

FIXING UP FIXED TERM CONTRACTS FOR ENERGY CUSTOMERS

WHAT ARE CONSUMERS SAYING?

What is wrong with fixed term contracts in the energy market?

The Consumer Utilities Advocacy Centre (CUAC) has been concerned with the current practice in the energy retail industry of offering consumers contracts of a fixed duration that allow the retailer to increase their prices and to impose an exit fee if the consumer wishes to leave the contract. Under such arrangements, consumer gains from switching supplier can be quickly eroded as the supplier increases prices and the consumer is penalised if they then wish to change supplier once more. Such a system does not support the function of the competitive market which should allow consumers to freely select the offer that best suits their interests. In the case of consumers who have a preference for price stability and certainty, the market should support them to enter contracts that provide genuine certainty rather than the current arrangements that provide virtually no benefit for consumers with this preference.



CUAC's proposal to reform the current arrangements is to introduce regulation to ensure that fixed term contracts provide a fixed price for the entire duration of the contract. This would promote a more competitive and flexible market that genuinely meets the diverse needs of consumers. While an alternative approach that has been adopted in other jurisdictions is to ban exit fees, CUAC's proposal better provides for consumers who have a preference for genuine price certainty. As part of its effort to advance the proposed reform, CUAC has conducted a survey of Victorian energy consumers to gauge their views on the current operation of fixed term contracts in the energy industry. The survey of

500 Victorians responsible for the electricity account in their household provides some valuable insight into the issue and the need for reform.

The survey of Victorian consumers

CUAC conducted a survey of 507 Victorians who were the main decision makers for the choice of electricity provider in their household. CUAC contracted a commercial provider, Lightspeed Research, to program the survey and administer it online. The online panel used by Lightspeed is both recruited online and offline and the survey administration is closely monitored to eliminate biases and suspect survey responses. Survey respondents were asked to complete the survey based on the demographic characteristics of age, gender and whether or not they live in a metropolitan or non-metropolitan area. Survey respondents were compensated through an incentive program that provides redeemable points based on the length of the surveys that they complete. The CUAC survey comprised 3 sections and 16 multiple choice questions and an open question for respondents to provide further clarifying comment. The first section of the survey asked demographic questions, the second section asked about the respondents' current electricity arrangements and the third section asked for their experience and opinions on fixed term contracts in energy. The median response time for the survey was under three minutes. The broad demographic characteristics of our survey respondents are highlighted in the adjacent table. Full details of the survey methodology can be provided on request.

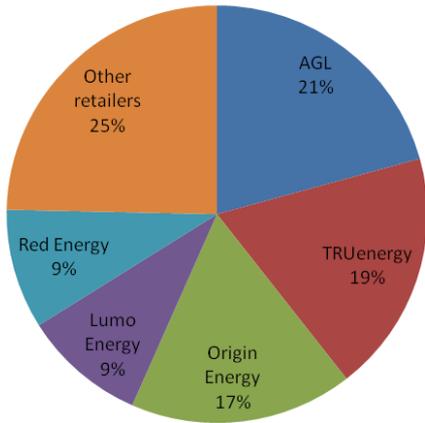
Survey respondents	
Age	18-24 = 31%; 35-54 = 36%; 55-65 = 33%
Gender	Female = 51%; Male = 49%
Region	Metropolitan = 70%; Non-metropolitan = 30%

The survey results

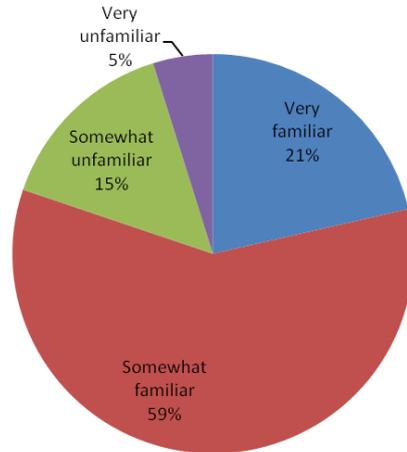
While the survey results indicate that Victorian consumers feel that they are familiar with their energy offers, they also highlight very significant concerns over the current arrangements for fixed term contracts. For example respondents were asked: "In your opinion, is it fair or unfair that energy companies can increase the price a customer is charged during a fixed term contract?". 86 per cent of survey respondents indicated that they thought that this was unfair while only 8 per cent of survey respondents thought this was fair. Given this, the level of support for a change to the regulations came as little surprise. When asked whether they would "support a change to Victorian regulations to prevent energy companies from changing the price a customer is charged during a fixed term contract", more than 93 per cent of respondents indicated that they would support such a reform. The following page highlights some of the key survey findings graphically.

**FIXING UP FIXED TERM CONTRACTS FOR ENERGY CUSTOMERS
WHAT ARE CONSUMERS SAYING?**

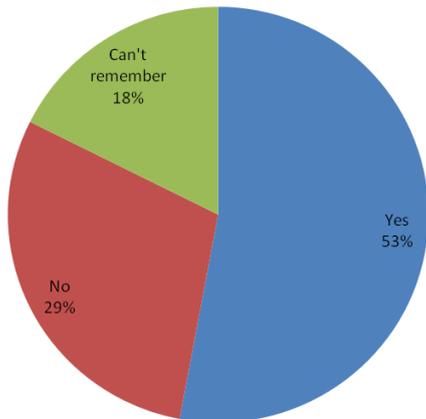
Which company do you buy electricity from at the moment?



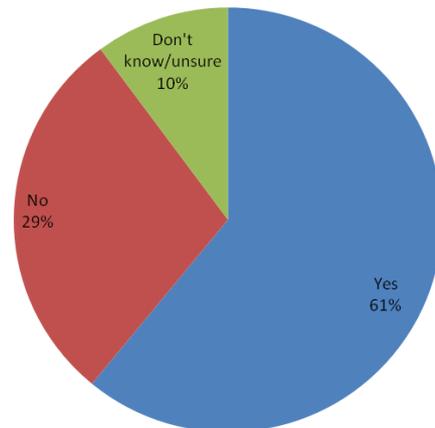
When you entered into your current contract, how familiar were you with its detailed terms and conditions?



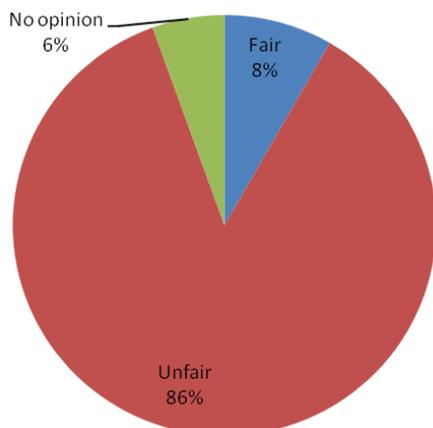
In Victoria, the rules on fixed term electricity contracts allow the company to increase the price of electricity whenever they like, provided that they have said they may do this in the detail of the contract. Were you aware of this when you entered your current fixed term contract?



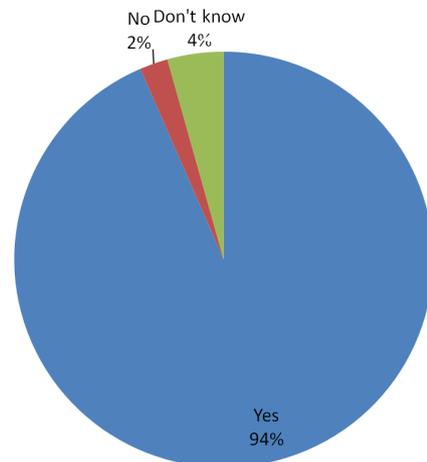
Since your current contract started, has your electricity company increased the price you pay for electricity?



In your opinion, is it fair or unfair that energy companies can increase the price a customer is charged during a fixed term contract?



Would you support a change to Victorian regulations to prevent energy companies from changing the price a customer is charged during a fixed term contract?



Analysis of survey results

An overwhelming majority of respondents to the survey saw the current arrangements as unfair (86 per cent) and supported a change to the regulation to remove the ability of retailers to vary prices during a fixed term contract (94 per cent).

These consumer perceptions align with broader policy and regulatory trends whereby governments introduce competition enhancing reforms that allow consumers to seek out the best prices at any point in time. For example, the Commonwealth Government recently banned the imposition of exit fees in mortgages and New South Wales and Queensland have introduced restrictions on the imposition of exit fees in energy retail contracts.

It is also interesting to note that these consumer perceptions of fairness and the need for reform came from respondents who reported themselves as being reasonably knowledgeable about their electricity arrangements. In fact, 80 per cent of respondents reported that they were familiar with the terms and conditions of their electricity contract and over 50 per cent of respondents indicated that they knew that the electricity retailer could increase prices when they entered their contract. This is a pleasing result that suggests that consumers are becoming better at navigating the complex retail energy market. However, it also suggests that while consumers are aware of current regulatory arrangements and the impact on the terms of their contract, they were unhappy with the situation.

This was reflected in responses received to the last survey question which allowed respondents to provide comments on the contents of the survey. Of the 507 respondents 148 chose to provide a written comment, which shows substantial interest in the issue of energy. It is noteworthy that many of these comments concerned consumer dissatisfaction with door to door sales, rising energy prices and energy privatisation and deregulation. While these comments reflect displeasure with current energy market regulatory arrangements and practice they are not directly relevant to the issue at hand. However, a number of comments focussed on the issue of fixed term contracts. For example:

If an electricity company wants to change the price during the term of the contract, then there should be an option for the customer to terminate the contract.

The whole process was deceitful from beginning to end, you were offered a lower price and then after the cooling off period the prices increased to greater [sic] than your previous supplier.

What is the point of a so-called fixed-price contract if the energy company can break it on a whim?

If signing up to a fixed term contract for a specific period of time it should be just that "Fixed Term". It is misleading for companies to use language to 'suck' people in and then change it.

Pensioners have enough trouble keeping up with rising prices, without unexpected price rises in vital things like electricity.

It is ridiculous you have to pay an exit fee to switch providers if a better offer comes up making it [not] worthwhile to change providers.

The survey results demonstrate that there are legitimate consumer concerns over the issue of increased prices during fixed term contracts that could easily be addressed through a very minor change to retail market regulations. When the survey results are considered along with policy and regulatory trends in other industries and the high likelihood that such a reform would improve competitive outcomes for consumers, the case for reform looks particularly strong. CUAC has also produced another document to support the proposed reforms entitled *Fixing up fixed term contracts for energy customers: Your questions answered*. This document goes into further detail about the implications of enacting the proposed reforms.

Conclusions

Retail market deregulation was intended to deliver a competitive market that would result in product innovation, greater choice and more efficient prices for consumers. Current retail market practice whereby consumers are offered long contracts with exit fees and little certainty about the ongoing price does not deliver against these objectives. Further improvement is necessary, therefore, to enhance market competitiveness and the outcomes for consumers. A minor change in Victorian regulation to ensure fixed term contracts provide certainty to consumers is appropriate. Not only does this course of action make sense from an economic and competition enhancing perspective it also aligns with community perceptions of fairness as clearly demonstrated by the survey results.

If you require further information about the survey or CUAC's proposed reform please contact David Stanford at CUAC on 03 96397 7600 or at david.stanford@cuac.org.au.