



POWERSHOP.COM.AU

A better power company

16 June 2017

David Young
Director, Energy
Victoria, Essential Services Commission
Level 37, 2 Lonsdale Street
Melbourne, VIC 3000

Dear David,

Powershop Submission – Payment Difficulty Framework

Powershop thanks the Essential Services Commission (ESC) for the opportunity to provide comments in response to the new draft decision on the Payment Difficulty Framework (PDF) and Energy Retail Code (the Code) changes. Detailed below is Powershop's comments and feedback regarding the PDF.

1. Specific matters raised by the ESC:

How will the proposed framework affect energy consumers including, in particular, low income and vulnerable customers?

Powershop agree with the intent of the proposed framework to the extent that it provides low income and vulnerable customers with a degree of certainty as to the minimum standard of assistance they will receive from energy retailers industry wide.

Powershop believe customer debt will grow with the definition of arrears changing to "the sum of any amounts payable by the customer under one or more bills that are unpaid as at the bill issue date for a subsequent bill". This prediction is based on the fact that shifting certain trigger points for debt related follow-up procedures back by a period of time; delays action, increases customer apathy and results in growth of customer debt.

Division 2 Standard assistance

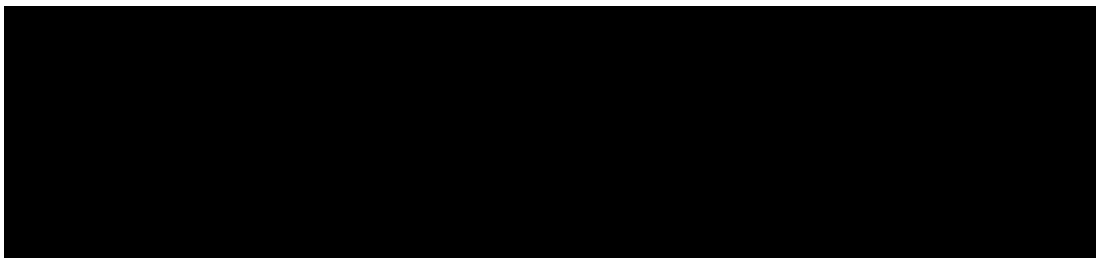
Powershop acknowledge that the objective of division 2 of the amended Energy Retail Code (the Code) is to avoid customers getting into arrears in the first place, therefore alleviating the aforementioned concerns. But for standard assistance to be beneficial there must be engagement from the customer, which is an existing issue for energy retailers which will not be remedied by the new framework. Table 1 detail the number of outbound debt related calls and the percentage of time the call resulted in a conversation with the customer. It is important to note that the data tabled is a summary of all debt related calls and is not indicative of agreed payment arrangements



POWERSHOP.COM.AU

A better power company

or successful outcomes. Some of the calls include, for example, customer hang ups as soon as Powershop is mentioned.



With regard to the options available under clause 76 (2) (a) to (e), Powershop see customer benefits in the following:

- (a) making payments of an equal amount over a specified period;
- (b) options for making payments at different intervals;
- (d) paying for energy use in advance;

Of the aforementioned options, Powershop's model allows all customers to purchase their energy in advance (d) via the Powershop online store. While Powershop see the customer benefits of (a) and (b), Powershop will take a cautious approach to these options and will take all necessary steps to ensure the customer understands the ramifications of their decision, taking into account retailers obligations to accept an arrangement that is put forward by a customer, under clause 80. The concerns pertaining to clauses (a) and (b) relate to the ongoing management and customer understanding of their; current consumption, arrears and future consumption and how this will all impact reducing their arrears, and ultimately getting on top of their energy debt moving forward.

Powershop is concerned that the following sub-clauses have the potential to drive growth in customer debt:

- (c) extending by a specified period the pay-by date for a bill for at least one billing cycle in any 12 month period;
- (e) paying any anticipated arrears over a period that is 3 times the length of the customer's billing period.

While Powershop has sometimes offered customers option (c), Powershop avoid offering this at all now due to the adverse customer impact it causes – specifically compounding customers existing debt. Standard assistance requires retailers to help customers avoid getting into arrears, sub-clauses (c) and (e) seem counterintuitive to the very objective of standard assistance, as they promote the creation of arrears by extending pay-by-dates, which could lead than to larger arrears that most low income and vulnerable customers could afford to repay.

Division 3 Tailored assistance

Powershop agree with the intent of minimum assistance set out under division 3, but hold concerns as to the length of time given to reduce arrears and the silence in the Code as to how future bills/ arrears will be treated.



POWERSHOP.COM.AU

A better power company

Powershop's view is that sub-clause (a) has the potential to create unmanageable future arrears after the customer has paid off their previous arrears (presuming the customer is electing to only pay their existing arrears). The fact that sub-clause (a) does not speak to the management of future bills while re-paying their current arrears leaves the customer and retailer in the precarious position that once the customer has paid off their existing arrears, assistance will then need to be provided for their built up/ new arrears – meaning the customer will forever be in debt.

Powershop believe that sub-clause (f) (i) and (ii) should be removed from the Code as it promotes the growth of arrears and increases customer apathy toward the management of their energy costs. If for example a customer has an existing debt of \$600, the customer is a high energy user (which most payment difficulty customers are) and are billed \$150 a month but cannot pay for their on-going energy usage, Powershop do not understand how allowing the \$600 debt grow to \$1,500 will be beneficial for the customer. Codifying this sub-clause could have a detrimental effect to the overall objective of repaying arrears.

With regard to clause 80 Powershop agree with the intent of this clause but are concerned that the management of future bills/ arrears have not been considered.

Division 4 Default assistance

As detailed in table 1 of this document, more than 80% of Powershop customers do not engage with Powershop when their account falls into the debt process. This means that more than 80% of Powershop debt customers will fall into the default assistance category, contrary to ACIL Allen assertions on page 26 of their report for the ESC: NEW FRAMEWORK FOR CUSTOMERS FACING PAYMENT DIFFICULTIES, PRELIMINARY ASSESSMENT OF THE RETAILERS' COSTS.

With the aforementioned in mind, Powershop is concerned that clause 85 (3) will result in a growth of arrears as no action at all will be required from the customer for up to two months (new arrears definition + one month after payment date). This concern is compounded by the fact that the Code seems to imply that retailers issue a payment schedule and then wait for the customer to either pay or not pay, which greatly limits Powershop's ability to communicate and assist the customer.

Powershop is concerned this could be a "rubber stamp" to disconnection, something we would like to avoid. What's the answer? It's probably the most difficult aspect to try and codify in the PDF, but as it stands this isn't the answer in our view. The way in which the notice could be worded, could leave the customer with no option but feeling compelled to pay at the expense of other critical life needs.



POWERSHOP.COM.AU

A better power company

Division 5 Financial Hardship Policies

While Powershop is happy to maintain a Financial Hardship Policy, Powershop does not understand why a Policy is required if there is to be no hardship program under the new framework and the fact that the ESC was quite critical of retailers and their Hardship programs in their report 'SUPPORTING CUSTOMERS, AVOIDING LABELS, ENERGY HARDSHIP INQUIRY FINAL REPORT'.

How the proposed framework will affect energy retailers.

The aforementioned customer impacts mirror the retailer impacts from a debt exposure perspective. Powershop being a monthly billing, tier 2 retailer has an operational model that factors monthly billing cash flow to the overall operation. With the amended Code providing a plethora of options for customers to delay taking action on their debt, cash flow becomes a serious issue for smaller retailers and possibly creates barriers to entry for future retailers – therefore limiting competition.

Powershop is concerned that the following sub-clauses have the potential to drive a growth in customer debt:

- (c) extending by a specified period the pay-by date for a bill for at least one billing cycle in any 12 month period;
- (e) paying any anticipated arrears over a period that is 3 times the length of the customer's billing period.

Of the above mentioned sub-clause's Powershop is particularly concerned with sub-clause (e) for the reasons previously outlined regarding customer outcomes, plus from a Powershop perspective the costs associated with system development, impact on collections cycles and the amount of debt required to be carried by Powershop – does not result in a net benefit for the customer nor Powershop.

Powershop also wish to clarify through this submission that when determining an arrangement under clause 79 (1) (a) and (b) to reduce an existing debt with a customer, is the proposed repayment amount intended to factor in arrears plus; proceeding bills and future energy consumption. It is Powershop's position that payment arrangements factor in the aforementioned factors to ensure the customer is actively reducing their existing arrears while maintaining their ongoing account. Repaying just existing arrears and neglecting future consumption/ arrears would negligent to the objective of reducing debt.



POWERSHOP.COM.AU

A better power company

Development costs

In addition to the retailer/ customer impacts, Powershop also bear the expensive process of system development – expense in terms of build to ensure compliance, but also expense in terms of resources being rededicated for the project from the development of systems to enhance customer experience and help promote customer engagement. Based on our understanding of what is required and the complexity of this change as it relates to our systems, it would cost in the vicinity of \$350,000 to \$400,000 to implement and roll out across our business.

How will the proposed framework affect dispute resolution bodies, and community organisations and agencies?

With a majority of Powershop debt customers falling into the default assistance category, Powershop feel there could be an increase of inquiries to dispute resolution bodies and financial counselling services regarding receiving unsolicited payment schedules from retailers.

While Powershop benefit in more customers approaching financial counselling services (further touched on in section 2. Other matters), Powershop are worried about increased ombudsman costs as a result of default assistance, through mandated payment amounts..

2. Other matters:

Powershop are committed to assisting our customers who are experiencing payment difficulties with their electricity bills, and will continue to try and engage and assist our customers as much as possible. Powershop provide all customers with tools to; track, monitor and effectively reduce their electricity usage. We encourage all customers to understand and engage in their electricity usage and provide assistance to those customers enduring short-term and long-term payment difficulties.

Powershop believe that customers experiencing payment difficulties, especially those on low incomes and vulnerable customers require additional Government assistance to help cope with their everyday living expenses, including energy costs. The Victorian Annual Electricity Concession of 17.5% has not been amended since it was expanded to cover the full year in 2011. In this time, along with overall living expenses- electricity network costs, wholesale costs and retail costs have risen.

Powershop also believe that Victoria should look to implement a scheme such as NSW's Energy Accounts Payment Assistance (EAPA) scheme in place of the Utility Relief Grant (URG) scheme. In short, the EAPA scheme requires customers to approach an EAPA provider and discuss their situation with them. This means that customers have to actually review and discuss their situation prior to receiving the assistance – leading to informed merit based decisions. Powershop believe



POWERSHOP.COM.AU

A better power company

the URGs scheme has a fundamental failure in that it places no accountability on customer to review their situation before receiving assistance.

If you have any inquiries regarding this submission, please contact Haiden Jones.

Email: Haiden.Jones@powershop.com.au

Phone Number: +61 478 326 289

Yours sincerely

Scott Begg

Powershop, Head of Retail Operations