



4 May 2015

Essential Services Commission
Level 37, 2 Lonsdale Street
Melbourne Victoria 3000

By email: energyhardshippreview@esc.vic.gov.au

Dear Sir / Madam

Inquiry Into The Financial Hardship Arrangements Of Energy Retailers

Alinta Energy welcomes the opportunity to make a submission to the Essential Services Commission (**Commission**) on its Inquiry into the Financial Hardship Arrangements of Energy Retailers (**Inquiry**)

Alinta Energy is an active investor in the energy retail, wholesale and generation markets across Australia. Alinta has around 2500 megawatts of generation capacity in Australia (and New Zealand) and a growing customer base of over 750,000 customers in Western Australia and across the National Energy Market.

The issue of customer hardship, as it relates to energy is a complex one, we note with some concern that the broader issue of affordability is not within the scope of this review. We believe this review is an opportunity to examine the underlying causes of hardship and affordability and their impact on energy hardship. A customer who is experiencing difficulty in meeting their financial obligations with their energy supply is also likely to be experiencing similar difficulties in meeting other financial obligations. This being the case it is an indication of a wider social issue that needs to be addressed through a collaborative approach across all industry sectors and Government agencies so as to better address affordability issues more generally which in turn assist in combatting energy hardship.

However in terms of energy hardship there are a number of initiatives that should be considered:

- A flexible approach to the regulation of retailer customer hardship programs, where the focus is on outcomes, rather than the current procedural approach,
- The role of Network companies in providing assistance to customers given that network charges and costs account for a significant proportion of a customer's bill,
- Concession schemes and whether they are structured correctly in providing assistance to those customers most in need of assistance, also the need to harmonise concession schemes so there is a national approach to concessions,

- Whether retailers are best placed to be administering concessions directly to customers, or whether Governments or other support agencies are better placed to administer these schemes,
- Hardship fund initiatives,
- Appropriateness and level of Government assistance provided to customers requiring assistance, energy efficiency initiatives (appliance replacement etc)

A key focus of this review should be identifying the desired (achievable) outcomes for retailer's hardship programs, which go beyond the simple premise that no customer is disconnected.

A continued focus where retailers are solely responsible for managing energy hardship is not sustainable and undermines the ongoing and future delivery of assistance to customers. The review should also consider the role new & emerging technologies can play in assisting customers. Advances in metering technology, along with product and payment structure, including pre-payment products should be considered and intelligently debated to identify potential benefits that can be delivered to consenting customers.

Alinta is happy to provide its further comments in the attached, as responses to the questions posed in the issues paper. Should you have any questions or wish to discuss our submission further I may be contacted on (02) 9372 2653 or via email: shaun.ruddy@alintaenergy.com.au

Yours sincerely



Shaun Ruddy

Manager National Retail Regulation

Hardship Review Questions

The Commissions Approach

Q1. Are the principles of effectiveness, flexibility, consistency, efficiency and proportionality, transparency and clarity, and accountability (of all stakeholders) the most relevant principles for this inquiry?

Are there other principles that should be included or used?

Should some principles be given greater weight?

Generally Alinta agrees with the underlying principles for the scope of the review. What needs to be considered is the issue of the comparative measurement and assessment of these principles. Any assessment will be influenced by the underlying framework used in achieving the desired end objective (which needs to be identified). The question is whether a prescriptive regulatory approach driving outcomes or a more light-handed approach (that will promote greater levels of innovation) delivering outcomes is desirable.

The issues paper also references applying these principles across “*all stakeholders*” In order to ensure the review looks at all stakeholders we would suggest the review consider (recognise) the wider issue of household affordability and the stakeholders (beyond energy) that play a part in assisting customers.

Whilst energy affordability is a key issue, a consumers ability to meet their financial obligations associated with their energy usage, is impacted by their broader financial position and ability to meet wider financial needs. This is linked to the issue of prioritisation of expenditure due to needs and risk of loss of services.

Example: where a customer has limited funds and multiple responsibilities, there is a greater probability of payment going to the service at greater risk of being removed. The question is whether the regulatory framework impacts the priority decisions of customers when it comes to meeting their financial obligations associated with their energy supply.

Regulatory Framework

Q2. Does the regulatory framework need to be improved to support customers who are unable to pay their energy bills in full and on time?

If so, what improvements are needed?

Are certain aspects of the framework ambiguous, unnecessary or ineffective?

Are there other regulatory frameworks offering good examples that the Commission should examine?

The regulatory framework needs to be reviewed and assessed as part of this review process. The regulatory framework should not be seen as the only (best) way in supporting customers who are unable to pay their energy bills.

However the framework plays a key part in delivering outcomes for the support of customers. Prescriptive regulatory frameworks provide little incentive for innovation, as stepping outside of prescribed activities creates the potential risk of non-compliance.

Likewise the issue of transparency and clarity of obligations is a key consideration where prescriptive regulatory frameworks continue. Transparency and clarity of obligations impact the potential effectiveness of any regulatory framework.

An outcomes based approach is more desirable, provided that outcomes are clearly and transparently identified and articulated. A regulatory framework that is light handed and outcome driven, rather than process driven, provides greater opportunity for retailer innovation and subsequent benefits for customers.

Q3. What incentives could be introduced to the regulatory framework to promote innovation in assisting customers who are unable to pay their bills in full and on time?

It is not a matter of introducing incentives to the regulatory framework (this is seen as further process intervention) rather the framework needs to shift to an outcomes driven approach and thereby drive the opportunity for innovation. Opportunity will be driven through mutual benefit outcomes.

Q4. Does the regulatory framework provide sufficient flexibility and discretion for energy retailers to assist customers in financial hardship effectively?

Should the Commission's Code and guidelines be more or less prescriptive in order to facilitate best practice and promote innovation by retailers?

If so, what should be changed and how?

Current regulatory frameworks do not provide sufficient flexibility or discretion for retailers to introduce alternative methods in assisting customers with meeting their financial obligations. As an example the underlying presence of the wrongful disconnection scheme is a key determinate / barrier to retailers innovating in this area, as to stray from the prescriptive process approach to managing customers (as prescribed in the Code) creates the risk of penalties for retailers.

Any innovation within the current framework would be additional, rather than supplementary, to prescribed processes, creating additional cost which in turn from a commercial perspective limits any delivered benefit (customer or retailer) from innovation.

On the issue of whether the Commissions Code & Guidelines should be more or less prescriptive, a prescriptive Code or Guideline will drive prescriptive processes. This is the current situation and one that can be argued is not being efficient or effective in delivering assistance to customers who are genuinely experiencing hardship.

In terms of what should be changed, first we need to set or understand the intent and desired outcomes that are expected to be delivered through any hardship scheme/ program.

- Disconnection being last resort,
- Energy efficiency education,
- Financial assistance / management etc,

How these outcomes are then delivered should be less of a concern, provided no customer or class of customers is materially disadvantaged, as a result of the mechanisms used in meeting the expected outcomes.

Understanding however the need or requirement for a minimum standard or level of assistance for customers. This minimum standard needs to be recalibrated to ensure that only genuine customers experiencing hardship have access to assistance beyond the minimum.

Performance & Compliance

Q5. How could the Commission better monitor the overall effectiveness of the hardship assistance provided by energy retailers?

Monitoring the overall effectiveness of retailer's hardship programs and the assistance provided to customers' needs to move away from only using statistical based reporting.

The interpretive flexibility of statistical based reporting can be detrimental to demonstrating the effectiveness of assistance provided to customers.

Again a determination of what constitutes effectiveness needs to occur. That is, what is the desired outcome from retailer's hardship programs; which needs to be more than no customer is disconnected. Once this is determined an appropriate system of assessment can be developed.

Under an outcome based approach retailers would be able to report on innovative initiatives and their outcomes. Their approach to assisting customers and the outcomes achieved, which may include statistical information on disconnections rates etc, but not limited to only statistical information.

Q6. Are there better indicators the Commission could use to assess the overall outcomes for customers in financial hardship?

A broader set of indicators is required that include both statistical and outcome indicators. The other issue is around what any assessment is being benchmarked against, not just within the energy space, but across the wider sector of affordability of services.

To measure the effectiveness of a retailer's hardship program in the absence of taking into consideration other financial or situational pressures consumers are exposed to more generally, through cost of living pressures will only provide a narrow view of what is being achieved. Achievements need to be assessed against the (overall) environment in which they are trying to be achieved.

Q7. Can the Commission improve how it monitors and enforces energy retailers' compliance with the regulatory obligations?

If so, how?

The question here is whether there is an issue or failure that needs to be addressed; retailers generally do not set out to purposely neglect their obligations. When issues do

arise retailers are quick to seek remedies to address issues, and ensure customers are not disadvantaged.

There will always be the potential for retailer failure, however retailers should be measured on the way (timeliness, addressing future risk etc.) they address identified non-compliances.

The current reporting & monitoring regime is effective in monitoring retailer's performance, in the absence of any identified significant failure then we see no identified need for a revised approach.

Best Practice

*Q8. Are energy retailers currently providing best practice assistance to customers who are unable to pay their energy bills in full and on time?
What evidence is available to support this view?*

Retailers are providing assistance to customers in line with meeting their obligations under proscriptive code requirements, and are doing so with the aim of best practice in mind.

A light handed regulatory regime that supports an outcomes based approach to assisting customers will foster innovation and drive best practice behaviours rather than behaviours to meet obligations.

Q9. Should retailers' hardship practices be more transparent?

If so, how can transparency be improved?

Retailer's practices are communicated through their hardship policies (programs) these are both provided to customers and published on websites etc. It remains to be in the best interests of retailers to ensure customers are aware of the services that can be provided to assist them meet their financial obligations.

There is always opportunity to improve the communication to customers, and retailers actively look for these opportunities and will continue to do so. Assistance from other stakeholders within the energy space (consumer advocates, financial councillors etc) would provide another layer of communication opportunities.

Q10. What else could we learn from practices by firms operating in other jurisdictions and industries, nationally and internationally about best practice in hardship assistance?

A review of other industries etc. may provide insight into processes, policies and approaches that have & have not been successful.

However we need to be mindful of unique market designs and how these interact with the practices for other industries in delivering assistance to customers, including the regulatory framework under which other industries operate.

For example the water industry in Victoria, whilst being an essential service is permitted to "flow restrict" supply as a mechanism to assist customers manage consumption and cost, Energy retailers are NOT permitted to operate capacity / supply control measures that may (through agreed processes) provide similar assist customers.

Q11. Are there any other themes of best practice that we have not covered in chapter 5?

Do some themes require higher priority in the regulatory framework administered by the Commission?

Themes identified for best practice appear adequate. In assessing the baseline for best practise for retailers hardship programs, whilst consideration needs to be given to what activities retailers currently undertake, consideration also needs to be given as to whether some of retailer's current activities are being conducted beyond what would be considered best practice.

The Commission should not be simply looking to elevate all retailers to existing standards where those standards are beyond what would be considered best practice.

A best practice standard needs to be achievable by the majority (if not all) of retailers and should be able to be achieved in an efficient and cost effective manner. The Commission needs to be conscious that it does not set "best practice" at a level that creates barriers to market entry, and the further development of competition.

Benchmarking

Q12. What other matters should the Commission take into account when designing a benchmarking framework for assessing the effectiveness of retailers' hardship programs?

An additional benchmark to consider is one of customer engagement; this is not a benchmark just to measure the effectiveness of the retailers programs, but rather a measure of customers (society in general) acceptance of the assistance being offered and their willingness to maintain the relationship with their retailer through the term of any program.

For benchmarking to be effective you need a clearly defined outcome that is seeking to be delivered on.

Benchmarks should take into consideration outcomes achieved and not simply focus on process.

Q13. Which aspects of an energy retailers' hardship policies, practices and procedures should be given priority in the benchmarking framework?

A benchmarking framework should look across the entire landscape of assistance provided to customers. Again the focus should be on the outcomes achieved through the retailer's hardship policy and programs.

Additional Questions

Q14. Are there any other matters the Commission should consider to help customers who are unable to pay their bills in full and on time to avoid disconnection?

Consideration needs to be given to whether the current structure of how support is provided to hardship customers and whether this is the most efficient and effective way to deliver assistance.

The review should consider whether retailers continue to be the best avenue (channel) for delivering assistance to customers, and whether a more consistent and effective approach would be to deliver assistance directly through a separate body that exist outside of retailers.

Example: A hardship fund could be established through contributions from retailers, distributors (Networks) and Government. The fund would operate independently providing assistance to qualified customers.

Shifting the administrative & customer management responsibility for providing assistance to customers from retailers would assist in ensuring all customers receive the same level of assistance.

The involvement / role of Networks in assisting customers who are experiencing hardship needs to be further debated. Network cost account for roughly 2/3rds of a customer's bill, however the level of assistance provided by networks either directly to customers or via retailers is somewhat lacking.

A combined approach that includes all stakeholders in addressing the issue of energy hardship provides the best opportunity for success.

New & emerging technologies play a key role in assisting customers better manage their energy usage & costs. These would only ever be successful where a customer is engaged and consents to their adoption. Opportunities to better utilise these technologies to assist customers' needs to be explored. Pre-payment metering options have, in the past, been widely condemned by some stakeholders. An intelligent debate needs to be had on the use of this and other technologies if we are to progress the way in which we provide assistance to customers.