

20 February 2008

Ms Khayen Prentice
Retailer of Last Resort Project
Essential Services Commission
Level 2, 35 Spring Street
MELBOURNE VIC 3000

By email: khayen.prentice@esc.vic.gov.au

Dear Ms Prentice

Re: Retailer of Last Resort Customer Charges: Draft Decision (February 2008)

Thank you for the opportunity to comment on the Essential Services Commission's (ESC's) Draft Decision about *Retailer of Last Resort Customer Charges* (the Draft Decision).

Customer impacts of a RoLR event

The Energy and Water Ombudsman Victoria (EWOV) wishes to make one major point about the Draft Decision: that is, it is lacking in a customer perspective, being almost entirely focused on retailers and the impact of a retailer of last resort (RoLR) event on them. There are a number of adverse effects for customers as well. As we pointed out in our submission of August 2005, these impacts include:

- the automatic termination of contracts with the failed retailer, which may involve the loss of loyalty rebates or other discounts
- being unilaterally transferred from the failed retailer to the RoLR
- being transferred on the basis of an estimated meter reading, which may well be inaccurate
- the automatic transfer of customer information from the failed retailer to the RoLR, which will raise some privacy concerns (especially if this information is used for marketing purposes)
- being automatically placed on the standing tariffs of the RoLR, which may be less favourable than market contract rates, and
- being charged the one-off RoLR supply fee of [at that time] \$44 for electricity and \$23 for gas.¹

¹ EWOV's comments on the ESC's *Energy Retailer of Last Resort – Draft Decision* (15 August 2005) (see www.ewov.com.au at 'responses to regulatory authorities')

EWOV does appreciate the reasons for this draft decision increasing the customer supply charge (previously called the RoLR supply fee) to \$59 for electricity and \$36 for gas. (EWOV assumes these figures are GST exclusive; the Draft Decision does not mention GST.) We acknowledge that RoLRs will incur both administrative costs and largely unpredictable costs of purchasing additional electricity and gas in order to supply those customers.

However, there can be no doubt that the supply charge will be unwelcome and probably inexplicable to many of the customers who are affected by it. It is likely to be perceived as a penalty for picking the 'wrong' retailer. A charge of nearly \$100 for a customer of both electricity and gas whose retailer is no longer able to participate in the energy retail market will appear to many customers as punitive and unheralded, especially in light of the fact that they will also be paying more for their energy because of going onto standing tariffs (or, perhaps, reference tariffs from 2009). EWOV is sure that the imposition of this charge will generate many complaints both to the retailers who are applying it and to EWOV, further increasing the administrative costs of the RoLR event.

Customers experiencing financial hardship

EWOV is particularly concerned about the impact of the supply charge, and indeed the RoLR event, on those people who are experiencing financial hardship. If they were in the hardship program of the failed retailer, either they will need to negotiate their acceptance into the hardship program of the RoLR or stay outside the hardship provisions. At the same time the retailer will be endeavouring to be paid the supply charge. It may be difficult to develop a good relationship in this circumstance.

EWOV suggests that some kind of rebate or concession, provided by Government, is needed on the supply charge for customers experiencing financial hardship. Perhaps it would be possible for the ESC to draw to the Government's attention that this largely unavoidable supply charge will fall harshly on customers in financial hardship, that it is an entirely unanticipated expense, and that retailers, especially the first-tier retailers who will be the RoLRs, have responded to Government initiatives on hardship in a proactive and committed way.

Without a RoLR supply charge rebate or concession for customers experiencing financial hardship, it is likely that the level of default by customers who have been transferred to a RoLR will be high, sparking difficult disconnection issues, and creating a great deal of work for both the RoLRs and EWOV. On this point, we note the following passage from the November 2007 Draft Report by Independent Pricing and Regulatory Tribunal in New South Wales, *Review of retailer of last resort supply fee for small retail customers*:

There is a risk of a higher incidence of customer default among customers transferred after a retailer of last resort event – due to customers not fully understanding the arrangements (despite communications), or not recognising or paying the bill from the retailer of last resort.

Further, credit checking arrangements and the requirement for security deposits may be problematic in a last resort supply event, potentially increasing the credit risk associated with the transferred customers. For example, some customers transferred under the June 2007 last resort supply event [after Energy One withdrew from the electricity retail market] had a previous outstanding debt with the relevant retailer of last resort.

The retailers of last resort were not yet [as at November 2007] able to provide information on the incidence of customer default arising from the June 2007 event. However, Country Energy put the view that the incidence of customer default is likely to be high.

Conclusion

It is outside EWOV's jurisdiction to comment on the amount of the RoLR supply charge. However, we believe our experience in dealing with energy complaints involving customers in hardship enables us to comment on the adverse impact of the proposed supply charge on that customer segment. We do not suggest that it is up to the RoLRs to absorb the costs of providing additional assistance to these customers. Instead, we suggest the ESC is in a position to draw the attention of Government to this aspect of a possible RoLR event, and to urge it to have a contingency plan in place to provide means-tested assistance with the RoLR supply charge for those customers who would have trouble affording it. A rebate or concession would reduce the level of consequent disconnection and affordability issues and customer complaints.

If you have any queries or seek further clarification of the above comments, please contact Stephen Gatford, Manager Public Affairs and Policy on (03) 9649 7599 or stephen.gatford@ewov.com.au.

Yours sincerely



Fiona McLeod
Energy and Water Ombudsman (Victoria)