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18 June 2021

Ms Kate Symons
Chairperson
Essential Services Commission
Level 8, 570 Bourke Street
Melbourne VIC 3000

Submitted electronically

Dear Ms Symons,

RE: Draft Vulnerability Strategy: Getting to fair: breaking down the barriers to essential services

Red Energy and Lumo Energy (Red and Lumo) welcome the opportunity to make a submission to the Essential Services Commission's (the Commission's) consultation on a draft vulnerability strategy (the draft strategy). Red and Lumo support measures which will practically improve engagement and outcomes for vulnerable consumers.

The Commission must examine programs to enhance support for vulnerable consumers using an evidence based approach. The outcomes of potential initiatives must be proportional, and the costs of implementing the changes not exceeding the benefits.

It is also crucial that any changes examine not only the potential support that can be provided by energy retailers but also call out where existing Government support programs can be strengthened (including the Utility Relief Grant Scheme, the Power Saving Bonus and existing concession schemes). The concessions framework delivers important, measurable and financial support to vulnerable Victorians, and the Commission should work with the Government to ensure that social policy outcomes are delivered meaningfully. Further, the strategy should also take a holistic approach to vulnerability and consider broader socio-economic issues that must be addressed by Government intervention and supplemented by community support programs.

Payment difficulties framework

Red and Lumo support working with the Commission in a consultative data driven review of the Payment Difficulties Framework (PDF) to ensure that the framework remains fit for purpose and is supporting the reduction in debts while increasing engagement from consumers.

In its final decision on the PDF, the Commission specifically noted that the framework was "designed to ensure that customers receive timely assistance, to help them take effective action

to avoid or repay arrears”¹ and would “enable a customer who is in arrears to pay for their on-going energy use and repay their arrears in a manageable way.”² However, Red and Lumo are concerned that the PDF as it is currently designed is only increasing debt levels for customers with many of them simply delaying proper engagement while their energy debt increases. We encourage the Commission to specifically look at levels of customer debt since the introduction of the PDF and consider if the PDF is delivering on these key objectives.

Furthermore, the PDF was designed to accommodate all economic conditions and create a template for retailers to provide support for consumers; however the covid pandemic has shown that the Commission does not believe this is the case. Instead of allowing retailers to provide support through the existing framework, the Commission imposed a range of new obligations on retailers including restrictions on disconnections and collection activity. This intervention has provided an evidence base of consumer behaviour and outcomes when the last resort of disconnection is not there and the amount of engagement that can be expected. The PDF promotes engagement by both retailers and their customers, to ensure that the provision of support to those experiencing payment difficulties is tailored and should be able to apply in all economic conditions.

The review and potential redesign of the PDF must be done in a collaborative manner between the Commission and retailers, with involvement of the community sector. We encourage the Commission to review the PDF settings and communications between retailers and their customers with a view to increase engagement. This will ensure that the PDF is balanced between the protection of vulnerable consumers and engagement with retailers to pay for consumption and repay any debts.

Potential changes

Over recent years there have been extensive regulatory changes initiated by the Commission which have attempted to address a number of issues raised in the Thwaites Review. These extensive changes were imposed on the basis that there were significant benefits to consumers. Red and Lumo consider that both the PDF and Thwaites Review warrant a post-implementation review, to ensure that those benefits have been clearly demonstrated, and outweigh the associated costs of implementing the regulatory change.

In relation to the vulnerability strategy, the Commission must clearly identify any problems it is attempting to address and must furthermore use an evidence based approach to ensure that any regulatory changes are proportionate in response. Any regulatory changes which increase bad and doubtful debt or incur substantial cost to implement will also inevitably need to be accounted for in the annual calculation of the Victorian Default Offer (VDO). The Commission must therefore avoid implementing unnecessary changes or any disproportionate initiatives which only risk creating unintended outcomes while unnecessarily increasing costs for retailers and consumers.

¹ Essential Services Commission, Payment Difficulty Framework, Final Decision, October 2017, p(x)

² Ibid, p(xi)

One option available to the Commission is to consider working with industry on the development of a best practice guide, rather than a complete rewrite of the regulatory requirements. In 2019, the Commission was able to develop a better practice guide in responding to family violence which was able to provide “practical advice and in-depth case studies from major organisations in industries including banking, telecommunications, sport, postal services, energy and water.”³ Since then, the Australian Energy Council has also worked with consumer groups to develop the best practice energy retail customer assistance guideline. Both of these documents provide an ongoing tool for energy retailers and other industries to share information on best practices and for the successful adoption of innovative changes which can benefit consumers and retailers.

The development of non-enforceable guidelines rather than a specific regulatory framework not only provides important resources for retailers to examine best practices used by other retailers and industries but also allows for the ongoing evolution of documents as new information and processes come to light.

About Red and Lumo

We are 100% Australian owned subsidiaries of Snowy Hydro Limited. Collectively, we retail gas and electricity in Victoria, New South Wales, Queensland, South Australia and in the ACT to over 1 million customers.

Red and Lumo thank the Commission for the opportunity to respond to the draft strategy. Should you wish to discuss aspects or have any further enquiries regarding this submission, please call Stephen White, Regulatory Manager on [REDACTED].

Yours sincerely

A handwritten signature in black ink, appearing to read "Ramy Soussou".

Ramy Soussou
General Manager Regulatory Affairs & Stakeholder Relations
Red Energy Pty Ltd
Lumo Energy (Australia) Pty Ltd

³ <https://www.esc.vic.gov.au/better-practice-responding-family-violence>