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ESC Energy Hardship Inquiry Draft Report

AGL Energy (**AGL**) welcomes the opportunity to make a submission on the ESC's Energy Hardship Inquiry Draft Report (**Draft Report**).

AGL is a significant retailer of energy with over 3.7 million electricity and gas customers nationally. Accordingly, AGL has a strong interest in the efficient investment in, and operation of retail markets in the long-term interests of consumers.

AGL strongly supports ongoing reviews into the support that is available to customers who are unable to meet the cost of their energy consumption. As evidenced by its public affordability commitment, AGL is committed to improving the way it supports customers who are experiencing payment difficulties and hardship. As such, we encourage the ESC's inquiry into retailer hardship programs as well as ongoing discussion into features of retailer hardship programs that are working well to support customers in need.

Through our own reviews and in consultation with consumer and welfare groups, energy industry representatives, and experts across a number of industries, AGL has also developed (and is in the process of implementing) what it believes is a best-practice model of providing short-term payment assistance and long-term support to customers experiencing payment difficulties and hardship.

As such, we believe we are well placed to provide feedback on the recommendations that the ESC has provided in its Draft Report towards a new framework of assistance for customers with payment difficulties.

Unfortunately, following a detailed review of the Draft Report, AGL does not support many of the recommendations developed by the Commission on the basis that they are likely to create detrimental outcomes for at least some, and potentially the majority of Victorian customers experiencing payment difficulties and hardship.

Significant Concerns with the Proposed Framework

Notwithstanding the fact that AGL supports many of the objectives articulated within the Draft Report, it is our position that implementation of the recommendations is likely to lead to the following adverse and unintended outcomes:

- <u>Customer engagement is likely to diminish</u>: Lack of incentives to engage and the inability to contact customers after early identification of payment difficulties will lead to a larger segment of customers that only commence discussions with their retailer when they accrue debt that is more significant.

- Debt levels are likely to increase (at least in the short-term): The suggested minimum payment plans have terms and conditions that may be far too aggressive for some customers. Furthermore, suggested payments are not in small manageable amounts, cannot be set at levels that are under consumption, and are over a longer period than the current framework, allowing potentially more debt to accrue.
- Disconnections are likely to increase: Given that one of the assumptions of the framework is that all customers will be able to bring their capacity to pay in line with their energy costs and payments, it is likely disconnections will rise, as there is evidence to suggest that this will not be a feasible outcome for a number of customers. Additionally, it is likely that disconnection at the early stages of collections will increase on the basis that there is a diminished focus on early engagement with customers.
- Customer confusion and complaints are likely to increase: The automatic recalibration of payment plans, fluctuating changes to offers of assistance, and unilateral variations to customer obligations are confusing, even without taking into account very complex specific changes such as variable tariff structures, supply capacity controls, and transfer restrictions. This is likely to lead to increased customer confusion and complaints, including Ombudsman complaints.

Although we note that the ESC has suggested that the detail of some of the recommendations will be developed through working groups in late 2015 and early 2016, it is AGL's contention that calibrating the detail of the recommendations in the Draft Report will not reasonably overcome any of these adverse outcomes.

On this basis, we do not support the proposed framework, as we believe it will be detrimental to customers, retailers, and place more pressure on the community sector. As an alternate model for discussion, AGL will be providing the Commission with the detail of our preferred approaches and processes that could work to achieve the objectives set out in the Draft Report.

Further detail on how AGL has reached these conclusions, as well as detailed feedback on the proposed recommendations is outlined in the attachments to this submission.

Not Enough Emphasis on Some Objectives

In our view, the adverse outcomes outlined above are as a result of an over-emphasis on some objectives over others. More than creating a framework whereby all retailers are obliged to comply with fixed obligations that aim to reduce debt, AGL believes that all retailers should be obliged to ensure that all customers are receiving the support they need to meet the cost of their energy needs.

In many respects, this comes down to a fundamental policy decision of either aligning all retailer practices to an arbitrary benchmark that will be good for some customers and detrimental to others, or maintaining aspects of the current framework and allowing flexibility for some retailers to perform to a higher level and provide solutions that are tailored to individual customers.

In AGL's view, the proposed recommendations reduce our capacity to help individual customers, and a large number of customers will consequently be adversely affected as they can only be provided with minimum support mechanisms under the defined framework.

AGL is supportive of the Commission amending its recommendations, or in the alternate, allowing approved retailer hardship practices that have been demonstrated to exceed the minimum requirements determined by the Commission.

AGL's Preferred Principles

In the first instance, in reviewing its draft recommendations and meeting this aim, AGL considers that the following five principles should be weighted more heavily in the Commission's recommendations:

1) Early Identification and Intervention

The stated intention of the recommendations to ensure early identification and intervention and the minimisation of debt accrual is valid and fully supported. However, we do not believe that the recommendations proposed by the Commission fully reflect this aim, in particular with the actions available to retailers within the Early Action Option.

2) Inability to Meet Consumption

While the intent of early identification is clear, the initial response to customers who have a clear inability to meet payment of ongoing consumption is an area of concern that AGL believes the Commission has not adequately addressed. The number of customers that have an inability to meet consumption costs is increasing and the proposed structured framework does not adequately address the concerns of this segment until the advanced support stages by which time debt will have accrued significantly.

3) Customer Engagement

Research and testing has shown that that early and continued customer engagement has been a key to the success of hardship programs, which the Commission's report duly acknowledges. However, the automation and highly structured nature of the current proposal is likely have the outcome of a decline in customer engagement. Tangible support options offered to customers at an early stage, coupled with respectful communications and collections, have proven extremely successful in avoiding disconnections and reducing debt, and we support the continuation of this approach. If the Commission is of the opinion that there is an issue in customers not being able to access certain types of support, then this should be acknowledged and addressed in a more targeted manner.

4) Individual hardship programs

There is some rationale to the removal of retailer discretion with regard to options available for customers; however, a uniform approach will not suit most customers. By its very nature, a fixed payment plan structure will only be an optimal solution for a very small percentage of customers. Alternately, programs currently offered within large utility businesses are flexible in nature, which supports the individuality of each customer and allows for a dynamic response to their needs. We are concerned that any flow on effects from the proposal may increases pressure in the community sector that is already underfunded.

5) Social Policy

There are a number of well-documented long-term challenges for customers encountering payment difficulties, which need to be addressed through a broader revision of the social policy framework. Implementing changes to retailer processes without complementary changes to social policy regarding energy concessions, income support, and capital barriers for customers living in public, community and private rental properties will result in a suboptimal solution. It is within the ESC's capacity to make recommendations that recognise that a retailer's capacity to make changes to a customer's situation are limited, and in AGL's view these recommendations should be made as a part of this inquiry.

These five fundamental principles are shared by other major utilities retailers, including EnergyAustralia, Origin, and Yarra Valley Water, who all advocate for the same basic fundamental platforms that support positive outcomes for customers.

AGL looks forward to discussing the detail of the Commission's recommendations as well as alternative solutions. We note that the technical drafting of recommendations as well as the detail of some proposed changes will be critical in reaching useful outcomes for customers. We also strongly recommend that retailers that are able to show better practice than the defined minimums should not be dissuaded or prevented from deploying highly advanced, well-researched, and broadly supported hardship programs that benefit consumers.

Further information in response to the Draft Report is included in the **Attachments** to this this submissions. If you have any further questions regarding this submission or would like to discuss this matter further, please contact Aleks Smits at [redacted].

Yours sincerely,

Jenny Baltatzidis

Network Strategy & Regulation Manager

ATTACHMENT A

PART A

GENERAL FEEDBACK ON THE INQUIRY

The issue of hardship with regard to gas and electricity customers in Victoria is not new. Comprehensive reviews have previously been tasked with developing recommendations to resolve the issue. For example, in 2005, an independent committee (with representatives from the energy industry, welfare and consumer groups, and members of parliament) developed a report into the financial hardship of energy consumers.[1]

That inquiry developed 20 recommendations as to how to begin to address issues of hardship in Victoria (many of which were not implemented or only partially implemented). Since that report, there has not been a substantial and cross-sectoral review of the support that is available into hardship policies or any amendments that should be made to the operation of that framework.

The current hardship framework has been developed through significant consultation, years of development and experience, and detailed input from energy and hardship experts across all sectors. However, the way in which it has been implemented and the way that retailers are interpreting their obligations under the existing framework needs ongoing review.

As such, a detailed review of the hardship framework is timely, and AGL commends the information the ESC gathered in their Draft Report to achieve this objective. The Draft Report provides some interesting qualitative and quantitative data and makes some useful conclusions about the current hardship framework in Victoria.

However, from these findings, the Commission makes a substantial leap into a number of quite significant recommendations in its report, which, if implemented, would signal a substantial departure from the framework that has supported hardship customers for the last decade or so. In AGL's view, while we strongly support the ongoing review and development of best practice hardship policies, the reasoning for the recommendations in the ESC's report do not appear to align with some of its own findings, and there appears to be an insufficient evidential or policy basis for implementing some of the recommendations.

For example, the ESC's response to its own findings is to suggest four areas of retailer practice that should be improved[2], namely:

- Early identification;
- Sustainable payment plans;
- Managing energy consumption; and
- Providing integrated assistance

However, the proposed framework does not adequately address the ESC's own recommendations in this regard. The continuum of payment difficulties is not addressed, as arbitrary payment plans are automatically applied to categories of eligible customers and barriers to customer engagement are increased by removing customer incentives to speak to their retailers. Suggested payment plans are fixed at high levels rather than independently assessed on sustainability, and only part of the framework considers the management of energy consumption and the provision of integrated assistance.

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[1] http://www.energyandresources.vic.gov.au/energy/gas/your-bill/concessions-and-hardship/hardship/hardship-inquiry-main-report

[2] Essential Services Commission, *Supporting Customers, Avoiding Labels. Energy Hardship Inquiry Draft Report*, September 2015, p.89

As a result, AGL is of the view that the proposed framework is very likely to lead to increased customer debt-levels (at the very least in the short term), a reduction in customer engagement, increased disconnections, and an increase in customer confusion and complaints.

In contrast to the proposed framework, AGL has made a significant investment in developing what it considers to be a best practice hardship framework that reflects the unique situations that may create payment difficulties for each customer. This framework also promotes open engagement, trust, and flexible options for all customers that seek to meet the best outcome for an individual customer's circumstances.

In developing this framework (which will be shared with the ESC), AGL has spent three months consulting with other industries (telecommunications, financial, and utilities), consumer and welfare groups, financial counsellors, and most importantly, to customers around Australia, to develop a framework that it believes will begin to address some of the most significant shortcomings of the hardship process.

AGL believes that the focus of its preferred approach is more appropriately on the objectives of: early identification of payment difficulties, promotion of ongoing customer engagement; provision of individual support through tailored approaches to support; and development of a shared social policy framework that will continue to tackle issues that customers have that cannot be directly addressed by their energy retailer. These objectives align with the intention of the Draft Report.

A summary of the research and policy work that AGL has completed in informing the development of its Affordability Initiative and the new approach the company will be taking to supporting vulnerable customers can also be found on the publically available AGL Blog[3] and at the end of this submission.

In our view, the process to develop the Commission's recommendations falls short of the process to develop our own cross-industry objectives and recommendations for hardship process improvement and support.

SPECIFIC RESPONSES TO RECOMMENDATIONS

In response to the recommendations within the paper, AGL provides the following specific feedback:

PRINCIPLES IN THE PROPOSED FRAMEWORK

The report suggests that the recommendations attempt to balance customer obligations with retailer obligations. In AGL's view, this is an admirable principle; however, it must be balanced by the fact that a regulatory system that delivers greater incentives for engagement between retailers and customers across the various stages of debt accrual will deliver the best outcome for an overall reduction in debt amounts. This is reflected by the Commission's own findings in its report.

Consequently, in AGL's view, there should be strong obligations on retailers to identify payment difficulties at an early stage and address customer debt levels before they accumulate to unmanageable levels. Additionally, there should be strong incentives on customers to engage with their retailer early to discuss support mechanisms and payment options.

Under the existing framework, customers are incentivised to respond to the possibility of disconnection by contacting their retailer to discuss options. For example, current AGL customers, depending on personal circumstances, can be escalated straight to advanced hardship support or receive tailored customer payment plans based on initial engagement. This is appropriate as it allows both parties to discuss the most appropriate remedy for a

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[3] http://www.aglblog.com.au

particular customer while building a greater understanding of the rights and obligations of each party at the outset of the agreement.

Under the proposed framework, however, there is no incentive for customers to engage retailers and discuss payment issues, as they will continue proceed down a fixed pathway of support. Many customers will know at the outset that they will be unable to meet the standard payment arrangements (particularly in the case of customers with very limited income), and as a consequence the retailer will be unable to engage and offer support while debt continues to accumulate and consumption issues are unable to be addressed.

The heavy focus on reducing a customer's consumption is also an admirable objective; however, in the proposed framework serious steps to address a customer's consumption levels are only triggered once the customer has been provided with a substantial time to make payments and potentially accumulated a significant amount of debt. This is a significant contrast to the current framework where, at every interaction with the retailer, customers are offered different products and payment options, services and advice to minimise consumption directly, and information on concession eligibility and discounts to minimise ongoing costs.

Within the recommendations, there is also very little acknowledgement of the significant known barriers to upgrading public housing and community housing dwellings to reduce ongoing energy costs, which is discussed further later in the submission.

AGL suggests that a framework with concurrent objectives of making payments and reducing consumption is preferable. Unfortunately, the proposed framework simply incentivises the customer to proceed to advanced support stages without engaging the retailer or making any changes in consumption pattern, having the likely effect of increasing debt to unmanageable levels in the first few bill cycles.

LACK OF ENGAGEMENT AND INFORMATION

The Commission states that the framework provides incentives for customers to manage initial short-term payment difficulties by themselves, and that the proposed framework promotes immediate engagement between the retailer and the customer to minimise debt once a customer misses paying a bill.[4]

In AGL's view, the recommendations do not reflect this intention, and we strongly believe that the proposed framework will promote less customer engagement for customers with payment difficulties than current arrangements.

Under the existing hardship framework, AGL already provides standard payment deferrals and payment arrangements to customers, without the customer needing to speak to an operator. If a customer is unable to meet the terms of a standard deferral, then they have the option of negotiating an alternate payment arrangement. Furthermore, more tailored solutions and advice are available to customers if they engage and discuss their personal situation or undertake a financial assessment.

Under the Commission's recommendations, however, all "eligible customers" (which constitutes a very significant percentage of our customer base) will proceed to further stages of support potentially after not having paid a bill for a number of bill cycles and not having needed to contact their retailer directly. In some cases, this could be up to 9 months after a bill has gone unpaid.

We question the usefulness of such a standardised approach. For example, AGL notes feedback provided directly by vulnerable customers during a focus group held by Kildonan UnitingCare in September around the usefulness of payment deferrals and extensions. Concerns were raised about the fact that sometimes these options simply lead to further

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[4] Essential Services Commission, op.cit., p.112

difficulty at a later date – or as one customer put it – "unless your income increases, you can't catch up". [5]

Unfortunately, we believe that the proposed recommendations will simply facilitate a culture of customers not wanting to contact their retailer and trying to extend their payment arrangements through as little interaction with the retailer as possible.

This will have a twofold impact, given that engagement is crucial not only for discussing appropriate payment options, but also for customers to make a number of other positive changes to the way that their account is being managed.

It is AGL's view that engagement is beneficial not only when a customer might have payment difficulties, but also from a retailer's perspective to ensure that the best possible overall service is being provided overall, including providing the customer with the most appropriate product and payment method, access to services such as online portals and electronic communications, discussions regarding concessions availability, and access to energy advice and complaint resolution.

The proposed framework unfortunately will promote a situation where customers will effectively not receive any support from retailers while they attempt to manage their own short-term payment difficulties. Not only will this result in payment arrangements that are likely to be suboptimal, but will result in a detrimental customer experience overall.

ADVERSE LIMITATIONS ON PAYMENT ARRANGEMENTS

Each customer's energy usage and ability to pay bills is different. With this in mind, it is not clear to AGL why the Commission has decided that arbitrary payment plan levels are appropriate for hardship customers. Although arguably the payment plan levels that have been nominated could act as minimum requirements, a minimum level will still not work in practice for a number of customers and fixed payment plan levels will adversely affect a significant proportion of the customer base.

In AGL's experience, a number of customers cannot afford payment plans of as little as $10 per fortnight, let alone be able to repay deferrals of the entirety of debt (or any of that debt) across a number of payment cycles while maintaining payment on ongoing consumption. Furthermore, as data that AGL has previously provided to the Commission shows, approximately 50% of AGL customers are on payment plans are paying less than their ongoing consumption, as that is the maximum amount that they have stated they are able to afford.

Even in these circumstances under current flexible arrangements, only a small percentage of customers continue to meet their payments when they have set their own limit as to what they can afford, and are paying an amount that does not even meet their consumption.

As such, under the proposed model, which only allows for payments plans above consumption (at a minimum) and does not consider smaller more regular payments (through a fortnightly or monthly arrangement), AGL estimates that at least three-quarters of customers will be unable to meet the payment levels suggested by the Commission, meaning that they will proceed to advanced hardship carrying a significant amount of debt that is unlikely to be able to be resolved. This estimation is based on the fact that only about a quarter of AGL customers currently are meeting the terms of a payment plan with terms that are similar to those proposed by the ESC.

This is a significant deviation from the existing framework that is likely to have substantial consequences for customers in serious hardship, and the justification for this policy position is not clear. There is a large amount of research available that suggests that

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[5] Kildonan UnitingCare, *Testing the Essential Services Commission Draft Report*, September 2015

individual payment plans and treatment of customers is far more useful for customers experiencing payment difficulties, even amongst the Commission's own previous reports:

> "Respondents welcomed providers who they see as making sure customers are well informed, and who are flexible in arriving at payment solutions and tailoring the nature of assistance to customers' capacity to pay. Where these items are lacking they report a highly negative experience."[6]

Under its current hardship policy, AGL can negotiate payment plans under consumption, which help keep debt down while attempts to reduce ongoing consumption are made. Additionally, under AGL's proposed framework, customers are encouraged to undergo a financial assessment and are offered advanced assistance at an earlier stage if they are clearly unable to meet ongoing payments. The removal of these mechanisms and the ability to apply them to all customers at an early stage is likely to drive up debt significantly.

At the very least, if default arrangements are mandated for customers that don't engage, AGL considers that it must be able to negotiate a payment plan with an engaged customer that is more appropriate to the customer's circumstances than the terms suggested by the Commission.

INCREASE IN CUSTOMER DEBT

The restrictions on customer payment arrangements, the lack of incentives for customers to contact their retailer, and the long-term nature of the suggested payment plans at early stages of payment difficulty are likely to drive up short-term debt among customers.

For the same reasons as outlined above, AGL considers that an overwhelming majority of customers will not be able the meet the terms of the payment arrangements that have been specified in the Commission's recommendations. In AGL's experience, sizable part payment of bills that customers consider large is unlikely, meaning that these large bills and significant repayments are likely to go unpaid with debt continuing to accrue.

The resistance to move customers to monthly bills and to offer smaller, more manageable repayments at levels that the customer can afford will result in higher bills, greater household cashflow strain, less payments, and more short-term debt that will result in customers proceeding to advanced levels of hardship.

Indeed, one of the key messages to retailers over the last 10 years that the existing hardship framework has been operating is that retailers should never allow customers to accumulate such high levels of debt. In our view, the proposed framework will substantially add to this issue, leading to an increased number of customers that only receive real assistance from retailers when they are carrying an unmanageable debt level.

RISE IN DISCONNECTIONS

For the same reason as above, bills based on longer consumption periods and consequential debt levels are likely to lead to reduced customer engagement by customers and a higher percentage of missed payments. Unlike current arrangements, where customers cannot be disconnected if they are flagged as being in hardship or adhering to a payment plan, or where retailers must make best endeavours to contact a customer to offer payment assistance and advice prior to raising a disconnection, the proposed framework does not promote this level of engagement prior to raising a disconnection.

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[6] Hall & Partners, *Customers of water and energy providers in financial hardship: a consumer perspective* (A Report Submitted to the Essential Services Commission), May 2011, p.25

With more customers likely to miss payments and less opportunity to contact customers at early stages of payment difficulty, it seems highly likely that the disconnection rate will rise, and as such, AGL supports a modification of the current framework, where customers are not disconnected while they are engaging with their retailer and showing a willingness to participate in available support programs.

A sustainable framework needs to identify customers in long-term and persistent financial difficulties who are unable to meet ongoing costs. While energy retailers are able to provide temporary assistance (i.e. up to 18 months with a range of measures such as payment plans, debt relief, energy audits and information), it is the role of social policy and government to develop policies which can assist this customer group in bringing income and concession support into line with the ongoing cost of consumption. This is a principle at the heart of a shared responsibility framework across the private, community and government sectors and one that for several years has been lacking in the social policy framework surrounding energy policy.

INCREASE IN CUSTOMER CONFUSION AND COMPLAINTS

Significant changes to the rights and obligations of customers are likely to drive up customer confusion and complaints in the years following the implementation of any recommendations. Currently, for most services, customers understand their requirements to make payments or to contact a service provider to discuss alternate arrangements.

The proposed framework suggests a new paradigm: payments can be automatically deferred, discounts will be made available if debt continues to accrue, and terms of payment will change as the customer continues to have a debt with the retailer.

Additionally, customers will be subject to fully variable tariffs, supply capacity control mechanisms, forced reconnection plans, and complex automatic payment arrangements.

These are complex changes to the existing energy environment that will be difficult to communicate effectively to customers. AGL questions the value of changing customer payment arrangements and tariffs without their consent or knowledge. We promote informed consent of significant changes to the way that a customer’s debt is being calculated and their obligations to make repayments.

PART B

In response to specific stages of the proposed framework, AGL provides the following feedback:

EARLY ACTION OPTION

Currently, a customer would only be disconnected many months after they miss their payment (even if they do not engage with their retailer), and after the retailer has made a number of attempts to contact the customer to offer support and alternate payment mechanisms. Amongst these payment mechanisms is a payment deferral option, which is available to AGL customers without having to speak to an AGL representative.

Unfortunately, this practice has not significantly prevented customers from accruing debt or from falling into hardship. In AGL's view, customers that are disconnected for non-payment are not necessarily customers that would benefit simply from time to pay their bills; rather, they are customers that need ongoing support in the form of a payment plan or additional individual assistance to help manage their energy account.

On this basis, we would question the requirement for an early action option that will postpone a customer's payment for two billing cycles, which (for customers on a quarterly cycle) will be up to 9 months from the time that they missed their first bill and 12 months since they used the energy on which that bill was calculated. In AGL's view, this looks to be an extended deferral that will be simply reduce the chance of a retailer being able to speak to their customer, and increase the risk of debt accrual. In this regard, AGL's concern is not the concept of an early action option (or a deferral), but rather the timeframe and methodology proposed.

The early action option will be useful if the terms are met by the customer, but in AGL's view these terms are highly onerous, and if they are not met, opportunities to help a customer reduce their consumption and manage their payments have been lost and advanced hardship will be much more likely.

AGL is also concerned by the nominal maximum amount is defined for the deferral. Many hardship customers fall into payment difficulties as a result of ongoing higher than average bills, that are above the arbitrary bill amounts suggested by the Commission in their report. In AGL's view, the value of the bill is not as important as individual customer circumstances for AGL's existing deferrals, and as such, we set no arbitrary limits to amounts that can be deferred by customers. Instead, we provide options to the customer with additional options such as payment plans, moving to monthly billing, monitoring ongoing consumption through online portals and our app, as well as offering discounts for and incentives for early payment.

A better alternative is to give the customer flexibility in choosing the best timing for their deferral and the retailer an opportunity to suggest a recommended deferral. Customers with higher bills are likely to fail based on the amount, and limiting the amount of debt will lead to suboptimal outcomes for some customers. At the very least, customers should be required to switch to monthly billing for their deferrals so that they can keep a better track of their consumption and repayment requirements.

PAYMENT PLANS

In AGL's view, customers that have failed to meet the terms of an early assistance option are unlikely to meet the onerous terms of the following payment plans, as by this stage debt would have accrued to a level that will be unable to be met by a customer with payment difficulties. Furthermore, from a customer perspective there is no incentive to not postpone payment to the next stage where further assistance is available with less onerous payments.

Under the existing framework, payment plans are dynamic, responding to both ongoing consumption costs and customer's capacities to pay. Retailers offer a range of solutions and give the customer an opportunity to make a decision on their own.

Under the ESC's recommendations, however, after failing the first payment plan, the customer is placed on a further arbitrary payment plan with different terms and more retailer support. Again, the prescription on the duration and the terms of the payment plan is a serious barrier to individual customer success. Customers that have failed to meet their first payment plan are likely to have serious debt by this stage, and under the new framework customers are unable to negotiate a payment plan that they feel is more manageable.

As an alternative, AGL recommends that it could be mandatory for a retailer to offer a payment plan at various stages, although automatic activation of the payment plan terms should not proceed due to the significant potential for customer confusion and lack of incentive for engagement. As a last resort, if a default payment plan is mandated for customers that do not contact their retailer, this should not preclude negotiated payment plans under circumstances for customers that require more tailored support. These negotiated payment plans are far more likely to respond well with customers and reduce customer debt sustainably, while also promoting customer engagement.

ACTIVE ASSISTANCE PLAN

AGL generally supports the fact that customers in long-term or persistent hardship should be entitled to receive the full range of support mechanisms available to the retailer. However, these customers, who have clearly been identified as not being able to make minimum payments for their essential services, must clearly be able to access support from other sectors as well.

In this respect, the Commission could make recommendations on complementary changes to social policy regarding energy concessions, income support, capital barriers for customers living in public, community and private rental properties.

Under the current framework, in the absence of these additional contributions from other groups and broader social reforms, AGL has committed to a number of its own initiatives to help these customers, including providing the customer with payment incentives and debt relief schemes, performing home energy audits, and providing new appliances and potentially solar PV installations.

However, while AGL generally supports most of the recommendations for assistance offered to customers at this stage, it is strongly opposed to placing customers on a fully variable tariff based on their previous consumption.

A high percentage of customers with payment difficulties have higher-than-average consumption, making them worse off on the type of fully-variable tariff contemplated by the Commission. In any event, the new framework is likely to help some customers and adversely affect others, and the choice to move between pricing structures should not be mandatory, but rather should be made on an individual basis and with full customer consent.

The complexity of explaining mandatory variable tariff structures to customers will be a huge challenge. In AGL's view, this level of tariff reform is way beyond the scope of this inquiry, and should be managed by other price reform and network tariff initiatives, which are being consulted upon heavily in other parts of industry.

AGL also does not support the restriction of transfer between retailers for customers with an active assistance plan. It is our view that customers must retain the basic choice of their retailer, and there should be no artificially incentive for retailers to disconnect customers and finalise accounts, or to encourage customers to churn away prior to customers reaching a stage where retailers need to provide them with assistance.

RECONNECTION PLAN

AGL strongly disagrees with the terms of the recommendation regarding reconnection plan. By this stage, where a retailer has exhausted all options to reduce a customer's debt and reduce their consumption, we would not support a forced reduction of the customer's ability to use energy.

A customer that progresses to this stage is likely to be carrying significant debt, and is likely to persist in a cycle of constant disconnection and reconnection under a supply capacity control product or prepayment option. In AGL's view, this is a failed outcome for customers, which we do not support.

If a customer proceeds to this stage after exhausting all retailer assistance, AGL believes that other sectors need to assume some responsibility and admit that there will always be some customers whose cost of basic consumption of energy ability outweighs their ability to make payments for the service.

For a significant period of time, AGL has advocating a more developed shared responsibility model for managing hardship customers, with a clear plan of how industry, government and customers can invest in technology to reduce consumption in inefficient housing stock that affects a number of hardship customers in public, community and private rental stock.

If there is a recognition within the Draft Report that some customers simply cannot afford the cost of their energy, then a separate solution needs to be developed across the industry that recognises this fact and seeks to help this group of very vulnerable customers.

ATTACHMENT B

QUESTIONS FOR RESPONSE

Objectives

The proposed regulatory framework is premised on the objectives of avoiding debt, repaying debt, adopting leading practice in energy management and aligning energy consumption with affordability.

1. Are these objectives appropriate? Should any other objectives be considered?

Although the ESC's inquiry was based on a limited terms of reference (wherein it was nominated that certain areas were out of scope), it has developed a set of recommendations that broadly changes the assistance available to customer while they are experiencing payment difficulties.

As such, when making this type of change that can have a significant impact on customers, not only the objectives but the consequences of such reform need to be considered. In AGL's view, this objective of the entire inquiry is simple, and can be stated as follows:

"Ensuring customers receive the support they need to meet the cost of their energy."

This idea encapsulates the objectives of avoiding debt, repaying debt, adopting leading practice in energy management, and aligning energy consumption with affordability. However, in AGL's view, the recommendations in the Draft Report fail to meet this stated objective and have significant adverse and unintended consequences.

A better framework would equally promote the objectives of early identification of payment difficulties, addressing inability to meet consumption costs, promoting customer engagement, supporting individual hardship programs and customer arrangements, and developing broader social policies to help customers in hardship. This would not only meet the simple objective above, but also reduce any adverse consequences from concentrating on narrow objectives.

Incentives

The current regulatory framework provides the wrong incentives and opportunities. Outcomes for customers and retailers are uncertain.

2. Does the proposed framework adequately address incentives and opportunities to avoid and reduce customer debt and limit disconnections? What other measures could be considered to provide the right incentives and opportunities?

The statement here is false. Generally, retailers have three broad economic incentives to address hardship (notwithstanding other social responsibilities), which are clear:

1. Compliance with regulatory obligations to stay in business.
2. To improve customer retention and brand loyalty by providing a good service to customers that is tailored to their needs.
3. To achieve better payment of bills by customers by offering them various support mechanisms and payment options.

Furthermore, with regard to customers, the currently regulatory framework generally provides three incentives:

1. To ensure that supply is not disconnected.

2. To reduce consumption in an efficient manner.
3. To obtain various support mechanisms and payment options that improve their ability to meet the cost of their energy supply.

It is unclear how these are the "wrong" objectives for a customer as stated by the Commission, as they support ongoing energy education, management of payments, and staying connected to an essential service. Under the current framework, these incentives are clear to both retailers and to customers.

Together, these incentives also clearly provide the available outcome for retailers and customers under the current model, which is as follows:

"A customer with a willingness to pay that continues to engage with a retailer will not be disconnected."

This is not the case under the proposed model, where it is not clear to customers why they need to reduce their consumption, what the minimum payments they need to make, and how they can avoid disconnection or supply curtailment. Payment plans are likely to be less manageable (as they will not be negotiated with retailers or able to be under-consumption), and the requirement to speak a retailer (especially at the initial stages of payment difficulty) is diminished.

Even worse, the proposed recommendations may create perverse incentives for retailers that affect customers in unknown ways (for example, there may be an incentive to disconnect customers at certain stages in the collections cycle that currently does not exist).

Under the proposed framework, a customer with persistent payment difficulties will likely reach an eventual stage of being on a variable tariff, on a prepayment plan or having their supply affected by a supply capacity control product, and suffering an ongoing cycle of disconnection and reconnections without being able to churn away from their retailer. This is a poor regulatory outcome for vulnerable customers.

In addition to the possibility of reaching this failed outcome, AGL also believes that the recommendation will increase disconnections and increase short-term customer debt. With reference to the current incentives outlined above, this is largely because under the proposed recommendation the retailer has a diminished incentive (or ability) to engage with customers and offer them a good service, and the customer has a diminished incentive to reduce consumption in an efficient manner or to obtain various support mechanisms that might help them make payment at an early stage.

Fundamentally, AGL considers that the right incentives and opportunities are those that are work for each customer. Naturally, these can only occur through engagement and an understanding of a customer's unique circumstances:

- Promoting or incentivising early engagement between customers and retailers;
- Having flexible and customisable options with each customer to address unique circumstances that lead to payment difficulties; and
- Working towards an approach that utilises shared-support frameworks to address issues affecting affordability and payment difficulties that are outside of the retailer's control.

Where measures are to be applied across an entire customer base, it should be shown that these measures would substantially help a majority of the customers to that which they apply. In this respect, AGL points to monthly billing and electronic communication as measures that have been proven to help customers, but have been previously resisted by the Commission.

AGL seriously questions the rationale for implementing mandatory supply capacity control mechanisms and prepayment plans, as well as restricting customer churn and providing variable tariffs for customers. In no way has the forced application of these mechanisms been proven to show any clear benefits to the categories of customers that are likely to be subject to them as a result of these recommendations.

Costs and Benefits

When compared to the current regulatory framework, the proposed regulatory framework will involve costs and benefits in both the short and long run. Understanding these costs and benefits will be important to implementation.

3. Are there particular costs and benefits of the proposed framework that the Commission should be aware of?

AGL is not of the opinion that the framework will realise any benefits to its current customers. Indeed, AGL sees that full implementation of the recommendations in their current form would create a detriment to customer as compared to our own hardship model that has been recently developed and is in the process of being implemented. Significant costs will be required to implement the changes as proposed in the Draft Report, but these are immaterial if no benefit is to be realised.

Specifically, AGL sees the following detriments as significant costs associated with the implementation of the recommendations:

- Payment plans will result in increased short-term debt, as the proposed model is likely to allow customers to accrue a large amount of debt prior to having to engage with a retailer.
- This increased short-term debt is likely to lead to a number of customers progressing to advanced stages of hardship with an increased cost to serve and a commensurate increase in support services required to be made available to customers.
- Increased cost associated with customer complaints and Ombudsman complaints as customers transition between payment arrangements without the requirement for informed consent, and as their tariffs and rates change through various stages of the assistance process.
- System costs associated with creating variable tariffs and to manage pricing arrangements for individual customers as they transition between the payment and pricing arrangements that are considered in the recommendations are likely to be in the order of many millions of dollars.

The cost of these recommendations will be recovered in the cost to customers that are not subject to receiving the assistance under the framework.

Staging of assistance

The proposed framework is based on shared responsibility between retailer and customer to address payment difficulties at each stage.

4. Are the retailer obligations and customer responsibilities clear at each stage? If not, what further clarification is required?

The responsibilities as proposed by the recommendations as outlined in the draft report are clear. There is, however, still an element of subjectivity associated with the concept of engagement by a customer.

For example, the ESC states that customer will still be able to fall down a path of disconnection if they refuse to engage with a retailer but the specific level of this engagement is not clear.

The outcomes are also not clear at each stage. For example, if a customer is calls up their retailer and notifies them that they are unable to meet the terms of their first payment plan (which is very likely), then it is not clear what the retailer should tell the customer. For example, would a customer need to adhere to the terms of the onerous payment plans if they have stated that they are unaffordable at the outset?

Disadvantaged customers

One aim of the proposed framework is to ensure that no customer with payment difficulties is disconnected if they engage with their retailer and cooperate with the active assistance provided by the retailer.

5. Are there any other groups of disadvantaged people in the community whose situation is not dealt with adequately by the proposed framework?

One of AGL's primary arguments in its previous submission to the inquiry was that all customers should be treated on an individual basis. Indeed, the ESC even extracted one of our major contentions that hardship is not a binary customer state and that payment difficulties need to be assessed on an independent basis.

With that in mind, it is not clear to AGL why the Commission has nominated categories of "eligible customers". Indeed, the report does not make it clear why these categories of customers are entitled to support mechanisms, and other customers that might require assistance do not.

For example, categories of customers that may require payment assistance or that might benefit from a discussion with their retailer about support mechanisms include: domestic violence customers, CALD customers, customers suffering from a mental illness, customers on long-term holiday, and customers that do not understand their bill.

Under the proposed framework, some customers will not receive the same support as others, resulting in an inequitable framework and an inevitable return to the labels that the Commission refers to in the title of its report.

AGL also has significant concerns for customers who cannot bring capacity to pay in line with the costs of their ongoing consumption. AGL's research identifies that customer on hardship programs tend to consume more energy than the average customer base and a significant proportion of these customers live in public housing and private rental properties. The barriers for these customers to reduce consumption materially are both due to lack of capital and split incentives with the property owners not responsible for the energy bills. This long-standing policy barrier AGL has proposed governments address as a matter of priority.

AGL has announced $1.5 million to be invested to support customers in this position over the next three years and would welcome co-investment from state governments and the removal of barriers to customers within this segment accessing new technologies to assist them reduce consumption. White certificate schemes such as VEET in Victoria, while providing some subsidy for some items, do not overcome this policy challenge. AGL recommends government develop a targeted co-investment program with industry to upgrade high-consumption hardship customer households, through a mechanism that is not fundamentally regressive in nature.

AGL requests the Commission and government consider research completed to date (provided at the end of this submission) in the development of comprehensive response to support long-term disadvantaged customers.

Implementation

Implementation of change to the regulatory framework will require actions to be taken by all participants.

6. What steps are required to ensure that implementation goes smoothly?

Transition

Before the implementation of any new framework there will be a transition period from the current arrangements to the date of introduction of the new framework.

7. What factors should the Commission consider during the transition from the current regulatory framework to the proposed framework?

In AGL's view, implementation of these changes will not go smoothly and the transition to such a radically different framework will be incredibly expensive and burdensome on customers.

In terms of cost, a continued divergence from obligations under NECF will undermine the basis of the work that has gone into aligning national frameworks over the last five years. There are associated sunk costs with this transition, including significant costs associated with system development to meet the complicated changes that are proposed in the ESC's report.

In particular, the development of automated payment plans and the creation of variable tariffs and the cost of maintaining these systems (given the bespoke nature of each customer's arrangements) with the associated flow through the billing systems is also likely to be in the order of several millions of dollars.

A significant amount of time will be required to implement any of the recommendation in the paper. AGL would recommend detailed customer journey mapping and modelling of all of the recommendations to test the assumptions made by the Commission in developing recommendations.

Many hundreds of thousands of customers will need to be re-educated on their obligations and options with regarding to making repayments to retailers. Additionally, there will need to be a migration of existing hardship customers into the new framework. In the case of AGL, this will involve putting over 13 000 Victorian hardship accounts on to an active assistance plan or a revised payment plan.

The resourcing and costs associated with this transition would be enormous if the changes are not made gradually and with due respect for customers that are being affected by payment difficulties.

Even so, the cost of managing enquiries and complaints regarding the changes to the proposed framework, including Ombudsman complaints, is also likely to be in the order of many millions of dollars per year.

The cost of advanced support mechanisms (depending on their nature as they have not been prescribed) is likely to be in the order or millions of dollars per year.

As a base estimate, AGL estimates that full implementation of the Commission's recommendations is likely to cost the industry in the order of tens of millions of dollars in initial costs, with several millions of dollars of ongoing costs per year. As previously stated, we see the cost of these changes as creating a corresponding detriment for customers rather than any benefit.

There is also a corresponding detriment of sunk costs associated with the transition to NECF and with the development of systems and processes that support current hardship and payment arrangements, which will be in the order of many millions of dollars across the industry. In AGL's view, the Commission has not adequately identified the benefits associated with their draft recommendations to meet these costs and advance a case for implementation of the recommendations in its report.

Relevant Reference Materials Referred to in this Submission:

- http://aglblog.com.au/2015/03/energy-affordability-the-strength-of-cross-sectoral-collaboration/
- http://aglblog.com.au/2015/03/affordability-initiative-our-approach/
- http://aglblog.com.au/wp-content/uploads/2015/03/Blog_Pack_Final.pdf
- http://aglblog.com.au/2015/09/effective-support-for-vulnerable-households-closing-the-gap-between-capacity-to-pay-and-cost-of-consumption-part-1/
- http://aglblog.com.au/2015/09/effective-support-for-vulnerable-households-closing-the-gap-between-capacity-to-pay-and-cost-of-consumption-part-2/