



7 April 2016

Australian Energy Regulator
GPO Box 520
MELBOURNE VIC 3001

By email: AERInquiry@aer.gov.au

Dear Sir/Madam

Re: Australian Energy Regulator's Draft Sustainable Payment Plans Framework

Thank you for the opportunity to comment on the *Australian Energy Regulator (AER)'s Draft Sustainable Payment Plans Framework* (the Framework).

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.

EWOV's comments on the AER Framework's proposed set of principles, best practice flow chart and framework implementation are based on our experience in handling customer complaints and are supported by the findings of our 2015 research paper, [A closer look at affordability – an Ombudsman's perspective on energy and water hardship in Victoria](#)¹ (the Affordability Research Paper).

EWOV's affordability caseload

A significant proportion of EWOV's resources are applied to credit cases – customers who have payment difficulties, are disconnected for non-payment or are concerned by debt collection. As a proportion of EWOV's overall cases, credit cases increased from 16% to 27% over the last five years², and represented 30% of our cases during the October to December 2015 quarter³ – almost a third of all our case work. Many customers are contacting us with increasingly complex

¹ See <http://www.ewov.com.au/reports/a-closer-look-at-affordability>

² See EWOV's 2015 Annual Report - <http://www.ewov.com.au/publications-and-media/2015-annual-report>

³ See EWOV's Quarterly Affordability Report (February 2016) - <http://www.ewov.com.au/reports/affordability-report-february-2016>

financial circumstances, high levels of account debt and an inability to sustainably resolve their payment difficulties with their retailer.

The graph below shows the growth of EWOV credit cases as a proportion of our work over the last five financial years⁴:

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



The framework's set of principles

Although unenforceable, the AER's development of a set of principles to guide retailers' engagement with customers provides a clear statement about the service standards to which retailers should target. We respond below to each specific principle.

Empathy and respect

We agree that retailer empathy and respect are key ingredients to building a working relationship with customers. However, in the context of payment plans, we often find that customers contact EWOV as a result of unhelpful discussions with their company. EWOV's Affordability Research Paper states:

In the context of affordability, customers tell EWOV that staff would not listen or understand their payment concerns or financial circumstances, but rather follow impersonal scripts and company processes. It appears that sometimes staff show a lack of empathy to customers and are unskilled in building working rapport to help resolve

⁴ This graph is taken from EWOV's 2015 Annual Report, page 28 - <http://www.ewov.com.au/publications-and-media/2015-annual-report>

*affordability problems. Customers often tell us that they feel they are not being listened to.*⁵

Customers who contact EWOV with payment problems can sometimes be the most difficult to help – appearing evasive, confused and distressed. While this is a customer service challenge, a personable and sensitive interaction based on empathy and respect can help reduce these communication barriers and lead to meaningful payment plans discussions. It is important that the individual retailer determines who is best to have these conversations with customers, which may not be the call centre staff, but rather a specialist in hardship matters. Whoever it may be, it is important that they are skilled in empathic relationship building, avoid judgment and respect the customer’s individual circumstances.

Flexibility

EWOV agrees with the AER’s focus on flexibility as a key element in providing maintainable payment arrangements with energy customers. EWOV’s Affordability Research Paper states:

*During our investigations we sometimes find that customer affordability could have been better dealt with if the retailer adopted more flexible and intuitive methods when dealing with the customer, rather than a heavy reliance on company policies and processes, which can often be delivered without any rapport.*⁶

In EWOV cases, we explore an individual customer’s financial and household circumstances to help us conciliate outcomes that are reasonable for both parties. We use various practical conciliation tools to do this, including home energy audits, efficiency recommendations and household budgetary advice. In many cases, complaint resolutions are agreed where a customer commits to a payment arrangement for three months, while they adjust usage behaviours, complemented by support from a retailer hardship program. After three months, if the support and behavioural change was successful, there may be opportunities for the customer to adjust their payments in the longer term.

It is hoped that the AER’s framework will encourage retailers to be flexible in their approach to payment plans and innovate to provide short-term assistance and sustainable long-term solutions to customer payment problems.

Consistency

EWOV agrees with the AER’s view that retailers should provide a consistent high standard of assistance when engaging with customers about payment plans. For example, a key service

⁵ See page 11 - <http://www.ewov.com.au/reports/a-closer-look-at-affordability>

⁶ See page 12 - <http://www.ewov.com.au/reports/a-closer-look-at-affordability>

standard which should consistently apply is the offering of a sustainable payment plan at the earliest opportunity. However, consistency in service standards should not be at the expense of innovative outcomes tailored to an individual's circumstances and payment position. As stated earlier, once a customer is engaged, a flexible and personalised approach is more successful in providing effective hardship assistance.

Best practice flow chart

EWOV welcomes the flow chart as a best practice way for retailers to engage with customers who are having difficulties paying their bills. It is a sensible and realistic way for retailers to interact with their customers. While some energy retailers would already follow these practices, it is EWOV's experience that some do not. We've observed in our case work that some customers are not being provided with affordable payment plans based on their "capacity to pay". EWOV's Affordability Research Paper states:

In 79% of the affordability cases examined, EWOV's Financial Assessor recommended a payment arrangement which was less than the payment plan offered by the customer's retailer, after its capacity to pay assessment.⁷

This research suggests that some retailers were not offering affordable and sustainable payment arrangements to customers in financial hardship before they contacted us for assistance.

Option C in the Framework's flow chart is a key assistance element which will help encourage more sustainable payment plans and help 'reduce the gap' between the energy a customer can afford and what they use. However, EWOV is concerned that the flow chart does not promote early customer engagement, instead relying on customers to self-report their payment difficulties, with the potential consequence of permitting debt to grow. In this way, the flow chart does not help minimise customer (and retailer) exposure to account arrears. EWOV's Research Paper states:

By not making an early assessment of the customer's capacity to pay and providing a sustainable payment arrangement, some retailers are allowing customer debt to grow rather than addressing the affordability issues head-on.⁸

We reported in EWOV's [Quarterly Affordability Report \(November 2015\)](#),⁹ that the median average debt at the closure of an EWOV affordability-related Investigation was \$1,223.88.

⁷ See page 29 - <http://www.ewov.com.au/reports/a-closer-look-at-affordability>

⁸ See page 24 - <http://www.ewov.com.au/reports/a-closer-look-at-affordability>

⁹ See page 12 - http://www.ewov.com.au/_data/assets/pdf_file/0015/16080/Affordability-Report-November-2015.pdf

However, it's not uncommon for us to resolve cases where the customer comes to us with arrears of between \$2,000 and \$4,000. In many cases, it would be unlikely that the customer could pay-off debt at these levels, while also maintaining payment of their ongoing energy use. On the other hand, the early engagement by energy retailers with customers showing indications of payment difficulties will help to minimise their company's expose to future debt.

The Essential Services Commission addressed this issue in its [Hardship Inquiry Final Report – Supporting customers, avoiding labels](#)¹⁰ by proposing an automated support trigger, so that when a customer misses a bill payment, they will automatically be put onto a payment plan that spreads out payment of the bill periodically over time. This proposal works because it is an objective test which doesn't rely on retailers making their own capacity to pay assessments and is timely because it is initiated early - when a bill payment is first missed.

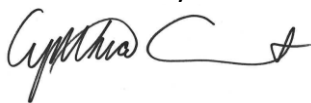
Framework implementation

EWOV will continue to work with the AER under the existing [Memorandum of Understanding](#)¹¹ which, if requested, would include sharing information about energy retailers who appear not to be following the AER's Framework.

The AER questioned whether a retailer who adopts the Framework and is put on a publically published list will expose itself to greater scrutiny by Ombudsmen schemes. However, due the way EWOV resolves complaints, being on the list will be immaterial to a complaint outcome. EWOV handles all complaints with the aim of achieving 'fair and reasonable' outcomes, having regard, among other factors, to good industry practice and the law. Therefore, the Framework's principles and best practice guidance will be another contributing factor in informing EWOV's view of fairness and reasonableness in a complaint, regardless of whether or not it is adopted by a particular retailer.

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



Cynthia Gebert
Energy and Water Ombudsman (Victoria)

¹⁰ See <http://www.esc.vic.gov.au/getattachment/7fc9b1bf-2d7f-4c78-abfb-a699356daf67/Energy-Hardship-Inquiry-Final-Report.pdf>

¹¹ See http://www.ewov.com.au/_data/assets/pdf_file/0018/5940/EWOV-ACCC-AER-MoU.pdf