owing and the ‘Calculated cost using the latest tariff’

Showing both \$777 and \$880 on the bill has several benefits. It alerts the consumer the cost of their electricity use is about to rise and the Calculated cost using the latest tariff simplifies the use of tariff comparison tools.

Consumers want to know

Am I on the cheapest tariff?

Outside Victoria the use of tariff comparison tools requires consumers to make various selections and then manually enter their electricity use (not all the required values are shown on the consumer's electricity bill). The tool then presents a long list of numbers.

For example the output of Energy Made Easy shows:

Retailer	Offer name and ID	Estimated bill with all discounts incl. GST
dodo	Ausgrid Res No Term Market Offer (E2EAR-MAT1) DOD337109MR	\$796
Simply Energy	NSW Simply Extra 20 SIM438647MR	\$814
Simply Energy	NSW Simply Extra 20 Online SIM438647MR	\$814
Powerdirect	Powerdirect New South Wales residential electricity market offer PDW431275MR	\$818
amcyum	Electricity 2 - Domestic AM443029MR	\$820
AMVIC Energy	Ausgrid Commander Residential No Term Market Offer (Single Rate) (E2EAR-MAT1) M2E237169MR	\$821
Origin Energy	Fair Deal 23 (Single Rate) AL418002MR	\$826
Origin Energy	Secure Saver - Home - Peak City ENE432929MR	\$847
red energy	Living Energy Saver - Residential RED390161MR	\$852
origin	Origin Maximizer - Online Only ORW430574MR	\$853
origin	Origin Maximizer ORW430574MR	\$853
Origin Energy	Flexi Saver - Home - Peak City (No Exit Fees) ENE432929MR	\$854
EnergyLocals	Save Me - Residential - Anytime offer LCL300392MR	\$856
POWERDIRECT	Standard Saver (Guaranteed Discount) with Bulk Peak PDW441742MR	\$860
Simply Energy	NSW Simply Plus 15 Online SIM434718MR	\$860
Simply Energy	NSW Simply Plus 15 SIM434718MR	\$860
COVE	Freedom2 - Residential Ausgrid Single Rate COV273547MR	\$861
COVE	Freedom1 - Residential Ausgrid Single Rate COV273547MR	\$861
EnergyLocals	Residential - Anytime Standing Offer LCL238482MR	\$861
click energy	Click Tap - Domestic CLW36602MR	\$880
agl	AGL Home Office Everyday New South Wales residential electricity market offer AGL433400MR	\$883

20 cheaper tariffs are available

Cost calculated using latest tariff \$880

The list of numbers is largely meaningless unless they can be compared to the cost of the consumer's current tariff.

Without the Calculated cost using the latest tariff consumers must try to locate their tariff in the list. Only if they find their tariff can they meaningfully compare the results. For example:

Retailer	Offer name and ID	Estimated bill with all discounts incl. GST
dodo	Ausgrid Res No Term Market Offer (E2EAR-MAT1) DOD337109MR	\$3,134
agl	AGL Home Office Everyday New South Wales residential electricity market offer AGL433400MR	\$3,474

Changing retailer could save you \$340

This consumer could save \$340 a year by changing retailer (they are paying 11% more than they should).

The 'Calculated cost using the latest tariff' provides a simple means of achieving this. Consider entering this value into the tariff comparison tool:

Electricity bill

Start Date

End Date

Electricity Use

Calculated cost using latest tariff

Asking consumers for one more value supports savings calculations

This single value allows the tariff comparison tool to show savings available by selecting a different tariff.

The value also solves an acknowledged problem with tariff comparison tools, including Energy Made Easy. The consumer's current tariff may not be shown in the list¹. If the consumer can't locate their current tariff in the list they can't calculate savings (which encourages retailers to make 'special offers').

Aside: For the designers of Energy Made Easy leaving the value blank continues to show unadjusted (meaningless) values.

Larger Savings

Some consumers can reduce their electricity costs by selecting a Time of Use tariff. This includes the 10% of consumers with a pool or spa fall, especially if they fit a timer so the pool pump runs during lower cost off-peak times.

The consumer shown above has fitted a timer to their pool pump. The timer currently does not reduce their electricity costs because they are on a single rate tariff. Using typical values it is estimated this consumer can save by switching to a Time of Use tariff.

Retailer	Offer name and ID	Estimated bill incl. GST	Estimated bill with all discounts incl. GST
Simply Energy	NSW Simply Extra 20 Online SIM438647MR	\$3,730	\$3,054
dodo	Ausgrid Res No Term Market Offer (E2EAR-MAT1) DOD337109MR	\$3,836	\$3,134

Changing to a Time of Use tariff saves \$420

Changing retailer saves \$340 a year

It must be emphasised the saving on a Time of Use is an estimate because the retailer does not show the

¹ The AER allows retailers to claim a tariff is 'special'. Special tariffs are not show on Energy Made Easy

values required to accurately compare Time of Use tariffs. (The author’s previous submission to the ACCC suggested retailers should show this information)

The Victorian tariff comparison tool SwitchOn offers to find the cheapest tariff. It compares all available tariffs, including both single rate and Time of Use tariffs. This is possible because the Victorian Government has ensured all consumers have simple access to their meter data.

Outside Victoria consumers must rely on the National Energy Retailer Rules (NERR) to provide access to their meter data. The NERR allows consumers to phone their retailer and ask for a copy of their meter data four times a year. Experience suggests the process involves multiple phone calls to staff either ignorant of, or it would appear trained, to deny the legal obligation to provide the data.

Perseverance will be rewarded with a data file of no practical use. Specifically there are no tools available to consumers allowing them to view the data and no tools to use the data to compare tariffs.

For a glimpse of what is possible it is recommended during the review the ACCC investigate the CitiPower/Powercor myEnergy Portal. Using the portal consumers can easily access and view their meter data.



Early smart meter trials have shown consumer use of portals increases immediately after the arrival of the quarterly electricity bill. Interest then wanes until the arrival of the next bill.

Evidence suggests the main consumer benefit of the CitiPower/Powercor myEnergy Portal is it enables consumers to quickly and easily compare tariffs. The portal provides a button to download meter data and another to use this data with SwitchOn to “Compare different retail tariffs and save”. Put simply the myEnergy portal delivers consumer smart meter benefits.

Smart Meters coming to all Australian consumers

The Australian Energy Market Commission’s smart meter rollout is already well underway. Approximately 500,000 consumers have voluntarily accepted a retailer offered smart meter. From the 1st Dec 2017 the mandated rollout commences, with all new and replacement meters required to be smart. Under the AEMC smart meter rollout all Australian consumers will eventually be supplied with a smart meter.

While the AEMC claims their smart meter rollout will deliver consumer benefits there is a major problem. The meters are being provided by retailers.

Retailers do not want consumers to compare tariffs

Consumers compare tariffs to find lower cost options. While this delivers consumer benefits it has negative financial implications for retailers.

Given all Australian consumers will eventually have a smart meter the question becomes “How to ensure they can access the benefits?”

St Vincent de Paul provides the answer. Consumers require the tools and ability to compare tariffs. This starts with guaranteed simple access to their meter data.

Two earlier pieces of information are restated:

- a) the arrival of the quarterly electricity bill increases consumer interest in electricity prices
- b) the NERR allows consumers to request their meter data four times a year.

Pulling these together suggests:

Consumers should be able to request their meter data accompany their bill (using the standard format defined in the NERR).

Consumers are already entitled to the data. Sending it automatically removes the onerous requirement for consumers to ring their retailer to ask for a copy.

The Victorian Government’s SwitchOn tariff comparison site shows how meter data improves the accuracy and ease of use of tariff comparison tools. Rather than forcing consumers to manually type in numerous values Victorian consumers simply upload their meter data. This removes the need to search their bill trying to locate the required values.

This simple solution is suggested because it avoids the complexity of web-portals (with all the privacy concerns they raise). Further consumers don't need to remember yet another password to access their meter data via the portal.

As more consumers gain access to their meter data the incentive to develop suitable tools making use of the data increases. While the first tools are likely to be tariff comparison tools other tools are likely to follow.

Consider the AEMC's rule changes to require all smart meters installed after 1st Dec 2018 to collect 5 minute data. This 5 minute data supports estimates of individual appliance costs. For example:

Appliances		
Air Conditioner	\$169.27	>
Refrigerator	\$127.35	>
Refrigerator	\$106.22	>
Oven	\$53.75	>
Kettle	\$26.67	>
Air Conditioner Fan	\$20.71	>
Dishwasher	\$17.07	>

Estimated cost of individual appliances. Provides insights into where consumers could reduce costs e.g. Could one fridge be turned off?

It all starts with consumers being able to easily access their meter data. **Something the current rules fail to adequately provide.**

Conclusion

Presently there are numerous barriers to providing consumers with both the "tools and ability" to compare tariffs. This submission has recommended the ACCC investigate two options intended to encourage the development of suitable tools to simplify tariff comparisons. The two recommendations are

Retailers be required to show both the amount owing and the calculated cost using the latest tariff. This second value alerts consumers their electricity prices have risen and also ensures consumers can meaningfully compare tariffs.

Consumer meter data accompanies their bill. Access to meter data is currently too complex, sending it automatically simplifies access without requiring the development of complex web-portals.

Citation

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Comments or Questions?

The author is happy to receive comments or questions about this article. He can be contacted at martin@drmartingill.com.au

References

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National Energy Retailer Rules (available from aemc.gov.au)

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Australian Energy Regulator (AER) (aer.gov.au)

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SwitchOn (compare.switchon.vic.gov.au)

Appendix

Analysis of the new retail tariff

The original tariff was a single rate tariff using declining blocks. On this tariff as the consumer uses more electricity the price decreases. Simplifying the description the consumer pays 25c/kWh for the first 22kWh/day, decreasing to 19.01c/kWh for the remainder. With the 22% discount the consumer was paying 18.38c/kWh for all usage.

The new retail tariff is fundamentally different. It offers a single rate with no declining blocks. The result is the consumer pays 29c/kWh for all usage. The discount is also decreased to 18% so on the new tariff the consumer pays 23.78c/kWh (excluding GST).

$$\frac{23.78 \text{ c/kWh}}{18.38 \text{ c/kWh}} = 29.4\% \text{ increase}$$

This huge (and unacceptable) increase in usage charges can only be revealed using tariff comparison tools. It highlights the importance of providing consumers with both the tools and ability to meaningfully compare tariffs.

Referring to the new contract as a 'renewal'

The dictionary definition of renewal is

The action of extending the period of validity of a licence, subscription or contract

This definition suggests the new contract is not a renewal since it describes a fundamentally different tariff (with lower discounts and higher charges).

The ACCC should consider clarifying the extent to which retailers can change terms and still refer to the new contract as a 'renewal'.

In the new market the ACCC should also consider providing consumer advice noting the new contract is nothing more than the retailer's first offer.

In this case the offer even more disappointing because the retailer's website lists a standard tariff offering a higher discount than they chose to offer the consumer in the renewal.

Consumers can ask for better rates

Most consumers are unaware retailers are now open to negotiating better deals. For example one

consumer rang his existing retailer to negotiate an increase in the offered discount from 16% to 22%.

As a starting point for negotiations the author notes his recent experience. After switching retailer the original retailer rang to offer to double the standard discount to a ridiculous 35% (off usage charges).

Reminder: discounts should never be used to compare tariffs. Without Government price regulation retailers are free to offer discounts from inflated prices. During the cooling off period consumers should always check other terms and conditions have not been altered to support the larger discount (preferably using a tariff comparison tool).

Commercial Tariff Comparison Tools

Some commercial tariff comparison sites claim to find "the cheapest tariff". In many cases this claim is false. It is important to understand there is no obligation for commercial operators to list all available tariffs, the cheapest tariff may not be listed.

The reason the cheapest tariff may not be listed is actually quite simple. The majority of commercial tariff comparison services demand a commission from retailers for each customer they sign up. If a retailer refuses to pay the commission their tariffs are not listed on the website.

It is commendable the ACCC draft report found a lack of transparency around commercial tariff comparison sites. The ACCC should investigate if tighter regulation of this industry is required.

Discounts

Several retailers are currently using large discounts as attention grabbing headlines to attract new customers. There is a significant downside to these discounts.

An alarmed consumer forwarded me their electricity bill reporting a huge jump in their costs. Hidden in the details of the bill was a late payment of their previous bill. The late payment resulted in the loss of their sizable discount.

Rather than looking at conditional discounts as a bonus it is suggested consumers should consider the discounts a potential penalty, generally applied for failing to pay the bill by the due date. For example:

Retailer	Offer name and ID	Estimated bill with all discounts incl. GST	Estimated bill incl. GST
amaysim	electricity 2 - Domestic AMA434091MR	\$3,227	\$5,378

↑
67% penalty for failing to pay on time

Discounts highlight the need to use tariff comparison tools. Consumers with above average use may find their cheapest tariff offers a large discount off usage charges. Consumers with below average use (including solar equipped households) may find their cheapest tariff offers a smaller discount but applied to the whole bill.



Some retailers are now offering unconditional discounts. Rather than advertise lower prices, these retailers advertise a discount which is always applied to higher prices. Unconditional discounts may provide consumers greater choice, but they are also confusing.

Consumers should be made more aware of both the advantages and disadvantages of discounts. For example the 'Bill using current tariff' should show both the discounted and non-discounted figures. This will highlight to the consumer the importance of meeting contractual terms to ensure they pay the lowest price.

The default option

Figures available from the Australian Energy Regulator (AER) suggest 1 in 5 NSW consumers has still not selected a market tariff. Instead they have chosen to 'do nothing'.

Energy offer search results

	Secure Saver - Home - Peak Only ENE432583MR	\$3,336
	Basic Home - Peak Only ENE390949SR	\$4,182

↑
Default "do nothing" option

The above figure compares the default tariff against the cheapest tariff available from the default retailer. It shows the 1 in 5 consumers who are still on the default option are potentially paying 25% more than they have to.

Standing offers

Some consumers assume electricity prices included in retailer standing offers are still regulated. This is not the case. For example:

Retailer	Offer name and ID	Estimated bill incl. GST	Estimated bill with all discounts incl. GST
EnergyLocals	Residential - Anytime standing offer LCL235482SR	\$3,394	\$3,394
amaysim	Standing - Domestic AMA436420SR	\$5,378	\$5,378

Two standing offers
58.5% more expensive


The term 'standing offer' is potentially confusing. Consumers must *carefully* compare any tariff they are considering whether it is referred to as a standing offer or market offer. It is suggested all tariffs are referred to as market offers to remove the ambiguity.

AER Market Participation Figures

While AER market participation figures suggest 80% of NSW customers have chosen a retailer offered tariff the data does not show if consumers have chosen the right tariff.

In early November 2017 numerous retailers were offering 79 single rate tariffs and 77 time of use tariffs. The following shows the range of annual costs for the single rate tariffs.

Energy offer search results

 We've found 79 offers ranging from \$3,374 to \$5,520.

↑
Discounts can reduce this to \$3,134

The above highlights alarming differences between good and bad tariff choices. Making the wrong tariff choice can have serious financial implications. Here the wrong tariff choice increases annual electricity costs by a massive 76% (or over \$2,300 a year).

Retailer of last resort

The ACCC may wish to educate consumers that paying more for electricity does not improve its quality. All retailers sell exactly the same electricity. The above consumer receives exactly the same electricity if they choose to pay \$5,520 or \$3,134.

It is also worth noting choosing a low cost retailer does not increase the risk being disconnected (arguably it reduces the risk). In the unlikely event a retailer becomes financially insolvent (goes broke) the consumer will automatically be assigned a new retailer and their electricity supply will not be interrupted. The new retailer is likely to offer a more expensive tariff, so the consumer should use tariff comparison tools to check available options.

Third Party Access to meter data

While most USA smart meter rollouts are undertaken by vertically integrated utilities a noteworthy exception is Texas. Similar to the new Australian electricity market Texas has introduced retailer contestability.

The Texas Public Utility Commission (PUC) mandated the rollout of smart meters. Unlike the AEMC they were determined to deliver consumer benefits and therefore the PUC oversaw the development of a complex web-portal providing consumers access and control of their meter data.

An important design feature of the portal is it enables consumers to give third parties access to their meter data. To address privacy concerns the consumer chooses how long the third party is given access, with the maximum time being one year.

Continuous third party access to consumer meter data supports a wide range of services, for example checking solar system performance and immediately alerting the consumer when issues are detected.

Unfortunately these future consumer benefits fall outside the scope of the ACCC's current inquiry. The above recommendations focus on providing consumers with simple access to their meter data to provide consumers with both the tools and ability to accurately compare tariffs.

About Dr Martin Gill

Dr Martin Gill is an independent consultant specialising in the provision of consumer advice. This advice is based on a deep understanding of the Australian energy industry and strong analytical skills. As a consultant he has prepared advice for consumer advocates, government regulators, electricity distributors, electricity retailers, asset operators and equipment vendors.

Dr Gill is a metering expert. During the National Smart Metering Program he facilitated the development of a specification for Australian smart meters. Innovative metering products developed by his teams have been externally recognised with the Green Globe Award, NSW Government's Premier's Award and Best New Product by the Australian Electrical and Electronics Manufacturers Association.

He has a broad technical background having personally developed advanced communication modems, burglar alarms, electricity meters, high voltage fault monitors and power quality analysers.