

Smart Demand workshop – BSL and Monash forum (7 April 2014)

Gerard Brody – presentation notes

- Thanks to Damien and Gill for the invitation.
- For those that aren't aware of Consumer Action, we provide free legal advice and representation to vulnerable and disadvantaged consumers across Victoria, and we're the largest specialist consumer legal practice in Australia. We also operate MoneyHelp, a not-for-profit financial counselling service that provides free, confidential and independent financial advice to Victorians experiencing financial difficulty.
- Consumer Action also undertakes consumer campaigns, policy and research, and pursues a law reform agenda across a range of important consumer issues, including on energy and essential services issues.
- Some of you who reviewed the agenda would have seen that our specialist energy policy officer Janine Rayner was due to speak here – but given the delay with the forum, we've lost her as she's gone off to have a baby. So you've got me. [introduce Claire]
- I'm going to preview some findings from a forthcoming research report we are working on. It is a future looking report designed to identify consumer issues with more high-tech energy service lifestyles. It includes surveys of consumers, plus some consumer analysis drawing on behavioural economics, psychology and consumer protection policy
- Acknowledge there is real consumer benefit possible from smart demand – but it will need to be managed carefully so that consumers have confidence, and there will be widespread uptake to produce benefits.
- I'll start with some survey results – the survey was conducted with members of the Alternative Technology Association. So it's not a representative sample, but we wanted to get views of those that perhaps had some understanding of potential energy service offerings.
- The first slide looks at a couple of the survey responses. Some things to comment on: quite a variety of views, but overall respondents more interested in DLC for air con compared to hot water systems.
- Moreover, survey respondents were far less interested in DLC products than they were in online energy portals and information devices. Another theme was that survey respondents did not like an energy company having control over their appliances—seemed to be a preference for taking action and reducing costs themselves. Note, however, that there can be significant differences in consumers reported preferences, and actual behaviour.

- So, a couple of points. First, benefits are going to be dependent on take up:
 - All the cost-benefit analysis we've reviewed are "in theory only" – positive impact in terms of overall electricity prices (due to deferred network augmentation and/or lower retail exposure to high pool prices) is conditional on widespread uptake, which is not guaranteed.
- Second, these products won't be for everyone – many won't have the appliances in question and even those that do, might not be desirable because of infrequent use – again limiting widespread uptake.
- Looking at industry submissions to various consultations on smart meters and smart grids, as well as looking at current energy retailer practices, risks arising for the industry will be dealt with by imposing long-term lock-in contracts, and having limited ability for customers to over-ride.
 - Survey results suggest not having customer over-ride is unlikely to be popular, and will reduce uptake
- Consumer research shows that when contract choices are varied in terms of (i) service can be applied to many appliances; (ii) variance in incentive payments; (iii) different contract lengths – creates "choice overload"
 - Faced with many options, consumers walk away without making a decision (jam experiment) – less uptake
 - There is a need for offers to be "simple" to engage consumers and ensure consumer uptake
- Because households haven't experienced many of these services before, there can be real difficulties in them assessing the value of "loss in amenity" upfront: it's hard to tell whether the reduced access to air con or whatever will make a significant difference?
 - Given risk of consumer making a mistake, long-term contracts with early termination fees are unlikely to benefit consumers.
 - There is a need for flexibility in contracts to gain consumer acceptance: what if someone wants to install an air-con with lower capacity, but find themselves tied to a DLC that would penalise that behaviour?
- Prospect of product bundling is likely to make things more difficult for consumers.
 - attractive to retailers, creates a single product. Eg, In ACT, ActewAGL already bundles and if customers want a discount on electricity then they must accept as part of bundled land line telephone contract. Also solar leasing is a bundled credit/energy arrangement – very difficult to determine value; would it be better to buy outright using other credit (i.e. redraw mortgage)
 - anti-competitive: what if you find one aspect of the bundle is no longer a good deal, but you're tied in?

- we would suggest that the value or incentive attached to a DLC component of a contract must be explicit. A retailer offering “additional 8% of your usage charges if you sign up for a DLC contract” is example where DLC component is not explicit.
 - is it the DLC component, is it prompt payment?
 - if retailer thinks customer won’t make prompt payment, are they effectively coaxing the customer to give up amenity for free?
 - Is it just another product that negatively affects lower income households, because less likely they can take advantage of the discount?

- Conclude – businesses argue that regulation inhibits business innovation and offering new products that might benefit consumers. However, the risks to consumers without regulation and consumer protection are clear. There needs to be strong consumer protections which can provide a platform for innovation that benefits consumers and the market.