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13 April 2016

Mr Simon Kidd
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001

Submitted electronically

Dear Mr Kidd,

Re: AER Sustainable Payment Plans Framework

Red Energy (Red) and Lumo Energy (Lumo) welcome the opportunity to respond to the Australian Energy Regulator (AER) on the Sustainable Payment Plans Framework (the Framework).

Red and Lumo are 100% Australian owned subsidiaries of Snowy Hydro Limited. Collectively, we retail gas and electricity in Victoria and New South Wales and electricity in South Australia and Queensland to approximately 1 million customers.

Red and Lumo are supportive of the AER's approach in developing a best practice guideline, however, are concerned with the practical implications of some of the elements presented. This submission will focus on these specific areas of concern.

Our current approach to determining a customers capacity to pay

Red and Lumo have a strong commitment to ensuring all residential customers have access to sustainable payment plans to pay their energy bills. This approach of offering assistance goes beyond the requirements set out in the National Energy Retail Rules, and ensures all customers, not just those in hardship, have access to a variety of payment methods that suit their circumstances. We strongly believe that this holistic, early action approach has led to Red and Lumo entering customers into their hardship programs with debts below \$500 in 85% and 66% of circumstances, respectively¹.

A cornerstone to the manner in which customers are offered sustainable payment plans at Red and Lumo is the opportunity for all customers to complete a high level capacity to pay assessment of their income and expenditure should they be unsure as to what they can afford. This ensures that customers do not overcommit to an arrangement that ultimately fails, nor pays less than they can afford and elongates the payment plan unnecessarily, potentially increasing the risk of the customer falling into a worse financial position should an unforeseen change in circumstances occur.

¹ Australian Energy Regulator, Annual Report on the Performance of the Retail Energy Market 2014-15, http://aer.gov.au/system/files/AER%20Annual%20Report%20on%20the%20Performance%20of%20the%20Retail%20Energy%20Market%20201415_0.PDF, pg. 27

Our experience suggests that in general, customers are unable to accurately determine what they can afford without an in depth discussion of their circumstances. Rather than understating their affordability, we have found that a vast number of customers present a dollar amount well above what is found to be sustainable in the long term, and ultimately fail the arrangement.

The framework proposed

Despite supporting the intent of the Framework, we are concerned that the development to date has not included testing of customer experiences throughout the proposed good practice guide contained in section 2 of the Sustainable Payment Plans Draft v0.4 (the Draft). While the Draft doesn't prohibit a retailer offering a customer unable to advise what they can afford a discussion about their specific circumstances, the fact that this would not apply should a customer present what they deemed to be an affordable amount, irrespective of the sustainability of that offer, is where our concern lies.

Our further concerns relate to the application of Option C, in instances where a customer nominates an amount less than the amount needed to cover their ongoing energy use. The general intent of this section appears to also be reflected in the 'Flexibility' section of the Draft, which states that 'in most cases, small payments are better than no payments'. Red and Lumo agree that this is appropriate in the short term, however in the long term, a customer encouraged to continue paying under consumption for an extended period will undoubtedly result in significant outstanding energy debts. The Draft makes no distinction between short and long term 'under consumption' arrangements, instead reiterating that a 'best practice retailer' should understand that in some circumstances, customers may not be able to afford their energy usage. The suggestion that retailers should carry these customer debts in the long term, or offer incentive payments to bridge the gap between payment and usage, is not within the remit of the AER and should not be included in a best practice framework going forward.

The Draft also discusses the premise that a missed payment is not necessarily a sign of non-engagement or unwillingness to pay. We again agree to an extent, however, believe that a missed payment must be accompanied by contact with the retailer to constitute continued engagement. A customer missing a payment without any notification or contact with the retailer must be treated as non-engaging to avoid unnecessary growth of debts.

Implementing the Framework

We are concerned that a public register of retailers who have adopted the framework will not lead to an enhanced customer experience, over and above the experience we would see if the framework was released as guidance for retailers in conducting capacity to pay discussions. The Framework as presented is particularly high level, and despite agreeing to the majority of the recommendations presented, Red and Lumo would find it difficult to sign-up in its current state due to small concerns with the overall experiences and sustainability for customers should it be followed prescriptively.


We believe a better approach would be a more specific framework, highlighting good practice activities currently being undertaken by industry that would allow retailers to work to implement them into their practices. This method removes the risk discussed in the AER Sustainable Payment Plans Framework – Consultation Document of retailers facing additional scrutiny from energy ombudsmen schemes and consumer representatives over their conduct or customers experiencing difficulty favouring a

particular retailer. Over time, as the Framework continues to be refined and achieves proven positive experiences for consumers, it may be appropriate for a public register to be implemented, however given this has yet to occur we believe it impulsive for this to occur at this stage.

Overall, we believe that an appropriate best practice guideline will assist retailers in developing processes that allow customers to understand their affordability, and address some of the power imbalance believed to be preventing consumers from entering into informed and considered payment plans. It is however imperative that any framework developed is agreed to be sustainable, and in the long term interests of consumers. We would welcome the opportunity to participate further in this development.

Red and Lumo thank AER for the opportunity to respond to this consultation. Should you have any further enquiries regarding this submission, please call Ben Barnes, Regulatory Manager on 03 9425 0530.

Yours sincerely

A handwritten signature in black ink, consisting of several overlapping loops and a long horizontal stroke extending to the right.

Ramy Soussou
General Manager Regulatory Affairs & Stakeholder Relations
Red Energy Pty Ltd
Lumo Energy Australia Pty Ltd