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Feedback on Improving the Ability to Switch to a Better Offer Consultation Paper

Dear Andrew,

Energy Consumers Australia (ECA) thanks the Australian Energy Market Commission (AEMC) for your consultation on the Improving the Ability to Switch to a Better Offer Rule Change Request from the Energy and Climate Ministerial Council (ECMC). Loyalty penalties are a perverse outcome across the National Electricity Market (NEM), as detailed by recent ACCC inquiries. The ACCC's most recent report shows that only 19% of customers were on their retailer's best offer.[1]

We applaud the Council for requesting this rule change, which seeks to address a market inefficiency that exists in the NEM with regards to household and small business consumers. Specifically, for many consumers the perceived benefits of switching to a better offer are lower than the perceived costs of switching. The result is these consumers choose not to engage with the retail market. Retailers can and do punish consumers who remain with them over time through higher priced plans. The December 2024 ACCC report shows that consumers who remain with their retailers longer pay more for service across all NEM regions. This rule change is fundamentally focused on addressing this market inefficiency.

There are material benefits at stake for consumers from this rule change; the ACCC's December 2024 report only looked at 78% of all residential consumers in the NEM and still found that more than two million have been with their retailer for two or more years. "Customers on flat rate offers that are 2 or more years old have calculated annual prices on average 16.9% or $317 higher than those on newer offers." Moreover, "59% of flat rate customers on flat rate offers 2 or more years old were on offers priced at or above the default offers, which is substantially higher than the 10% of customers on newer offers.[2] The final rule change should clearly and obviously save consumers money, with more and more of them on lower priced offers. If it does not, then the rules have not been appropriately changed.

Our preferred approach to address this issue is to create a new obligation on retailers to place consumers on the best offer unless the consumer opts out of such an arrangement. On a regular basis (e.g., every quarter) retailers would be required to examine if a consumer could be on a better offer; if one exists, the retailers must communicate to the consumer that they will be placed on it. If the consumer takes no action, they will be placed on the best plan. Retailers should also be required to work with consumers to identify "default settings" for their accounts. The default setting would be for a flat price plan automatically set to enrol in the best offer when one is available. Consumers could choose to change these settings to express preferences to account for 100% green power or a desire to be on a time-variant price, etc. Regardless, the default position should be that all consumers are auto enrolled to switch to the best priced offer.

[1] ACCC, Inquiry into the National Electricity Market, December 2024 report.
[2] ACCC, Ibid.

Such an approach would save millions of consumers throughout the NEM hundreds of dollars every year. Moreover, we suspect automated switching would enable the overall retail market to operate more efficiently. Automatically placing consumers on a retailer's best offer would still enable competition to drive lower prices, while reducing churn. Churn costs retailers significantly, because they lose the revenue from exiting consumers, while paying additional costs to market to, acquire and on-board new consumers to replace the ones who have left. These marketing and acquisition costs are borne, over time, by all consumers without providing significant value. Automatically switching consumers to a retailer's best offer should reduce churn and therefore reduce costs throughout the retail market, saving all retail consumers money.

Further information on these key points are provided through our enclosed responses to the questions posed by the Consultation paper. If you have any questions, please contact me or Alice Gordon at alice.g@energyconsumersaustralia.com.au

Yours sincerely

Brian Spak
GM, Advocacy and Policy

Question 1: Do stakeholders agree that transaction costs are a barrier to customer switching?

Yes, transaction costs are a major barrier to a customer switching. It takes considerable time and effort to switch one's retail plan, and most people don't have the time or don't care. Indeed, our research shows that most consumers (54%) just want a simple and reliable electricity service at an affordable price.

We presented consumers with two types of relationships with the energy system and asked them to indicate their preference. One choice was a basic relationship: getting a good price for electricity; having reliable supply; and having good customer service. The other choice was an active relationship: having a choice of different tariffs; adjusting your use throughout the day to save; with various clean energy options to choose from (e.g., green power). Only 46% of consumers chose the option that indicated a choice of plans.[3]

From a consumer's perspective, the issue is whether the perceived or expected benefits are expected to outweigh the perceived or expected costs of switching. Energy is not a singularly important issue for most consumers, and the majority of consumers do not have a sophisticated understanding of the energy system or electricity pricing. Our research found that only 30% of consumers definitely know the unit of measurement for their home electricity bill; only 19% understand what a "retail tariff" is; and only 18% definitely know the type of retail tariff they are on.[4]

To the extent these consumers do think about an opportunity to save money on their electricity bill, they are uncertain about the practical benefits of investing 30 minutes or more of their time to examine different plans, particularly if they expect that most are roughly equivalent.

The issue identified – consumers not being on their retailer's best offer – is a material one. The ACCC's December inquiry notes that "customers on flat rate offers that are 2 or more years old have calculated annual prices on average 16.9% or $317 higher than those on newer offers."[5] The ACCC's report – which look at 79% of residential consumers across the NEM – found that there were 2.1 million consumers on offers 2 or more years old. In totality, these consumers are paying $665.7 million more than consumers on newer offers. Extracted out to 100% of household consumers, and the total amount of excess being paid is more than $840 million/year.

Question 2: Do stakeholders agree with the potential benefits identified in the proposal?

As noted above, we think the benefits of helping put consumers on best offers could be massive.

If new regulations are put in place to help most if not all consumers go on to their retailer's best offer, it is unlikely that the differences between retail plans would remain so extreme. It's logical to expect retailers to offer less generous initial offerings if they realize they will soon have to place all consumers on such offers. Regardless, even if the overall benefits are even a quarter of the $800 million/year identified above, they are still huge.

In addition to these direct benefits to consumers who remain with their retailers and don't switch, we suspect automating best offers improves the overall efficiency of the retail market, saving retailers and all

[3] Energy Consumers Australia, Consumer Energy Report Card: Consumer knowledge of electricity pricing and responsiveness to price signals, January 2025.
[4] ECA, Ibid.
[5] ACCC, Ibid

consumers. Automatically placing consumers on a retailer's best offer still enables competition to drive lower prices, while reducing churn. Churn costs retailers significantly, because they lose the revenue from exiting consumers, while paying additional costs to market to, acquire and on-board new consumers to replace the ones who have left. These marketing and acquisition costs are borne, over time, by all consumers without providing significant value. Automatically switching consumers to a retailer's best offer should reduce churn and therefore reduce costs throughout the retail market, saving all retail consumers money.

While more difficult to measure, one would also expect some retention and satisfaction benefits from reforms that help consumers go onto the best offer. Consumers overall opinion of and satisfaction with their retailers are likely to skyrocket if they see they are regularly being placed on a more affordable plan automatically. They may even begin to think that the energy system is not so systematically engineered against their interests.

Question 3: What are the costs associated with providing a streamlined switching process?

The costs associated with a streamlined switching process would be minor compared to the benefits. The cost of identifying a least cost or best plan for each consumers has already been incurred due to the Better Billing Guidelines. Additional costs would relate to minor software updates to automate switching and to communicate directly to consumers.

Question 4: What are stakeholders' views on the best way to implement an improved approach to switching?

Our preferred approach to address this issue is to create a new obligation on retailers to place consumers on the best offer unless the consumer opts out of such an arrangement. On a regular basis (e.g., every quarter) retailers would be required to examine if a consumer could be on a better offer; if one exists, the retailers must communicate to the consumer that they will be placed on it. If the consumer takes no action, they will be placed on the best plan.

Retailers should also be required to work with consumers to identify "default settings" for their accounts. The default setting would be for a flat price plan automatically set to enrol in the best offer when one is available. Consumers could choose to change these settings to express preferences to account for 100% green power, a desire to be on a time-variant price, the fact that they have solar and require a feed-in-tariff, etc. Regardless, the default position should be that all consumers are auto enrolled to switch to the best priced offer.

As consumers receive smart meters, the ability to identify various best or better offers becomes a possibility for retailers. While one could argue that this creates discretion for retailers to choose what is the "best offer," retailers should have to select the plan, given the consumer's default settings, that is most likely to result in the lowest cost bill.

There will be the need for monitoring and enforcement of such a scheme, and we hope that the Directions paper or further steps in this rule change process will outline potential approaches to monitoring and enforcement to ensure retailers are indeed making sure their consumers are not overpaying.

Question 5: Do stakeholders consider there is merit to the proposed alternative?

Yes, there is merit to require retailers to provide a streamlined process for switching to a similar option. Our answer to Question 4 outlines a process of identifying a consumer's "default settings," which we expect could enable such an approach with relatively little difficulty for consumers and retailers.

Question 6: Do you agree with the proposed assessment criteria?

Yes, we agree with the four assessment criteria. We would, however, suggest prioritizing them. Notably, if you were to prioritize "outcomes for consumers" as the most critical criteria, one would expect you would meet the three others (principles of market efficiency; implementation considerations; and principles of good regulatory practice).

While "implementation considerations" is a valid criterion for judging *how* to change the rule, it should not be a material criterion for judging *whether* to change the rule. Retailers already have the ability to identify the best offer for their customers, and they have the ability to switch customers to different offers. It is difficult to imagine how any new rule that requires retailers to simply combine those two existing capabilities could be overly challenging or expensive to implement, particularly in light of the potential savings available.