

Examining the Research to Assist in Delivering Improved Services to Disadvantaged Customers

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Examining the research to assist utilities in delivering improved services to disadvantaged customers

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Credit & Collections in Energy and Water, 28-29 May 2013, Melbourne

About CUAC

Established in 2002 to:



Represent all Victorian energy and water consumers in policy and regulatory processes



Facilitate and undertake research on consumer utilities issues



Monitor grassroots consumer utilities issues with particular regard for low-income, disadvantaged and rural consumers

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The Consumer Utilities Advocacy Centre was established in 2002 to represent Victorian consumers in policy and regulatory forums. Our establishment was in large part a result of strong consumer advocacy to government for a consumer voice in the structural reform process of the essential services of energy and water. In our research and advocacy work, CUAC looks at issues that affect all consumers of energy and water. In addition, we have a specific objective of monitoring the needs of low income and vulnerable consumers – and this is an area of work that everyone at CUAC is passionate about.

So I'm really pleased so to be presenting at this conference where I think there's a wide recognition of the social responsibility of ensuring that consumers are not denied access to energy services or the ability to participate fully in society simply because of an inability to pay.

Overview of Speech

In my presentation today I'm going to be drawing on that unique experience CUAC has as a consumer organisation with a dual focus on general consumer issues *and* disadvantaged consumers in particular.

While it is important that our efforts are focused on the credit and collections processes being discussed today, I also think that we mustn't lose sight of the overall context within which payment difficulty and hardship occurs. So I'm going to talk about the fundamental structure of our energy market and the policy settings that we need to enable effective consumer participation and to keep prices down and affordable for all.

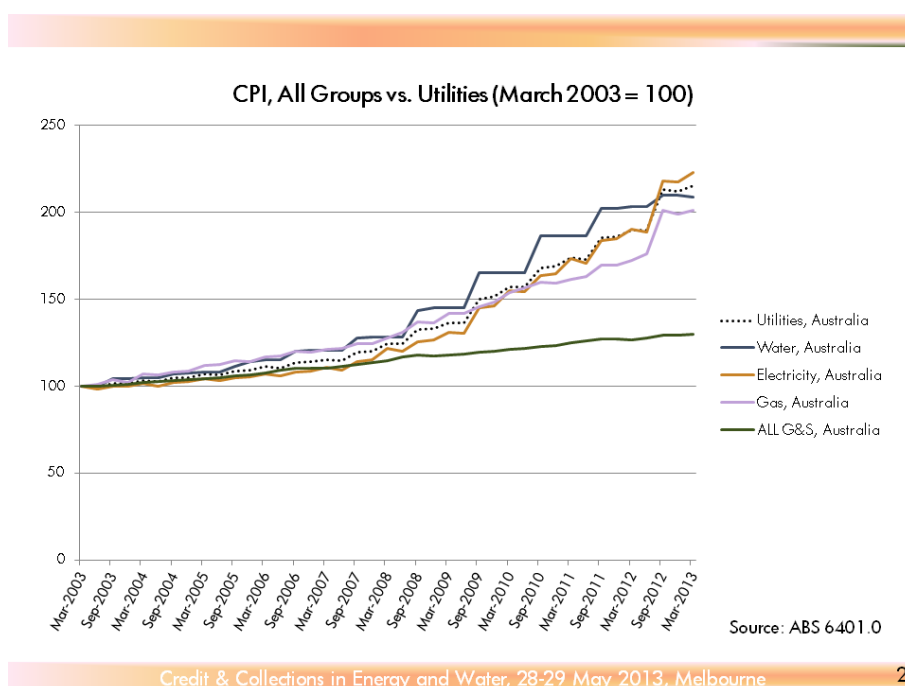
I'm then going to discuss what the research tells us about dealing with payment difficulty and hardship at the retailer level – that is, about the general customer service practices and the specific hardship processes that are actually effective in helping consumers who are struggling to

afford energy. While much of what I'll talk about today is relevant to both energy and water, my major focus will be on energy, where the need for improvement to both policy settings and customer service and hardship processes is arguably much greater.

Context – Prices and Affordability

Before I get on to talking about the policy settings and improving services to disadvantaged customers, I think it's useful to look briefly at the trends in prices and how these trends are impacting on consumers.

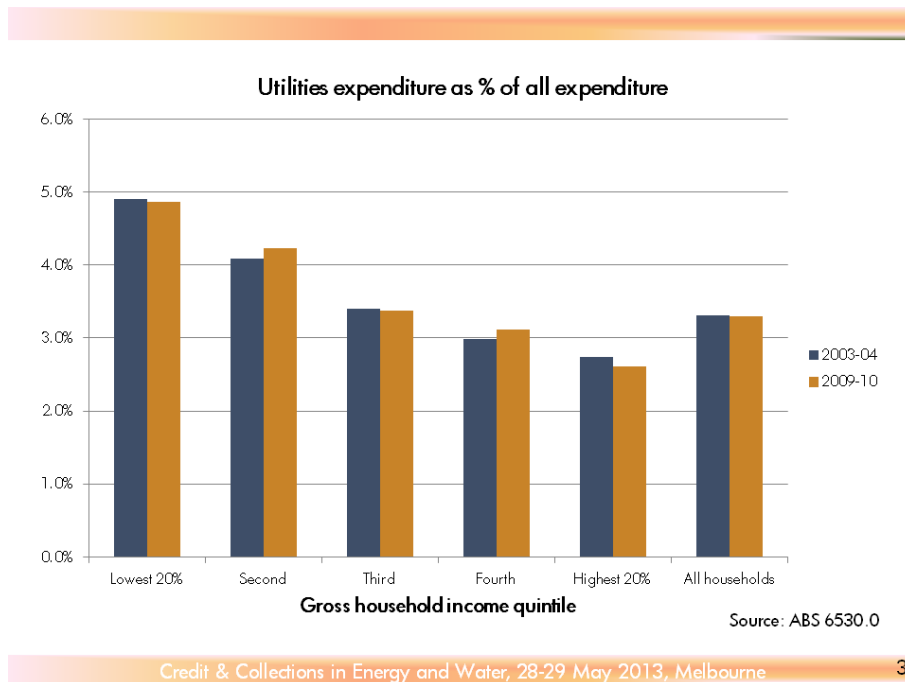
At this point I'd like to look back at household expenditure and utility prices over the last decade.



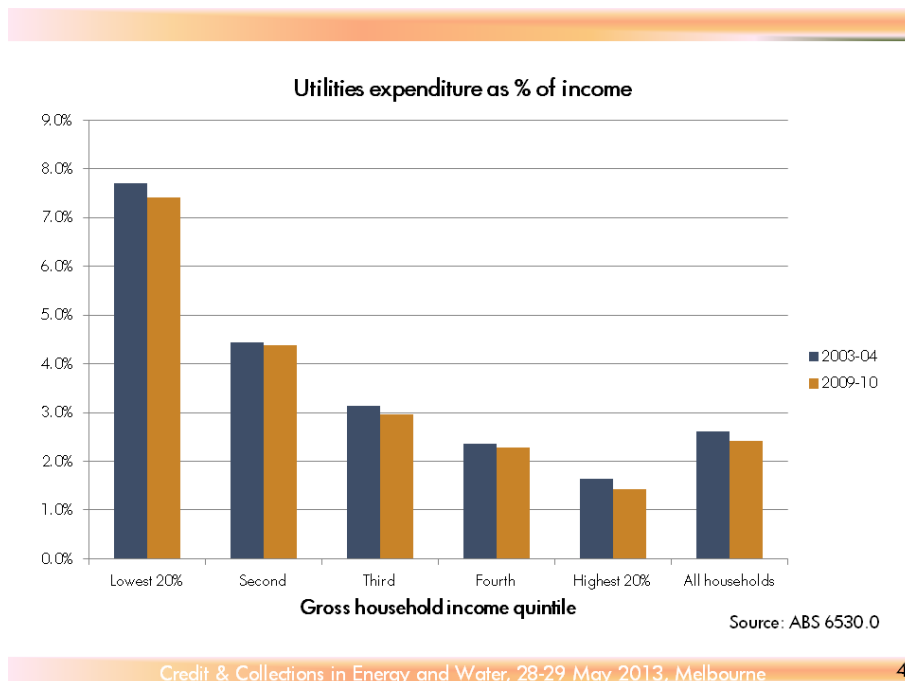
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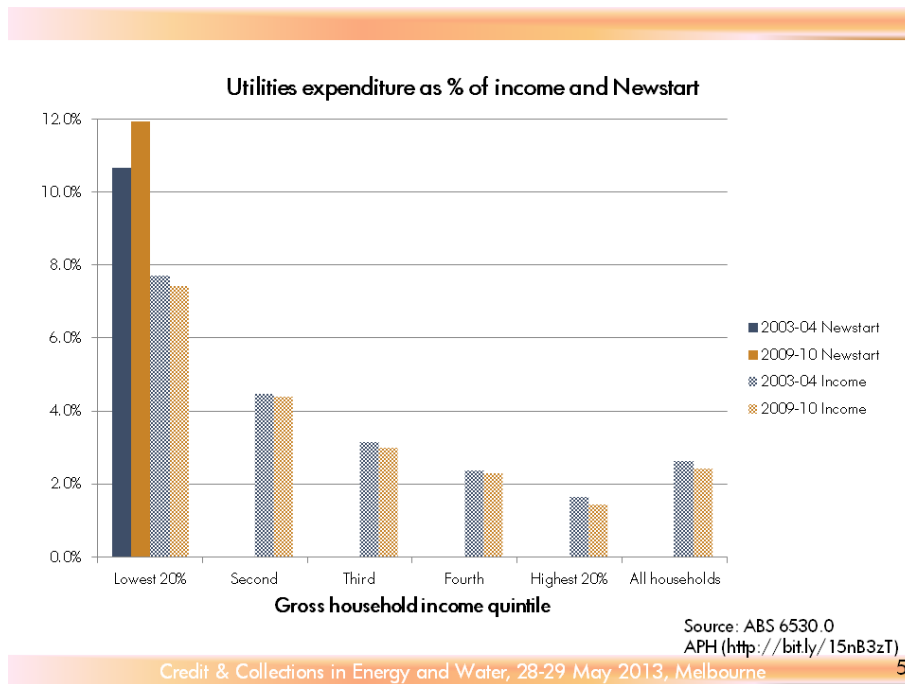
As we all know, electricity prices have risen across Australia in the last five years, due chiefly to increases in network and distribution costs. However, water and gas have also become markedly more expensive, with prices diverging from general CPI increases in the last five years also. To the extent that gas is a production factor of electricity, and electricity is a large cost component of water, the co-ordinated rise of utility prices is perhaps not surprising – but no less striking. While the general CPI rose 30% in the decade to March 2013, utility prices rose 115%.



From the ABS's five-yearly surveys we know how much households spend on various categories of goods and services, including utilities. The latest survey was in 2009-10, and shows that, while utility costs as a proportion of household spending were reasonably low in all income groups, households with the lowest 20% of incomes spend almost twice as much, proportionally, households with the highest 20% of incomes – 4.9% to 2.6%.



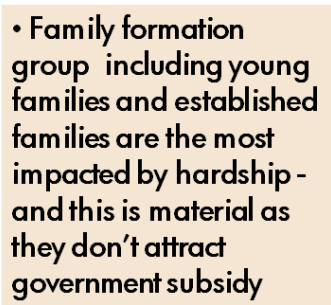
That was utility costs as a proportion of *expenditure*. As a proportion of *income*, utilities costs are an even greater component for low-income households than for high-income households: in 2009-10, the top quintile spent 1.4% of their incomes on utilities; the lowest quintile spent 7.4%. For people on low incomes, utility prices matter.



For the vulnerable – the unemployed on Newstart payments in particular, and people with disabilities on social security payments – utilities matter yet more again. This slide shows how much the average energy bill for someone in the lowest-earning 20% would take out of Newstart payments. (The average quintile incomes from the last slide are left in for comparison.)

I remind you that these are 2009-10 figures. In the three years since, utility prices have increased by 35-40%; Newstart payments by roughly 8% - so utility costs, for this group today, are almost certainly even more than the 12% of income shown here. In the UK when expenditure on utility bills is 10% of your income this is classified as fuel poverty and is the benchmark for social intervention programs.

We know that managing these utility costs and staying connected to essential services is increasingly difficult for this group of consumers. In its 2012 hardship survey, Anglicare Australia interviewed 187 Victorians who applied for emergency relief services. 85% received either the Newstart allowance, Parenting Payment, Disability Support Pension, or other Centrelink payment. More than half had been seriously behind in paying electricity bills in the past year, and 14% had had their electricity supply disconnected.



Paul Simhauser (Chief Economist at AGL Energy Ltd and Professor of Economics at Griffith University) and Tim Nelson (Head of Economics, Policy and Sustainability at AGL Ltd and an Adjunct Research Fellow at the University of New England) in their paper, "The Energy Market Death Spiral – Rethinking Customer Hardship" published in June 2012 examined their residential customer base of 2.4 million customers. Their paper challenges the existing assumptions that people experiencing payment difficulty and hardship are only those on benefits, including the aged, those on disability pensions and the unemployed. They estimate that 16% of AGL customers display varying signs of hardship but this rises to 1 in 4 in the family formation group.

context that credit collections in energy and water operate, and CUAC's po

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Competitive Retail Markets

Retail market competitiveness



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It is of little use us looking at the credit and collection process without addressing the efficiencies needed to drive energy prices down. I mentioned earlier that CUAC has a strong interest in the overall market and policy context in which payment difficulty and hardship occurs. In energy, our research and advocacy has spanned a number of areas that impact on the price consumers pay for energy at the end of the day. Recent areas of work include the distribution price setting framework, arrangements for national energy consumer advocacy to provide balance in the interests of consumers, and the effectiveness of consumer participation in the energy retail market.

It is this issue of energy retail market structure and participation that I want to go into a bit more detail on now. Late last year, CUAC undertook a small piece of research looking at retail market concentration in Victoria. Using two different measures of market concentration, we looked at concentration in business and residential electricity and gas retail markets from 2009 to 2012. This analysis found that even with deregulated retail pricing in Victoria since 2009 and one of the highest churn rates in the world, the three tier one retailers Origin, AGL and Energy Australia still retain very significant shares across both gas and electricity retail markets, while the market's four largest firms control over 80% of the market.

In a similar vein, the Essential Services Commission released a report late last week examining retail price margins, finding, broadly, that for those consumers on standing offers – who have not taken up market offers or who have defaulted back to these offers - the net retail margins have increased considerably. Moreover, in the last period examined, particularly during 2011-2012, there also appears to have been an increase in retailer gross margins in market offer prices.

Why is it that consumer choice does not seem to be driving down prices, putting downward pressure on retailer margins, or seeing greater challenge to the dominance of the largest retailers? CUAC investigated this theme in our 2011 report *Improving Energy Market Competition*

Through Consumer Participation. Consistent with what we've learned from other research, we found that the most common reason for switching was to seek a lower price, which was the major motivation for 52% of respondents to a survey we did for this report.

While consumers are seeking lower prices, they are often unable to assess price effectively – they are making choices on the basis of complex or less helpful information provided at the door, on the telephone, or online. 42% of respondents to our survey said they found it difficult to understand offers, and consumers who had switched door-to-door tended to be less confident about having gotten the best deal for their circumstances. This is not surprising – consumers switching at the door can't shop around, after all. It is concerning, though, particularly when you consider that door-to-door sales is estimated to account for more than half of the switching in Victoria's market.

When consumers are having trouble identifying the best offer for their circumstances, this reduces the incentive for second tier retailers to offer more competitive prices, instead providing an incentive for all retailers to attract consumers through other channels such as marketing and promotion. If marketing expenditure, rather than product differentiation and innovation, is a significant factor in retaining market share, this would advantage incumbent retailers and provide a barrier to new entrant retailers. Another possibility is that second tier retailers cannot offer more competitive prices, and this is cause for concern.

CUAC believes that the current practice in the energy industry of offering consumers contracts of a fixed duration that allow retailers to increase prices and impose an exit fee if the consumer wishes to leave the contract is both unfair and counter productive to driving prices down and that both the NECF and Victorian energy retail code which allows this, needs to be reformed.

Flexible Pricing Reforms

Flexible pricing reforms

- Flexible tariffs will be voluntary and require explicit informed consent
- Customers can revert to their previous flat tariff without an administration fee
- An independent price comparator that uses households' own smart meter data will be developed

Coming into this environment of complexity and less-than-optimal consumer decision-making, Victoria is now soon to see the introduction of flexible pricing of electricity. This reform is designed to limit the need for further generation, improve the efficiency of our use of the electricity system, and in so doing restrain upward pressure on prices. At the same time, other benefits from the roll-out of smart meter infrastructure, such as reduced meter read costs and remote connection and disconnection, are intended to deliver long term benefits for consumers.

A Deloitte study commissioned by the state government and released in August 2011 looked at the potential impacts of flexible pricing on different consumer groups. Deloitte's modelling showed that average customers in a vulnerable group will only be slightly better or worse off under different time of use scenarios. This is heartening, because there was some concern that vulnerable consumers, who are more likely to be at home during peak times, would be made substantially worse off by the change. Even so, Deloitte also found that there is significant variation around the average. The analysis concluded that 50 per cent of residential customers could individually experience a reduction in their bills of 24% or an increase of 12%. Some individual vulnerable customers may experience large annual bill changes.

So at the individual level, there is potential for consumers to benefit or be disadvantaged by flexible pricing. We need policy settings and business practices that will,

- firstly, help consumers to make an appropriate choice about whether or not to try a flexible tariff;
- secondly, help those for whom a flexible tariff is suitable to benefit further, for example, by shifting load; and
- finally, minimise the potential for serious disadvantage where a consumer ends up on a flexible tariff that is not appropriate for their circumstances.

Information, education and simple decision-making tools are an essential part of this equation. Flexible pricing brings with it the challenge of further complexity in choice of products, and another level of difficulty in assessing what offers are appropriate based on a given consumer's circumstances and consumption. The government has committed to providing an independent comparator site that will assist consumers to identify a range of products that may be suitable for their households based on their actual usage data. An extensive communication campaign will be key to the success of the take-up of the comparator site. If this independent comparator site is effective and well-publicised, it will be an enormous help to consumers in deciding whether or not, and which, flexible pricing offer to take up.

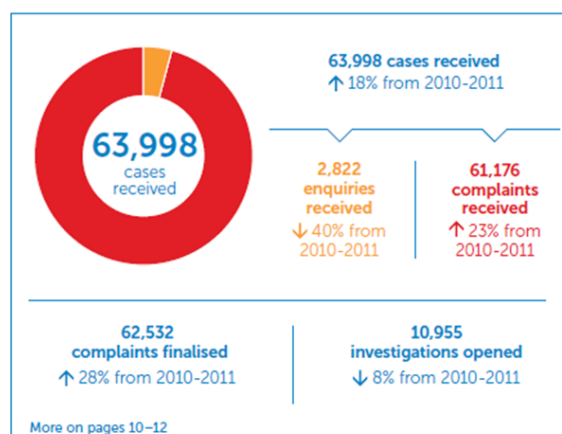
Given that consumers already have difficulty in understanding offers and making choices to their benefit, the introduction of flexible pricing, marketed through the existing channels of door to door, telemarketing and commercial switching sites poses some further risks to vulnerable consumers. There need to be mechanisms in place to minimise the risk of disadvantage, and we are pleased that the Victorian government is introducing flexible pricing on a voluntary basis and proposes that consumers can revert to flat tariff offers. At the retailer level, businesses will need to

give consideration to how they will assist consumers with large impacts on bills in particular quarters, for example, by offering bill smoothing.

In order to benefit from flexible pricing, however, consumers also need tools and resources that allow them to access the information from their smart meter so that they can identify suitable market offers and be alerted to the changes they need to make to their behaviour. To date we have been disappointed that there has not been more innovation in this area, in particular by retailers and in particular for vulnerable groups. We understand that some portals and computer-based resources have been developed and are useful for many consumers. However our research shows that low income and vulnerable consumers are often not able to access computers and the complex information available there – instead preferring face to face information from trusted sources, simple, picture based resources and case studies.

Customer Service

Customer service



Source: EWOV, 2012 Annual Report, Cases at a Glance

I now want to shift focus from the policy level to the retailer level, looking at what we know about good customer service and about assisting customers in hardship specifically.

Good customer service at the crucial first point of contact is important to consumers in hardship. In 2011 we did some research with Aboriginal consumers of energy and water, looking at their experiences with and views about these services. This research alerted us to the specific needs of the indigenous community, but also shone some light on the experience of all customers when approaching retailers about payment difficulty. Retailers often say that they find it difficult to assist people who don't initiate contact with them or respond to their bills and notices or even to direct phone calls. Consumers, on the other hand, raise issues about their shame and embarrassment which often prevent them from making contact. When they *do* make contact, they may be spoken down to, or have to repeat their story many times, or not get referred to hardship

teams. This is unfortunate because when vulnerable customers do get the opportunity to speak with hardship teams they are generally reported to be much more understanding and easier to speak to.

If you consider the cases investigated by the Energy and Water Ombudsman (Victoria) Annual Report 2012 some key issues emerge for your consideration:

In 2012 63,998 cases were received 18% up from 2010-2011

Customer service



Source: EWOV, 2012 Annual Report

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The contrast between the performance of the electricity, gas and water utilities is remarkable. Customer choice in electricity and gas should be driving improvements in customer service, but this does not appear to be happening in practice.

CUAC believes that improvements are urgently required by energy retailers at the frontline call centres, and that more needs to be done to identify consumers with payment difficulties using system alerts, proactive contact and warm and friendly service to assist consumers with bill smoothing options and an easy pathway to further assistance in the form of hardship team assistance. A one-call approach to identifying and actioning the customer's issues.

Frontline customer service staff need to be given the same training provided to hardship teams to assist their understanding of the broad range of energy consumers, their needs and options. More should be done by the energy retail industry to learn from water retailer customer service approaches. Unless something is done to urgently improve this process we believe that ombudsman complaints will continue to rise and more and more consumers will find themselves disconnected from supply.

Australian consumers have very low trust levels for energy retailers and energy retailers should be working to lift their game and restore industry credibility. In the UK where their deregulated

market is a number of years ahead of ours, poor market behaviour has led to a recent trend towards re-regulation of their market.

Hardship Programs

Hardship programs – best practice research



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There are many service providers here today that have a high level of understanding of what works and what doesn't. CUAC's focus today will therefore be again on the research. While the price context and consumer profile has changed, some of the research and strategies identified in the past are we believe just as pertinent to successful outcomes now. I would like to point you to some research that has stood the test of time.

The Committee for Melbourne Utility Debt Spiral Project was a joint community, government and business initiative designed to explore the relationship between utility debt and poverty and to identify social and regulatory frameworks and policies to assist people at risk, and identified a best practice approach to assisting people in hardship. This report was published in 2004, so the context has changed and some useful innovations have been made since then and hopefully more will arise from this conference and other initiatives. However, this report identified approaches - such as the separate identification of debt and future consumption, the application of debt waivers, and incentives and energy efficiency solutions to future consumption – that work. We believe that energy retailers have abandoned many of these successful strategies. The Essential Services Commission Customer Performance reports show a high failure rate for customers on hardship plans and a worrying trend for customers to finish plans with a higher level of debt than when they started the plan. This indicates to CUAC that there has been a failure to identify capacity to pay and that hardship plans in these circumstances represent no more assistance than bill smoothing.

More recently, in 2011 the ESC commissioned Hall and Partners / Open Mind to investigate the energy and water consumer experience of financial hardship, and to identify good and bad practices in this area. This is also a valuable report, which emphasises the importance of consistent good customer service practices; clear, accurate information provision; proactive identification of customers who might be eligible for assistance; flexibility in payment plans; avoiding threats of disconnection to customers who are trying to pay; keeping good records of customer interactions so that customers do not have to continually repeat information; and providing extended services to enhance efficiency and minimise bills.

So we already know, from research and from experience, a lot about what works and what doesn't in hardship programs. Unfortunately, we believe that energy retailers aren't following these guidelines and that customer service standards, generally and in relation to hardship, are falling. Hardship programs have become little more than payment plans. The use of incentives has dropped away, as has assistance with energy efficiency.

Conclusion

Conclusions

- Address income support levels
- Implement best practice concessions Australia-wide
- Treat access as a central issue in policy development and reform
- Monitor and enforce consumer protections
- Accompany technological and policy change with consumer tools and education
- Improve energy retailers' general customer service
- Implement best practice hardship support

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Utility price rises are impacting on low income and vulnerable groups as they are spending an increasing proportion of their income due to the fact that welfare payments are not keeping pace with utility increases.

The federal government must urgently address the issue of people on Newstart payments as a priority and other groups whose income support payments are seriously lagging behind the costs of essential services.

With the adoption of the National Energy Customer Framework the disparity between concessions arrangements in different states needs to be addressed. CUAC believes that this will

necessitate all governments working together so that we have best practice concessions across the country.

Policy development in the essential services needs to keep access and affordability issues front of mind. Government and regulators need to focus on the regulatory settings that will produce an efficient energy and water market where all consumers can participate to their benefit.

Regulators need to monitor and enforce consumer protections – so that consumers can have confidence in the integrity of the market.

In introducing technical innovation and policy change, governments need to be mindful of the need to ensure that consumers have the tools and resources specific to their needs to allow that participation. Technology and flexible pricing present specific challenges for vulnerable consumers and rollouts must provide options, education, independent comparison sites and resources and tools to ensure these consumers are not left behind.

Energy retailers in particular need to lift their general level of customer service and better connect their customers with appropriate products and services. The year on year increases in complaint numbers, and the increasing numbers disconnected from supply, is simply unacceptable.

While improvements can always be made, there's already a wealth of knowledge from research and practice about how to best assist customers in payment difficulty or hardship. What's needed now is the hard work of implementation. We welcome additional innovation and wish the participants at today's conference success in this work.