



Payment Difficulties Framework

Public Forum

1 June 2017

C/17/9440



Welcome and Introduction

Dr Ron Ben-David

Chairperson

Welcome

Agenda

- 6:30pm Overview & background
- 6:45pm Our proposal
- 7:00pm Our analysis of the costs and benefits
- 7:15pm Discussion
- 8:30pm Close

Role of the Essential Services Commission

- Victoria's independent economic regulator of the electricity, gas, water and sewerage, ports, taxis and rail freight industries. The Commission also has regulatory responsibilities for local government and the Victorian Energy Efficiency Target (VEET)
- Promote the long term interests of Victorian consumers
- Regulates retail energy sector
- We are required by law to promote protections for customers, including those facing payment difficulty
- We make and enforces a range of codes and guidelines, including those for assisting customers in payment difficulty

Hardship inquiry

- In 2013-14, Victoria witnessed a spike in energy disconnections
- Were disconnections occurring as a last resort? Were the policies for supporting customers working effectively?

Hardship inquiry

- Inquiry was completed in February last year
- It found that customers were not getting the assistance they need:
 - customer assistance was varied and unpredictable
 - assistance was often provided too late to be effective
 - hardship programs were not effective at reducing customer debt
 - the existing rules were unenforceable because they rely on retailer discretion

Duration of payment plans

DURATION OF PAYMENT PLANS FOR CUSTOMERS IN HARDSHIP PROGRAMS

Months

Retailer	Average arrears	0-3	3-6	6-9	9-12	12-15	15-18	18-21	21-24	>24	No fixed duration
Retailer 1	\$1734	100%									
Retailer 2	\$942				90%	3%	3%	2%	1%	2%	
Retailer 3	\$670	69%			1%						30%
Retailer 4	\$268		2%		7%		3%		88%		
Retailer 5	\$737						21%		40%		39%
Retailer 6	\$1218	N/A									
Retailer 7	\$1070	17%	30%	3%							50%
Retailer 8	\$1148	32%	23%	19%	7%	4%	3%	2%	3%	7%	
Retailer 9	\$1211	49%	0.5%	0.1%	0.1%	0.2%					50%

Source: Essential Services Commission 2015, *Supporting Customers, Avoiding Labels. Energy Hardship Inquiry Draft Report*, September.

Payment plans and arrears

COMPARISON OF ARREARS ON ENTRY TO A PAYMENT PLAN AND CURRENT ARREARS

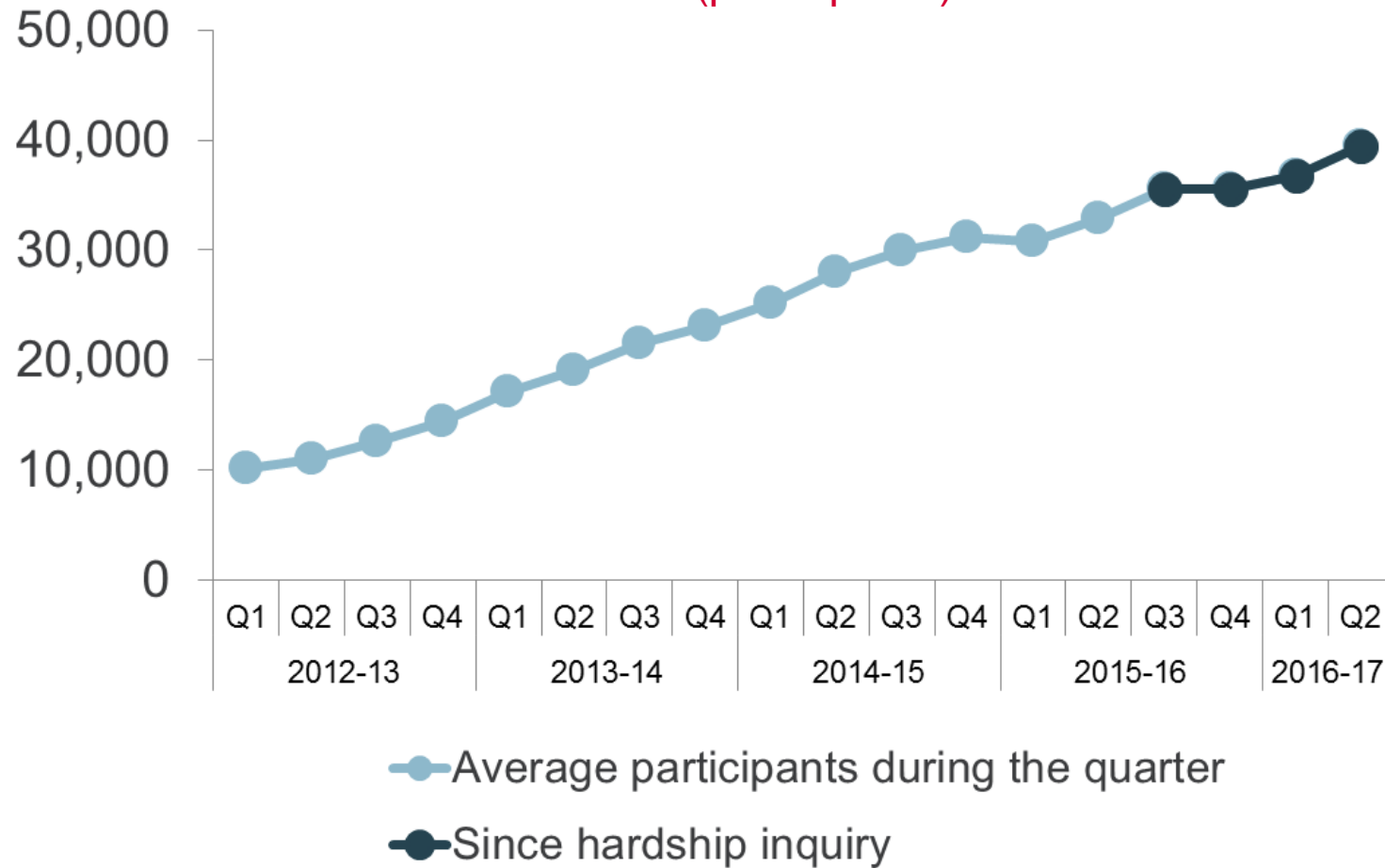
Average \$

	Payment plans outside Hardship Programs			Hardship Programs		
	Arrears on entry	Current arrears	Change	Arrears on entry	Current arrears	Change
Retailer 1				1100	1734	634
Retailer 2	1002	966	-36	915	942	27
Retailer 3	331	294	-36	642	670	27
Retailer 4	348	156	-191	393	268	-125
Retailer 5	541	468	-73	849	737	-112
Retailer 6				1036	1218	182
Retailer 7	1787	1512	-275	967	1070	103
Retailer 8	1053	425	-628	1239	1148	-91
Retailer 9	687	411	-277	1207	1211	4
All 9 retailers	620	414	-206	947	1074	127

Source: Essential Services Commission 2015, *Supporting Customers, Avoiding Labels. Energy Hardship Inquiry Draft Report*, September.

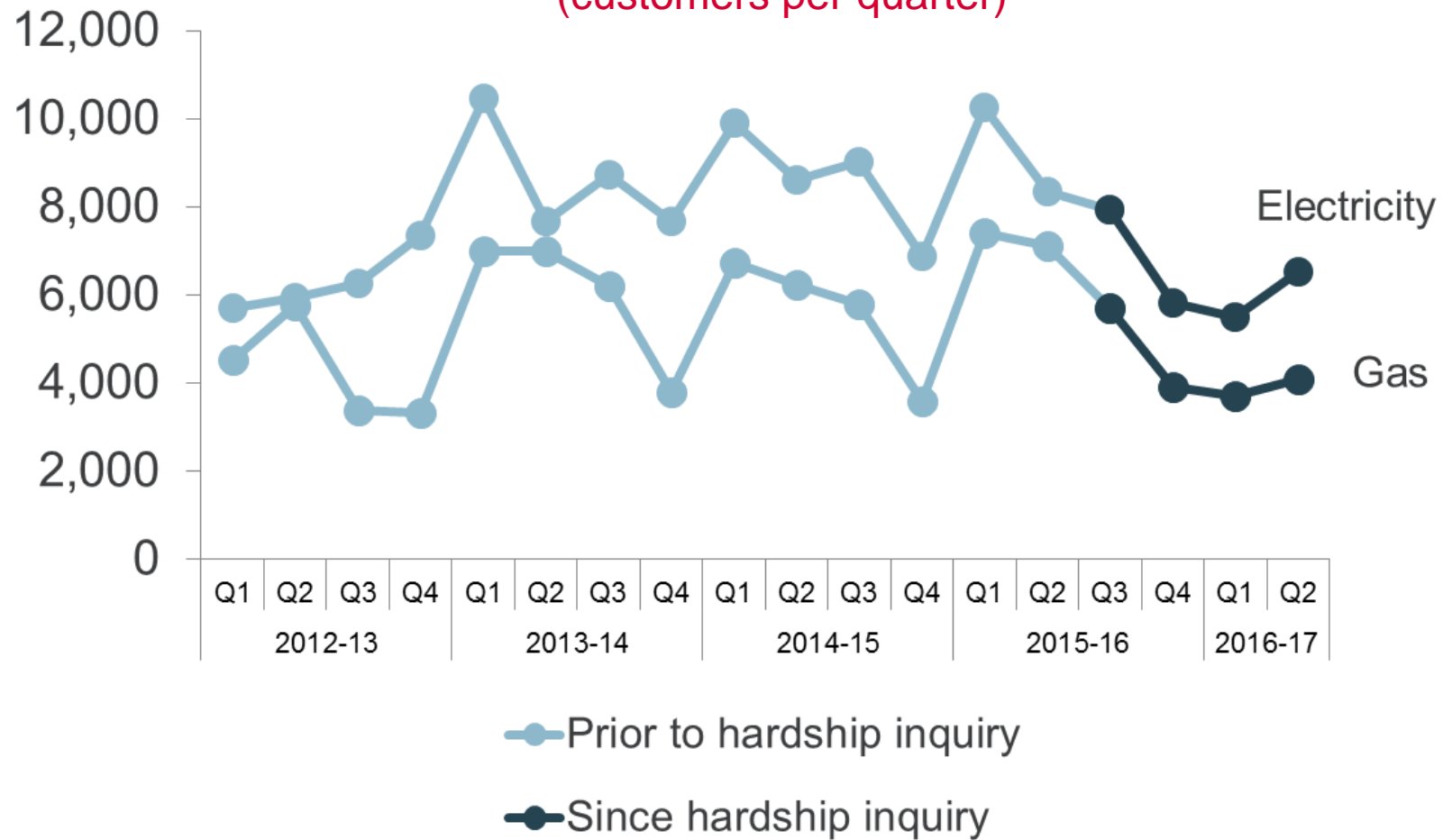
Hardship inquiry

PARTICIPATION IN HARDSHIP PROGRAMS (participants)



Hardship inquiry

DISCONNECTIONS FOR NON-PAYMENT (customers per quarter)



Our proposal

David Young

Director, Energy



Our proposal

Purpose

to set out the **minimum standards of assistance** to which customers are entitled, so that disconnection of a residential customer **is a measure of last resort.**

Our proposal

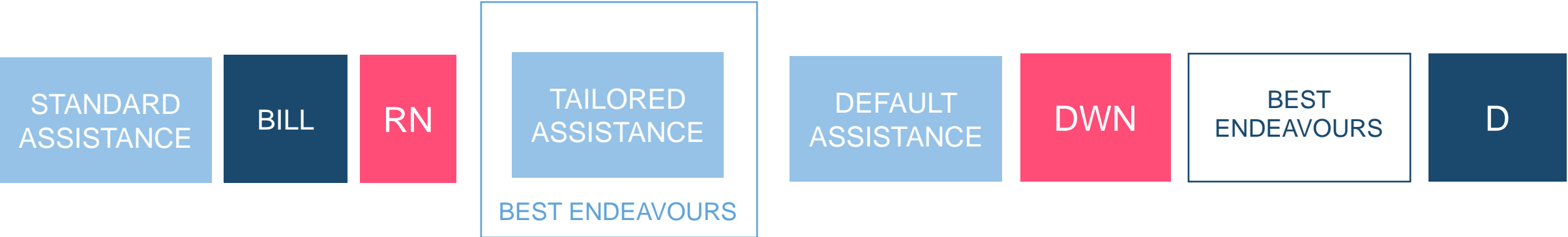
Key insights that have guided the design

- early action
- customer-retailer engagement
- flexibility (retailers to innovate, customers to have their circumstances accounted for)
- connecting customers to support services
- **customer entitlements** (consistent minimum)

EXISTING COLLECTION CYCLE



PROPOSED NEW FRAMEWORK



Retailer must offer 3 out of the following 5 forms of assistance to help customers avoid falling into arrears

1. Pay an equal amount over a specific period
2. Pay once a month or once every fortnight rather than every quarter
3. Defer paying one bill for a specified period (at least once every 12 months)
4. Pay for energy use in advance, rather than in arrears
5. Pay for anticipated arrears

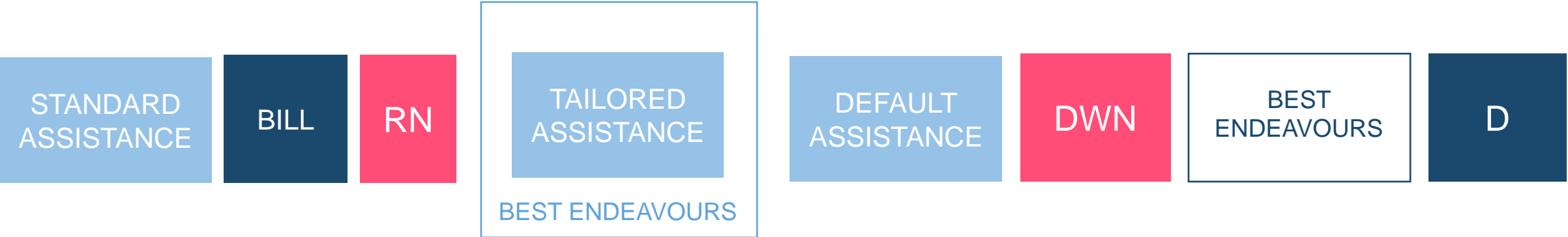


STANDARD
ASSISTANCE

EXISTING COLLECTION CYCLE



PROPOSED NEW FRAMEWORK



Retailer and customer work together to establish a repayment arrangement that will help the customer pay off their arrears within two years.

If the customer cannot afford their ongoing energy use, the repayment of arrears can be put on hold (6 months) while the retailer helps the customer reduce their energy costs.



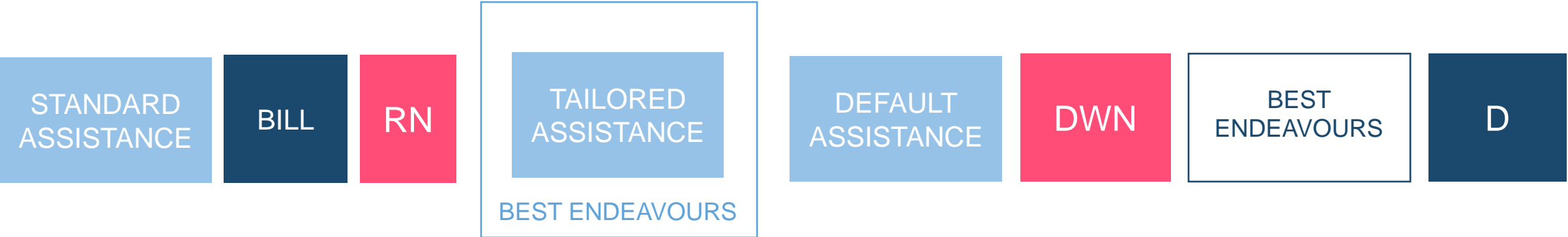
TAILORED
ASSISTANCE

BEST ENDEAVOURS

EXISTING COLLECTION CYCLE



PROPOSED NEW FRAMEWORK



If the customer doesn't respond, the retailer must offer a written repayment arrangement to allow a customer to repay their arrears over a specified period.

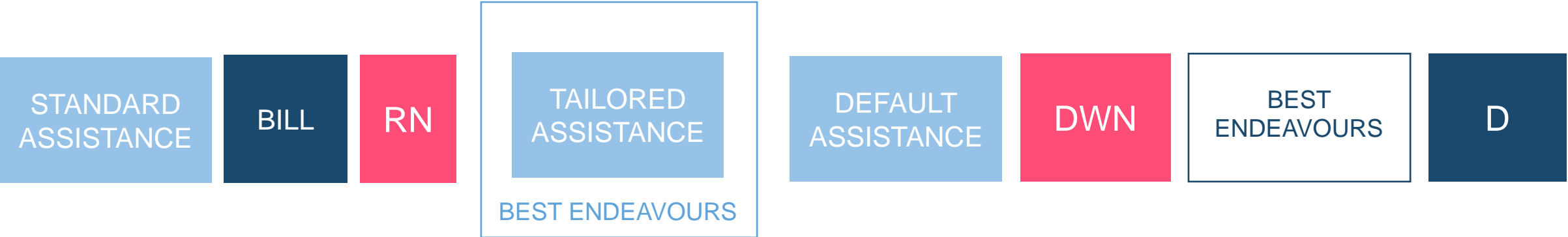
This option exists to help people who, for whatever reason, do not engage with their retailer.

DEFAULT
ASSISTANCE

EXISTING COLLECTION CYCLE



PROPOSED NEW FRAMEWORK



Disconnection can only occur if the retailer has made efforts to offer the customer all forms of assistance to which they are entitled (and has records to demonstrate that)



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Analysis of costs and benefits

James Clinch

Manager Regulatory Reform (Energy)



Purpose

Modern policy making, law making and regulatory design is subject to various processes and checks.

These checks ensure agencies approach change in a systematic and methodical way.

This includes clearly defining the problem, the goal and the assessment of possible solutions so that the most cost effective solution is found.

Purpose

The *Essential Services Commission Act 2001* applies these checks to the Commission.

When making decisions, the Commission must consider the costs and benefits to energy companies and customers (including vulnerable customers).

It is also important to publicly consult on the analysis and data that underpins the costs and benefits.

Framing the exercise

The destination:

Customers anticipating or in payment difficulty can obtain equitable access to predictable, consistent and effective assistance

Framing the exercise

Problem definition:

Customers anticipating or in payment difficulty have not been gaining equitable access to predictable, consistent and effective assistance, therefore, disconnection may not be occurring as a measure of last resort

Options analysis

A lengthy period of considering and testing potential options with stakeholders.

Approach

The Commission appointed two consultant firms to undertake independent analysis on the impacts of the proposed framework

Important principles

- Impacts can be quantitative or 'intangible' (qualitative)
- Some impacts that are a benefit to a customer may be a cost to a energy company
- Draw upon guidance from relevant agencies (such as the Treasury)

Analysis of costs and benefits helps guide the design process

Approach

FRAMEWORK DEVELOPMENT

PREPARATION OF DRAFT DECISION

CONSULTATION PERIOD

PREPARATION OF FINAL DECISION

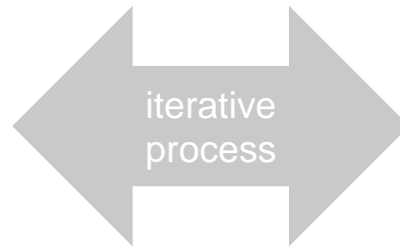
IMPACT ANALYSIS

METHODOLOGY DEVELOPMENT

PRELIMINARY ANALYSIS

INFORMATION REQUESTED FROM STAKEHOLDERS

FINALISE ANALYSIS



Preliminary results - Customers

PRELIMINARY IDENTIFICATION OF CUSTOMER IMPACTS

By category of impact

Impact	Treatment in analysis
Changes to financial position of customers	
Greater awareness of government or non-government assistance available	Qualitative
Potential reduction in energy costs through energy efficiency measures	Quantitative
Potential reduction in energy costs through switching tariff	Quantitative
More assistance sooner in any payment difficulty situation	Qualitative
Changes to participation costs for customers	Quantitative
Changes to customer credit ratings	Qualitative
General community impacts	
Changes in customer attitudes to the energy industry (including retailers)	Qualitative
Changes in customer well-being	Qualitative

Source: KPMG

Preliminary results - Customers

Issues the Commission must consider

- Some of these quantitative benefits can cause a cost to energy companies
- Costs imposed on energy companies can ultimately add to costs to customers
- Some impacts are difficult or impossible to 'cost' – what is the 'cost' of a disconnection?

PRELIMINARY ESTIMATES OF CUSTOMER IMPACTS

Net Present Value (NPV) (\$2017)

Impact	Low	Base case	High
Changes to participation costs for customers	\$2.5m	\$3.9m	\$6.3m
Potential reduction in energy costs through switching tariff	\$2.1m	\$3.7m	\$5.5m
Potential reduction in energy costs through energy efficiency measures	\$2.8m	\$5.5m	\$8.3m

Source: KPMG

Preliminary results – Energy companies

Categories of impact

- upfront system costs
- upfront business process costs,
- changes to ongoing operating costs

Preliminary results – Energy companies

NET PRESENT VALUE OF ESTIMATED TOTAL COSTS TO RETAILERS ASSOCIATED WITH THE PROPOSED PAYMENT DIFFICULTY FRAMEWORK

By framework element, \$2017 (NPV)

Level of assistance	Cost / Benefit	NPV of costs incurred by all retailers (\$2017)
Set up, miscellaneous and consequential amendments	Cost	\$8.2m
Standard assistance	Cost	\$16.5m
Tailored assistance, arrears being repaid	Cost	\$60.8m
Tailored assistance, arrears on hold	Cost	\$59.3m
Default assistance	Cost	\$2.5m
Avoided costs	Benefit	-\$144.3m
Reduced finance costs (base case)	Benefit	-\$5.5m
TOTAL RETAILER NET COST (NPV)	Benefit	-\$2.5m

Source: ACIL Allen with system costs provided by TBS Consulting. Numbers may not total due to rounding.

Next steps

The Commission is now awaiting feedback from stakeholders and the public on this analysis

We are also conducting workshops with energy companies and with community support organisations

Submissions close on 16 June and can be made by email or post

Submissions

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Melbourne VIC 3000

OR

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Questions...

