

1 May 2015

Essential Services Commission
Level 37
2 Lonsdale Street
Melbourne Victoria 3000

ATT: Ms Celine Grant

Submitted via Email: energyhardshipreview@esc.vic.gov.au

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Dear Ms Grant,

Re: Inquiry into the Financial Hardship Arrangements of Energy Retailers – Our Approach

Red Energy is a 100% Australian owned and operated subsidiary of Snowy Hydro Ltd. Red Energy is one of the largest second tier retailers, currently retailing electricity and gas in Victoria, and electricity in NSW and South Australia.

We welcome the opportunity to provide this submission on the Inquiry into financial hardship arrangements of energy retailers discussed in the approach paper (the Approach Paper) to the Essential Services Commission of Victoria (the Commission).

Introduction

Red Energy offers a comprehensive hardship program to its customers, the Customer Care program. The program aims to assist customers experiencing both short and long term hardship, but comprises just one of the strategies we use to assist our customers experiencing financial difficulties. Red Energy strongly believes that hardship assistance must be sustainable in the long term, and utilise a number of methods across all levels of our contact centre to achieve this sustainability. Affordable payment options are offered by all staff, to any customer who indicates a difficulty to pay their bill by the due date, not just those identified as experiencing financial hardship.

A key factor to the success of our financial hardship assistance is the continuing, active engagement of customers throughout the process. A customer who works with us to reduce their consumption to a level they can afford, and notifies us should they encounter any difficulties with meeting their agreed payment arrangement, is significantly more likely to succeed in the long term than a customer who does not remain in contact with us.

Red Energy is very supportive of the Commission undertaking this inquiry, and believes it to be timely. This submission will focus on the regulatory framework that supports financial hardship arrangements in Victoria, and will consider options to reform this framework based on our experience in providing hardship assistance to energy consumers for more than 10 years.

While this submission will not go into detail regarding the role of government to assist customers experiencing difficulty, Red Energy recommends the concession framework is reviewed to ensure that appropriate support continues to be provided to customers most in need. As an example, the Utility Relief Grant when introduced was a \$500 payment per utility, payable no more frequently than every two years. Since this introduction, the average energy bill has increased significantly yet the amount of the payment remains the same. There is a three way relationship between energy retailers, consumers, and government in dealing with hardship, with government assistance targeting those most in need.



Background to the Inquiry

Red Energy is a member of the Energy Retailers Association of Australia (the ERAA) and is actively supporting a number of industry initiatives aimed at improving assistance provided to, and the engagement of consumers experiencing financial difficulties.

The ERAA is currently leading five different working groups with membership comprising retailers, consumer groups, and industry Ombudsmen. These working groups are looking at standardising access and information, consumer engagement, energy concessions, and the understanding and frequency of customer billing, with the intention of publishing initial outcomes throughout 2015.

Red Energy has also taken part in the Australian Energy Regulator's (AER) Review of energy retailers' customer hardship policies and practices published in 2015. The review suggests that "many community concerns about hardship assistance and payment plan affordability are not symptomatic of widespread non-compliance with the Retail Law and Rules. Rather, they are linked to broader issues of energy affordability and energy literacy (that is, consumers' ability to make informed decisions around selecting an energy offer and understanding their options and rights in relation to their energy supply)".¹

The ERAA has also recently worked with the South Australian Council of Social Service in developing and endorsing a number of Better Practice Principles to assist retailers in providing assistance to customers experiencing hardship². Red Energy is currently looking at ways to best implement elements of these principles into their processes.

Regulations currently in place in Victoria

As the Commission is aware, many of the hardship regulations in Victoria were developed some time ago following the introduction of full retail contestability in 2002. As such, it may be that these regulations no longer meet the objectives and needs of customers experiencing hardship in today's energy market.

As part of this review, Red Energy strongly recommends that the Commission rationalise the reason each hardship obligation was initially developed, and whether the requirement remains valuable today in line with the Victorian Guide to Regulation. This will ensure that the regulations continue to represent the best option available to meet the relevant policy objectives.³ Best practice seen in the industry today is significantly improved from best practice as seen in 2002 when the regulatory framework was developed.

An example of this is Section 43C(c) of the Electricity Industry Act (Vic) and Section 48GC(c) of the Gas Industry Act (Vic) that require retailers to offer flexible options for the purchase of replacement appliances from the licensee or a third party. In 2005, the Department of Primary Industries found that best practice retailer hardship programs included linking customers to energy efficiency and retrofit programs⁴ and it appears this rule was borne out of this discovery.

While this may have been appropriate in 2005 when both the state and federal governments offered significant assistance in these areas, in today's environment this appears to be of very little value to a customer experiencing difficulties. The majority of these programs no longer exist due to significant funding cuts over the years, most recently with the closure of the Home Energy Saver Scheme in 2014, and the Home Wise program in 2011.

¹ Australian Energy Regulator, *Review of energy retailers' customer hardship policies and practices*, 2015, pg. 3

² South Australian Council of Social Service, *New Guidelines for a United Approach to Prevent Hardship for Energy Consumers*, media release, 25 March 2015

³ Government of Victoria, *Victorian Guide to Regulation*, Department of Treasury and Finance, Melbourne, 2014.

⁴ Department of Primary Industries, *Committee of Inquiry into Financial Hardship of Energy Customers*, Melbourne, 2005



The current regulations also place a significant emphasis on a retailer offering a customer an affordable payment arrangement, in line with their capacity to pay. The regulations are appropriately not prescriptive on how this capacity to pay must be determined, however it is coupled with a perception that a retailer must accept any amount a customer advises they can afford with a lower emphasis placed on the sustainability of the arrangement.

This leads to a responsibility imbalance in the current regulatory framework. A retailer has an obligation to offer a customer a payment arrangement within their capacity to pay, however there is no obligation on a customer to only consume the amount of energy they can afford. This presents an obvious issue for energy retailers, but also leads to poor outcomes for consumers in the long term.

Reform of the regulatory framework

Red Energy strongly believes that the best way to assist customers experiencing long term financial hardship is to assist them to reduce their consumption to a level that they can afford. While we understand some customers may never be able to afford the minimum standard of consumption required to live comfortably, there are a large proportion of customers who continue to consume significantly more than average, despite serious affordability concerns.

Red Energy's hardship program has a focus on assisting a customer reduce their consumption to an affordable level. This involves in depth discussions with the customer to determine what they are using and when they are using it, and offering tips and advice to the customer where inefficiencies are found. This method aims to educate a customer of their usage and its relationship to their bill, while working with the customer to minimise excess consumption and improve the sustainability of the payment assistance offered. Red Energy has a discussion with every customer upon entering the hardship program and aims to develop a path in which that customer is able to successfully return to a position of financial stability.

Unfortunately, Red Energy frequently see customers who are unwilling (but not unable) to reduce their consumption to an affordable level being adversely impacted by the protections in the regulatory framework. These customers can end up with significant debts that may never be able to be repaid.

One possible manner in which the regulatory framework could be improved with regard to this, would be to clarify the intent of clause 72 of the Energy Retail Code. While the clause does require a retailer to offer a payment plan with regard to a customer's capacity to pay, arrears, and future consumption, there does not appear to be sufficient onus on a customer to reduce their consumption to meet that capacity.

Red Energy understands that energy consumption can be confusing for customers, and in most cases it will be up to the retailer to not only provide a customer appropriate efficiency advice, but also to provide tools for its staff to best assist customers based on their individual needs. These tools could be in the form of over the phone or in home energy audits, staff training and expertise in energy efficiency, or even reimbursing customers for the purchase of small home improvements such as an electric blanket or draft stoppers should the retailer determine the energy efficiency benefits would outweigh the costs. Taking this into account however, the final accountability on a reduction in consumption to an affordable level ultimately rests with the customer themselves. Red Energy believe an ongoing failure to reduce non-essential consumption over a reasonable period must constitute a broken payment arrangement for the customer.

Red Energy also believes that additional reform must be made to the regulatory framework to focus on a more principle based method of regulation. We are concerned that the current framework stifles innovation and requires retailers to operate their hardship and assistance programs in a very inflexible manner. This can result in a 'box ticking' exercise where customers are run through a list of all required assistance options, without enough consideration given to their own individual circumstances. Red Energy's experience has found that this can detract from a customer's experience in dealing with their financial



difficulties, and the additional length of time taken by retailers to avoid breaching the regulations can reduce a customer's willingness to engage in an ongoing fashion.

Comparisons with other industries

Red Energy strongly recommends the Commission exercise caution in attempting to compare the energy industry with perceived "comparable industries"⁵.

Energy retailers in Victoria operate in a highly competitive market, while holding all industry risk. This means that should a customer not pay their energy bills, the retailer must still pay all outgoings related to that customer's usage. The network and generation costs a retailer incurs make up a significant portion of a customer's retail bill which if unpaid cannot be recovered, and does not correlate to alternate industries. This makes efficiencies in collection, regulation, and hardship assistance provided particularly important for energy retailers to remain competitive, potentially more so than other businesses.

- The water industry is a monopoly industry, with government owned companies selling water at a regulated price to consumers. This regulated price is determined by the Commission, and includes factors to account for all operating expenses. The water businesses also have a relatively smaller risk profile for future consumption than energy providers, as well as the ability to restrict, rather than disconnect a customer's supply.
- The banking industry has a capped (and in most cases, secured) debt risk, which significantly improves the options available for that business to assist customers experiencing difficulties. A mortgage provider, for example, can reduce or even stop a customer's repayments for a period without any risk of the unrecoverable debt increasing. In some cases, the provider may charge interest over a longer period of time due to the payment reduction which would allow it to recover more money from the customer over the term of the loan.
- The telecommunications industry has a partially capped debt risk, and as a non-essential service has no obligation to maintain connection for a customer experiencing payment difficulties. A telecommunications provider is able to disconnect a service with only 5 days' notice, and without any notice if the customer's account status represents an unacceptably high credit risk to the supplier⁶.

Energy retailers on the other hand face significant debt risk should a customer not reduce their consumption to an affordable amount. A consumer paying significantly less than they are using can quickly incur debts of thousands of dollars which may never be able to be repaid, resulting in an energy company being forced to write off the debt while still incurring the outgoing costs detailed above. This risk can adversely impacting a retailer's ability to offer low cost products in a competitive market.

Conclusion

In a highly competitive market such as the Victorian energy market, retailers have a requirement to ensure that all business processes are efficient, and demonstrate a clear cost benefit. Red Energy is strongly committed to assisting its customers who are experiencing financial difficulty and hardship, however believes that for the current environment to improve there must be a rationalisation of the regulatory framework and an increased onus on the customer to participate in the retailers processes. This shared responsibility model will allow retailers to focus on customers who are willing to pay but unable, rather than utilising resources on those able to pay, but unwilling. Ensuring retailers are able to operate efficiently allows energy costs to remain as low as possible for all consumers, not just those experiencing difficulty.

⁵ Essential Services Commission, Inquiry into the Financial Hardship Arrangements of Energy Retailers – Our approach, 2015, pg 47

⁶ Industry code – Telecommunications Consumer Protection Code C628:2012, pg 60



If you have any further comments or queries in relation to this submission please do not hesitate to contact Ben Barnes, Regulatory Manager on 03 9425 0530.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Ramy Soussou". The signature is fluid and cursive, with the first letter of each word being capitalized and prominent.

PP **Ramy Soussou**
General Manager – Regulatory and Stakeholder Relations
Red Energy Pty Ltd