



3 December 2015

Australian Energy Market Commission
PO Box A2449
SYDNEY SOUTH NSW 1235

Lodged online at: www.aemc.gov.au
Project number RPR0004

Dear Sir/Madam

Re: AEMC Approach Paper – 2016 Retail Competition Review

Thank you for the opportunity to comment on the Australian Energy Market Commission (AEMC)'s *Approach Paper – 2016 Retail Competition Review* (the Paper).

The Energy and Water Ombudsman (Victoria) (EWOV) is an industry-based external dispute resolution scheme that helps Victorian energy and water consumers by receiving, investigating and facilitating the resolution of their complaints.

In responding to the Paper, we have replied to three submission questions from Attachment A which we think are relevant to our experience in handling customer complaints.

Is the approach described above appropriate for this year's review of competition and why?

EWOV supports the broad approach for the AEMC's 2016 review and, in particular, welcomes its focus on vulnerable customers. We believe that this focus is appropriate and timely given that an increasing proportion of EWOV's resources are being spent on credit cases – helping Victorians who are having difficulties paying their bills, disconnected for non-payment or are troubled by debt collection. However, it is important to note that not every credit case that EWOV registers corresponds to a vulnerable consumer. An EWOV credit issue is only one manifestation of vulnerability.

We set out below a table which shows the growth of EWOV credit cases as a proportion of our work over the last five financial years:

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TRENDS IN CREDIT CASES FROM 2010-11 TO 2014-15



As a proportion of EWOV’s overall cases credit cases grew from 16% to 27% over the last five years, and represented 31% of our cases during July to September 2015 – almost a third of all our case work. We are finding that many customers are contacting us with increasingly complex financial circumstances, high levels of account debt and an inability to sustainably resolve their payment difficulties with their retailer.

In [A Closer Look at Affordability - An Ombudsman’s perspective on energy and water hardship in Victoria](#), our March 2015 research paper on EWOV affordability cases, the Ombudsman’s foreword welcomed the work that governments and regulators are undertaking in response to energy affordability:

Over the last 12 months, it is clear from my discussions with our stakeholders and through the public policy conversations we are having about affordability that this issue is a challenge we must address together and in collaboration... Government and regulators are alarmed by the high number of energy disconnections in Victoria and are developing strategies to ensure that companies are providing the appropriate level of support to assist customers and keep them on supply.

Accordingly, based on our case data and research projects, we are pleased to see that a significant part of the AEMC’s review is focused on addressing the barriers to vulnerable customers effectively engaging with competitive markets.

4. Is there any new evidence about what the outcomes are for customers in retail energy markets (such as their level of satisfaction with their experiences) and what does that evidence tell us about the level of competition in those markets?

In the context of this Paper, it is difficult for EWOV to draw any firm conclusions about customer satisfaction with retail market outcomes and, in particular, relating this to the robust level of competition in the Victorian retail energy market. However, we can provide some insight into energy complaints and customer service, which we view as important elements of the market outcome - rather than only prices, switching levels and informed market choice.

We think that taken together, the fall in EWOV cases, affordability concerns and our surveying around customer service provides an insight into the current consumer landscape for Victorian energy customers.

The fall in EWOV cases

In 2014-15, EWOV cases fell by a significant 40%, after case increases almost every year since EWOV opened in 1996. This drop in cases is analysed in EWOV's [2015 Annual Report](#), and can be explain by:

- The addressing of issues that arose from the completion of large-scale billing system changes by energy and water companies.
- Customer service and internal dispute resolution improvements by the companies, particularly for more straightforward (often system-related) and less complex complaints.

However, this downward EWOV case trend does not mean that Victorians are having fewer energy-related problems or are complaining less to their company. EWOV does not know the number of overall customer complaints in Victoria until the Essential Services Commission (ESC) publishes this information in its annual comparative performance reports, which are usually released in December each year. So while we can't yet conclude that Victorians are complaining less to their energy companies; it appears from our case data that energy companies are becoming better at dealing with complaints when they arise as fewer matters are escalated to EWOV. While this is an encouraging trend, there are areas where energy retailers can improve performance, particularly in the handling of affordability and financial hardship complaints.

Affordability is still a major concern

As outlined earlier, the nature of EWOV's work is changing so that we are handling an increasing proportion of affordability related complaints. This is examined in general above and will be looked at below in the context of marketing and transfer issues.

EWOV consumer research suggests customers are not happy with the level of service

In March 2015, EWOV released a paper, ['Can I speak with a manager? An analysis of energy and water company performance in handling your complaint'](#), which surveyed 1,608 EWOV customers about their experiences with their company. The main objective of the paper was to help energy and water companies in their aim to drive customer service improvements and minimise complaints to us.

The following is a list of the paper's key findings:

Timeliness

Before contacting EWOV:

- 76% of surveyed customers called their company more than three times to try to resolve their complaint.
- 62% of surveyed customers spent more than three hours trying to resolve their complaint.
- 51% of surveyed customers gave their company more than a month to fix the issue.

Customer service

- 86% of surveyed customers said that the company contact centre's customer service was poor or needed improvement.
- 83% of surveyed customers said that the company manager's customer service was poor or needed improvement.
- 44% of surveyed customers called EWOV for assistance because the company did not fix the problem as it promised.

Internal company escalations and referrals

- 93% of surveyed customers said that they either weren't offered or were refused an escalation to a company manager, or they were only provided an escalation after they had requested it.
- 7% of surveyed customers stated that their complaint was proactively referred by contact centre staff to a higher level within the company.
- 32% of surveyed customers were refused a referral to a higher level contact at their company, such as a manager or specialist, despite making such a request.

The paper's research suggested two findings to EWOV. Firstly, that most customers are prepared to be patient in addressing complaints with their company before needing to contact us. And secondly, there is clearly room for energy and water company improvement in the service they provide their customers when resolving complaints – both in a procedural and relational sense.

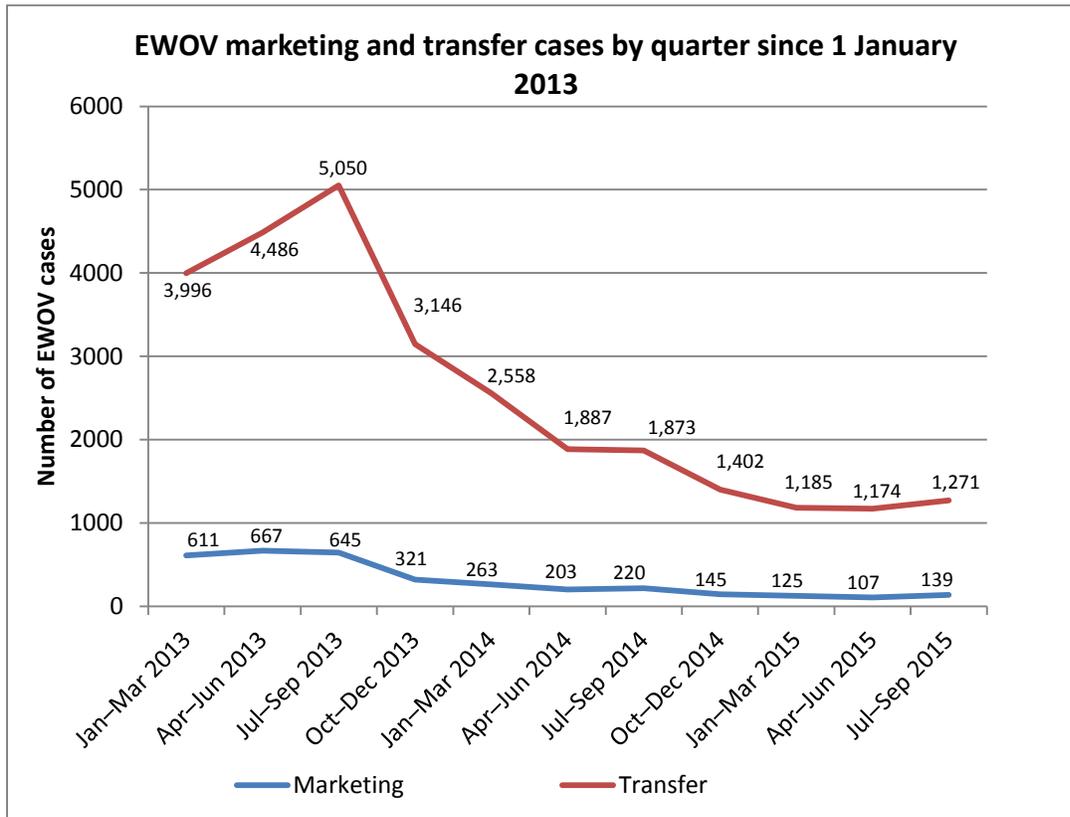
7. What are the differences between the experiences of vulnerable customers in retail energy markets and other customers; and what do these tell us about how effectively vulnerable customers are able to participate in retail energy markets?

As explained earlier, almost a third of our work now involves helping people who have affordability and financial hardship problems – disconnections, payment difficulties, debt collection, and credit ratings. However, from a market efficiency perspective, it is difficult for EWOV to make a comparison between how vulnerable and other customers effectively participate in the energy market.

Nevertheless, broadly speaking, we have found that customers who present to us in financial hardship are more impacted by their problem with their company, and often don't have the resources to navigate the complaint themselves. While this is most self-evident when customers do not speak English as a first language, have apparent literacy issues, or suffer illness or disability, we are also finding there is a growing energy affordability concern in the broader community. This view is based on what we understand from the cases we receive and not on the complex social and economic reasons for financial hardship and the cost of energy.

The complaint issues that most represent customer participation in the energy retail market are transfer and marketing cases. In such cases we do not make a distinction between vulnerable and other customers, unless there is an associated affordability issue also expressed by the customer. However, to assist the Commission's understanding of our work, we set out below some EWOV marketing and transfer case data trends, our understanding of vulnerable customers with these types of complaints and a customer case study.

EWOV marketing and transfer cases



As you can observe in the graph above, EWOV's marketing and transfer cases have declined significantly over the last two years. There has been a 78% drop in marketing cases and a 75% fall in transfer cases since the July to September 2013 quarter. For comparison, over the same two year period EWOV's overall cases fell by a smaller 60%. The accelerated decrease in marketing cases is mostly explained by the big three retailers stopping door-to-door marketing. The fall in transfer cases is primarily driven by a large retailer completing a billing system upgrade. However, it also suggests that retailers might be better managing transfer issues in-house, customers may be having fewer transfer problems and transfers may be progressing with more ease and speed.

EWOV marketing and transfer cases and vulnerable customers

By nature of their vulnerability, this customer set is more likely to be confused and misled by energy marketing, less likely to navigate the market to find the best deal and less likely to fix a problem themselves should a transfer go wrong.

In the context of marketing cases, EWOV finds that most complaints to us involve an aspect of vulnerability. It may simply be a lack of assertiveness to tell a marketer to 'go away' or, more seriously, a disability or language barrier allowing a customer to be misled and manipulated by a sales agent. Where a customer presents themselves to EWOV as particularly vulnerable, we will suggest they use a 'Do Not Knock' sticker and sign up to the 'Do Not Call' register.

In the context of transfer cases, we find that vulnerable customers are disproportionately impacted by transfer delays or errors and many are not on their retailer's best available market contract.

EWOV receives many cases where customers complain about a delay in their electricity or gas transfer process between retailers. Typically, a customer who has experienced a delay in transferring to their new energy retailer would also complain that they have not received their first bill, or that when received, the bill is higher than expected as it relates to a longer than usual billing period (sometimes several months). This may have serious financial repercussions for customers, especially if they are experiencing affordability or financial hardship issues. They may need a payment arrangement for the larger bill which could have consequential effects on their household budget and payment of other expenses.

Also, when investigating a hardship-related complaint, EWOV encourages the energy retailer to offer the customer the best available and most appropriate market contract, taking into account exit fees and usage patterns. While we do not collect specific data on this outcome, we find that many customers are not on the cheapest option. This can unnecessarily add to their financial difficulties.

EWOV case study

Customer statement

This case was received by EWOV on 31 March 2015 and illustrates how misleading phone marketing and a resulting transfer without consent caused further financial problems and confusion for a vulnerable customer.

The customer was receiving a disability pension for a serious illness and was having financial problems. She received a sales phone call from a retailer representative who was marketing a new energy contract. She initially declined the contract, explaining to the representative that she was happy with her current retailer. The representative then told the customer that 'nothing would change, except she'd get cheaper rates'. She understood this to mean that she would remain with her preferred retailer.

A few months later she received a bill from the retailer for about \$276. This surprised her because at the time of marketing she was not aware that she was entering a new contract. She felt stressed by the situation and left the bill unpaid. She said she was later contacted by the retailer asking for payment of the \$276 bill or the account would be referred to debt collection. She suggested to the retailer that she could pay the bills in instalments, but it refused this offer. She contacted her earlier retailer to arrange a transfer back to it and contacted EWOV for assistance with the marketing retailer.

EWOV's investigation

EWOV raised an Assisted Referral and a higher level staff contacted the customer. However, she recontacted EWOV telling us that she could not afford the retailer's payment offer of \$49 a fortnight, the retailer had not applied her concession to the account and it did not address the marketing behavior of its representative. The customer advised EWOV that the most she could afford to pay was \$30 a fortnight.

Our check of the Market Settlement and Transfer Solutions (MSATS) database confirmed that the retailer had taken over the billing rights to her property for four months and that the rights had now transferred back to her earlier retailer.

EWOV handled the complaint using our Real Time Resolution process to address the retailer's marketing conduct and the customer's payment difficulties. We ensured that the customer's concession was applied to the account. We listened to the sales voice recording and identified that there was potential for confusion and a lack of customer understanding when the sales representative discussed the difference between a retailer and a distributor. This view was passed on to the retailer for internal action.

Resolution

The retailer apologised for the inconvenience caused to the customer and to recognise this credited her account with \$82. It also applied a concession to the account of \$44, leaving an account balance of \$210. The retailer agreed to a payment plan of \$30 a fortnight until the account is paid, advised that the account had not been referred to debt collection and provided a direct company contact should the customer have any queries. The customer was satisfied with the outcome and the terms of the resolution and the complaint was closed.

We trust that these comments are useful. Should you require further information or have any queries, please contact Justin Stokes, Senior Research and Communications Advisor on (03) 8672 4272.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Cynthia Gebert', with a stylized flourish at the end.

Cynthia Gebert
Energy and Water Ombudsman (Victoria)