

4 June 2010

General Manager
Markets Branch
Australian Energy Regulator
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Melbourne VIC 3001

AERInquiry@aer.gov.au

Dear Sir/Madam

Consultation on Customer Assistance Policy

Integral Energy welcomes the opportunity to comment on the Issues Paper, "Developing National Hardship Indicators" released by the AER in April 2010.

Integral Energy supports the introduction of national indicators to assist in measuring the effectiveness of hardship programs.

In addition to the introduction of national indicators, Integral Energy supports the use of narrative by retailers to accompany hardship data to provide context to the national indicators and allow more meaningful interpretation of the hardship data to be provided in respect to the national indicators.

Integral Energy also supports the development of national guidelines for hardship programs to enable meaningful comparisons of retailer reporting. As the hardship programs currently offered by retailers differ in composition and content, any meaningful comparison would require reconciliation between and within the elements of a hardship program. Additionally, external factors such as price capping, government assistance programs and economic growth, can significantly influence the number of customers on hardship programs.

Therefore, any comparative analysis and conclusion of the efficiency and effectiveness of a retailer's hardship program would first necessitate a better understanding of the differing retailer hardship programs and the impact of external factors on customers in hardship programs.


Hardship programs play an important role in assisting customers' move from being in debt to a position where they are in control of their accounts. However, hardship programs cannot manage the way customers choose to manage their accounts.

Specific discussion on the hardship indicators proposed to measure the effectiveness of retailer hardship programs is discussed below.

Going further for you is what we do

If you would like clarification of any of the issues discussed please contact Merlene Adkins,
Manager Customer Care on 9853 6322.

Yours sincerely

A handwritten signature in dark ink, appearing to read 'Michael Ghattas', with a stylized flourish at the end.

Michael Ghattas
Acting Chief Financial Officer

Purpose and objective of the National Hardship Indicators

Monitor the performance of hardship policies, how they are being implemented by retailers and the effectiveness of the programs in achieving their purpose.

Q1. *What are the stakeholders' views on the appropriateness of the purpose and aims of the National Hardship Indicators as set out above? What else, if anything, should the indicators seek to achieve?*

Integral Energy considers the principles and aims listed in dot point format in the Chapter titled "Purpose and objective of the national Hardship Indicators"¹ are appropriate.

However, Integral Energy is concerned that the sole reference in the Chapter to the Productivity Commission Inquiry Report notes that "Victoria, which has the strictest hardship regime, also has the lowest disconnection rates in Australia and that these have fallen more than in any other jurisdiction in the past few years." The Productivity Commission noted that it is hard to disentangle the impacts of hardship programs from external influences. Accordingly, Integral Energy considers more detailed analysis is required before any conclusion with respect to the efficiency and effectiveness of a particular hardship regime could be drawn.

The relationship of disconnection to hardship indicators to assess the impact of hardship policies and programs requires much further analysis, and should include among other things, a detailed longitudinal study in the context of the adoption of specific hardship policies and programs by different retailers, the impact of external factors such as price capping and government assistance programs, and the relationship to economic growth.

- *Principle 2 - Focus on elements of retailers' hardship policies that can be evaluated through measurable performance indicators*

Given that the hardship programs offered by retailers differ in composition and content, any evaluation of measurable performance indicators would necessitate reconciliation between and within the elements of a hardship program.

In the absence of this reconciliation, any comparative analysis and conclusion on outcomes would be invalid and potentially misleading to all stakeholders. There is therefore a need to have descriptors which clearly articulate the difference in hardship programs and the results.

- *Principle 3 - Inform interested stakeholders (including Government, regulators, industry participants, consumer groups and the wider community) about the performance and progress of retailers in this area.*

Integral Energy supports this principle, however as noted above, any comparative information requires a proper and thorough reconciliation between and within the elements of a hardship program. Additionally, any reporting on the performance and progress of retailers in this area should be accompanied by commentary by the retailer on its hardship programs to clarify the measurable performance indicators.

Entry into hardship programs

Total number of customers on the hardship Program.

¹ P12

Q2. Do stakeholders support the inclusion of this indicator? Please set out your reasons why / why not.

Integral Energy supports the inclusion of total customer numbers on the Hardship Program as a measurable hardship indicator.

The total number of customers on the Hardship Program identifies the proportional segment of customers and demonstrates the extent to which a retailer provides assistance and support to persons in hardship.

However, Integral Energy considers the use of this indicator is limited as it provides little or no measure of retailer performance. This is because the number of customers in a Hardship Program is a reflection of the profile of a retailer's customer base, and/or the socio-economic and demographic area in which the retailer is operating.

Integral Energy supports the use of narrative by retailers to accompany hardship data to provide context to the national indicators and allow more meaningful interpretation of the hardship data.

Q3. What are stakeholders' views on the definition and timing issues raised in relation to this indicator?

Integral Energy considers reporting to the AER should be conducted on a quarterly basis, completed at the end of each quarter. This would enable seasonal information to be collected to aid the understanding of customer behaviour at set times of the year. Integral Energy also supports the collection of data on the total number of customers on a Hardship Program by retailers on a monthly basis.

Number of hardship program participants who receive any appropriate government energy concessions.

Q4. Do stakeholders support the inclusion of this indicator? Please set out your reasons why / why not.

Integral Energy supports the inclusion of the number of hardship program participants who receive any appropriate government energy concessions as a hardship indicator.

Integral Energy collects and analyses this hardship indicator to, among other things, provide an insight into the number of Centrelink beneficiaries utilising the hardship program.

This indicator may also reflect external factors, such as the impact of the state of the economy at a given time, on a retailer's customer base. As such, on its own, this indicator does not provide an indication of the success of a program. Whilst, the concession status of a customer may be readily identifiable and used as an identifier for financial hardship, one needs to exercise caution in making assumptions of customers' capacity to pay based on the receipt of a concession. For example, many aged pensioners budget so that they are able to pay their energy bills in preference to other household items.

Further, as discussed above, the number of customers in a Hardship Program receiving government energy concessions is a reflection of the profile of a retailer's customer base, and/or the socio-economic and demographic area in which the retailer is operating. As such, the indicator as a measure of retailer performance is limited.

Q5. What are the views of stakeholders on any definition and timing issues raised in relation to this indicator?

Integral Energy considers that the term “government energy concession” should be expressly defined in order to ensure the data collected is consistent, uniform and meaningful.

Integral Energy supports the monthly collection of data with quarterly reporting to the AER should this measure be adopted.

Number of customers entering the hardship program

Q6. Do stakeholders support the inclusion of this indicator? Please set out your reasons why / why not.

This indicator is currently measured by Integral Energy but not to determine the success of the program but rather to monitor the drivers and resource requirements. Because it could indicate both positives and negatives it can, once again, not be used to determine the success of a program. There are seasonal factors such as bill size particularly after the summer and winter months. There could also be external factors which the retailer is not aware of.

A more meaningful measure, to determine whether customers are being appropriately referred to hardship programs would be to measure how many customers were disconnected without having been referred to the hardship program.

Q7. What are stakeholders' views on any definition and timing issues raised in relation to this indicator?

Integral Energy supports the collection of data monthly and reported quarterly to the AER if this indicator were adopted.

Third party referrals to hardship programs

Q8. What are stakeholder views on the advantages and disadvantages of monitoring third party referrals to retailers' hardship programs under our compliance regime rather than as part of the national indicators?

Third party referrals data is currently collected by Integral Energy and used to determine the success of its education program. Integral Energy considers that a reduction in referrals from external agencies is also an indicator of more successful education programs and internal processes. When Integral Energy's hardship program was first introduced a large percentage of referrals were from external agencies. Since that time, Integral Energy has experienced a reduction in referrals from external agencies due to improved internal referral rates.

Number of customers denied access to the hardship program

Q9. Do stakeholders support the inclusion of this indicator? Please set out your reasons why / why not.

Integral Energy supports the inclusion of the number of customers denied access to the hardship program as a hardship indicator. Integral Energy considers this indicator provides additional transparency into the access and operation of a hardship program.

Q10. How should “denied access” be defined if this indicator is adopted?

Integral Energy considers that “denied access” should be defined as a customer meeting the criteria for referral to a hardship program but not being accepted into the hardship

program. Those criteria for entry into the program should be limited to their capacity to pay only.

Summary of proposed “Entry into hardship program” indicators.

- Total number of customers currently on the hardship program;
- Number of hardship program participants who receive any appropriate government energy concessions;
- Number of customers entering the hardship program; and
- Number of customers denied access to the hardship program.

Q11. What are stakeholders’ views on the overall effectiveness of the above four indicators in measuring the entry into the hardship programs?

Integral Energy supports the collection of data on the above four hardship indicators, but notes that their overall effectiveness requires a detailed understanding of hardship program elements, uniform of definitions and their application and their relationship to external factors.

Q12. What other indicators, if any, should the AER consider adopting that would also be effective at assessing entry into hardship programs and why?

Integral Energy considers another indicator to be considered in assessing entry into hardship programs is “The number of customers reconnected after disconnection who are not referred to the hardship program and have never been on the hardship program”.

Generally, customers experiencing disconnection are likely to be in financial hardship. Once these customers are reconnected, they should be assessed for eligibility to a hardship program.

Hardship program participation and assistance

Average debt upon entry into the hardship program

Q13. Do stakeholders support the inclusion of this indicator? Please set out your reasons why / why not.

Q14. What are stakeholder’s views on how ‘debt’ should be defined and on the timing issues raised in relation to this indicator?

Integral Energy supports the inclusion of average energy debt upon entry into the hardship program as a hardship indicator.

However, Integral Energy considers that whilst a retailer will assist a hardship customer to manage their energy debts, they should not be held responsible or accountable for the energy debts run up by the customer.

The effectiveness of the use of average energy debt (being the dollar amount outstanding > 90 days) as an indicator of the success of a hardship program, requires a detailed understanding of the varying elements within a hardship program and the impact of external factors. Additionally, the following issues must also be taken into account in when determining the effectiveness of an average energy debt indicator:

- The bill size – Integral Energy’s data indicates that many customers likely to be enrolled in its hardship program are high users of electricity and that the average

energy usage of hardship customers, when compared to the overall residential customer base, is some 4000 units more.

- The use of payment plans. In the first instance customers are offered payment plans to manage their outstanding debt. At this stage the plan agreed with the customer should be affordable. There is evidence to suggest that this is not always the case and that some customers will agree to anything if they perceive that it will keep them connected. Some of these payment plans may fail later and the customer referred to a hardship program. The size of the outstanding debt, in this instance, is not an indicator of the failure of a retailer's hardship program.

Integral Energy's view is that the measuring of average debt on entry is more useful when used in conjunction with the average debt on exit.

Average debt upon exit from a hardship program

Q15. Do stakeholders support the inclusion of this indicator? Please set out your reasons why / why not?

Integral Energy supports the inclusion of the average debt upon exit from a hardship program as a hardship indicator, provided the average energy debt on exit is calculated on the same basis as the average energy debt on entry to a hardship program (i.e. being the dollar amount outstanding > 90 days).

As mentioned in the Issues paper, this indicator would need to be viewed with caution since it would include those who have been successfully removed from a hardship program as well as those who have been removed for non compliance with their payment plans.

Q16. What are stakeholders' views on the alternative approach considered, i.e. where retailers would report, for those customers exiting the hardship program, both the average level of debt when they entered the hardship program and what it was upon exiting the program? Please set out any reasons why you would or would not support the inclusion of this indicator and any practical issues that may arise in collecting and reporting this data.

Integral Energy would support the alternative approach considered, where retailers would report, for those customers exiting the hardship program, both the average level of debt when they entered the hardship program and what it was upon exiting the program.

Integral Energy considers that this indicator serves to measure whether customers are keeping up with payment plans and whether they are being removed from the program at an appropriate time to avoid growing their debt. However, as stated above, in reviewing the results of this indicator one needs to be mindful that some customers can and will grow their debt while they are being case managed. Ideally, customers in severe financial hardship will gradually be able to reduce their outstanding debt (which in some cases can take years).

Average length of participation in hardship programs

Q17. What are stakeholder views on whether this indicator should be included as part of the National Hardship Indicators? Please set out any additional benefits that would arise from collecting this data, in particular what this indicator would tell us and why it is an important measure to collect.

Integral Energy supports the inclusion of the average length of participation in hardship programs in the hardship indicators. While the data may be difficult to interpret, as the circumstances of individual customers can vary greatly, it provides useful data on a retailer's customer base in financial hardship and would assist the identification of practices

used in hardship programs. Notwithstanding this issue, Integral Energy is concerned to ensure that those customers in a hardship program are managed in a way which meets their individual circumstances.

Total number of customers exiting the hardship program and the number of customers excluded from the hardship program for non-compliance with program requirements.

Q18. Do stakeholders support the inclusion of this indicator? Please set out your reasons why / why not.

Integral Energy supports the inclusion of the total number of customers exiting the hardship program and the number of customers excluded from the hardship program for non-compliance with program requirements as a hardship indicator.

This indicator would then also identify the total number of customers successfully completing the program. However, it should be noted that there are other reasons that customers leave the program, such as those customers moving to another area, churning to another retailer and request removal from the hardship program.

Therefore, the results on the number of customers exiting for non-compliance need to be placed in context when considering the effectiveness of a retailer hardship program. If retailers have given customers the opportunity to be on a payment plan which, as a minimum, meets their consumption levels, and the customer does not pay and does not seek alternate assistance (such as financial counselling and government vouchers), Integral Energy submits that these customers should be removed from the hardship program.

Further, if a customer is a high user of electricity, is unable to pay for their consumption and does not modify their usage then a retailer should have the option of removing that customer from their hardship program. This option should also apply where a customer's debt is growing and there are no indications that the customer will ever be able to reduce their debt, or where the retailer is unable to make contact with the customer and they do not respond to any communications.

Integral Energy submits that the effectiveness of a retailer's hardship program should not be based on a retailer assuming the role of a welfare agency, but to assist those customers who want assistance and are willing to work with their retailer to reduce their debt.

Number of customers who were disconnected during the reporting period and who have been on a hardship program in the previous 24 months.

Q19. Do stakeholders support the inclusion of this indicator? Please set out your reasons why / why not.

Integral Energy does not support the inclusion of number of customers who were disconnected during the reporting period and who have been on a hardship program in the previous 24 months as a hardship indicator.

If customers were on a hardship program in the previous 24 months there would be valid reasons for their disconnection, such as non compliance with the hardship program. The indicator is an inadequate and inappropriate measure of effectiveness of a retailer's hardship policy, as it fails to measure the number of customers disconnected who had successfully completed the hardship program in the previous 24 months. The indicator would also provide the perverse outcome that the retailer did not have effective processes in place to identify or respond to these customers who had previously demonstrated a willingness to pay.

Q20. *What are stakeholders' views on the potential limitations of this indicator and the timing issues raised.*

Among the concerns that Integral Energy has with respect to this indicator is that it cannot be used to determine whether customers are being removed from the program prematurely as customers' circumstances can change. To ensure protection from disconnection customers should ideally comply with an instalment plan which covers their consumption. If they decline to do that, or cancel a plan in place, the retailer cannot and should not be held responsible for what may happen in ensuing years.

Number of customers who, during the reporting period, were reconnected within seven days of being disconnected and who have been on the hardship program within the previous 24 months.

Q21. *Do stakeholders support the inclusion of this indicator? Please set out your reasons why / why not. The AER is particularly interested in stakeholders' views on the benefits of collecting this data and what the trends in this indicator would tell us about retailer performance.*

Integral Energy does not support the inclusion of this indicator. The reconnection of a customer within seven days does not, in any way, indicate a retailer's performance. As mentioned under the previous indicator, retailers cannot be held responsible for the behaviour of customers after leaving the hardship program. They also cannot be held responsible for changing customer's circumstances.

In a best case scenario, one could assume that if a customer had successfully completed a hardship program, and were again experiencing financial hardship, they would volunteer to go back onto the hardship program or the retailer would invite the customer back to the hardship program if they were not meeting their payment obligations. For those customers who leave the program having not completed it successfully, there may exist an unwillingness to work with the retailer which has continued after leaving the program, resulting in disconnection.

For some customers being disconnected is a 'wake up call' to meet their obligations. In some circumstances this could involve seeking welfare or government assistance or accessing alternative funds. Whichever method is used, retailers would prefer customers in hardship to first approach them. If this indicator were to be measured as suggested, it would tell us less about the effectiveness of a retailer hardship program than about customer behaviour.

For this indicator to work it would need to be amended to comprise only those customers who had been removed from the hardship program following the successful compliance with the hardship program. Even in this case there may be varying elements, but it would provide a better indication in particular if it was accompanied by commentary provided by the retailer.

Summary of proposed "Hardship program participation and assistance" indicators.

The AER has recommended the following five possible indicators:

- Average debt on entry into the hardship program
- Average debt on exiting the hardship program
- Number of customers exiting the hardship program and those excluded for non-compliance with program requirements

- Number of customers who were disconnected and who had been on the hardship program in the previous 24 months.
- Number of customers who were reconnected with seven days of being disconnected and who had been on the hardship program in the previous 24 months.

Integral Energy supports the AER's decision not to include indicators regarding the *types* of assistance provided under hardship policies.

Q22. What are stakeholders' views on the effectiveness of the above five indicators in measuring hardship program participation and assistance?

As discussed above, the indicators in their current format and used in isolation, have the significant potential to provide misleading information in measuring hardship program participation and assistance. In order to provide a more meaningful comparison of retailer performance or, to assess the effectiveness of an individual retailer's performance, it would be necessary to reconcile elements between and within hardship programs and undertake further detailed analysis including the impact of external factors.

As indicated previously, Integral Energy supports the use of narrative by retailers to accompany hardship data to provide context to the national indicators and allow more meaningful interpretation of the hardship data.

Q23. What other indicators, if any, should the AER consider adopting that would be more effective at assessing hardship program participation and assistance?

The measures that Integral Energy would prefer include:

- Average >90 day debt on entry and exit of the hardship program.
- Number of customers exiting the program due to non-compliance with the program requirements.
- Number of customers disconnected who had been removed from the hardship program following successful compliance with the hardship program within the previous 15 months.
- Number of customers who were reconnected within seven days of being disconnected and who had been removed from the hardship program following successful compliance with the hardship program in the previous 15 months.

Q24. What are stakeholders' views on the overall scope of the proposed set of National Hardship Indicators as a whole and whether they will, as far as possible, assess the impact of retailers' hardship policies?

Integral Energy recognises the need for the AER to develop and introduce indicators which can help assess retailer's hardship programs. It also recognises the need for retailers to comply with legislation regarding hardship programs. It supports the inclusion of commentary in any reports released to stakeholders and the general public so that any indicators are put into context given the differences of retailer hardship programs and in the absence of national legislation regarding the same.

Integral Energy notes that the AER in considering appropriate indicators to measure and assess hardship participation and assistance has sought not to focus on specific hardship indicators regarding the types of assistance provided under hardship policies.

However, Integral Energy considers that to enable meaningful assessment of hardship participation and assistance first requires a better understanding of the differing retailer hardship programs and the impact of external factors on customers in hardship programs.

This is because hardship programs currently offered by retailers differ in composition and content, any meaningful comparison would require reconciliation between and within the elements of a hardship program. Additionally, external factors such as price capping, government assistance programs and economic growth, can significantly influence the number of customers on hardship programs.

Integral believes that consultation may be necessary after the first collection of data to determine whether the measures introduced are effectively measuring the success of hardship programs and to determine whether it is appropriate to draw comparisons about retailer hardship programs.

Reporting requirements

The AER has stated that all data would be submitted to the AER on a quarterly basis, with a later review to determine whether it is more appropriate to report this data less frequently. It has also canvassed whether data should be reported by state or nationally and whether gas and electricity should be separate.

Q26. What are the stakeholder's views on the proposed reporting requirements?

Integral Energy supports the collection of data on a monthly basis by retailers with reporting to the AER on a quarterly basis unless the AER determines a less frequent reporting can be accommodated.

Integral Energy considers that initially, data should be reported on a state-by-state basis, with data being collected and reported on a national basis once there is some consistency in the data requirements. Integral Energy also considers that gas and electricity should be reported separately.

Q27. What concerns, if any, do stakeholders have regarding the ability to report data against the proposed indicators, and any costs associated with the reporting requirements.

Integral Energy currently collects and reports certain hardship program data; however, it would need to develop further additional data collection and reporting, at a cost once the indicators have been finalised. In the absence of defined data collection and reporting requirements, it is difficult to predict the quantum of costs likely to be incurred at this stage.

Integral Energy would seek sufficient time following the finalisation of the indicators to commission the newly required reports. This time should be at least three months.

The consumer experience of retailer's hardship policies.

Q28. What are stakeholder's views on the benefits and usefulness (or otherwise) of seeking case studies or examples of good practice from retailers which highlight the consumer experience of participating in retailers' hardship programs?

Whilst Integral Energy is not opposed to the use of case studies, it would prefer, in the first instance, that commentary from each retailer accompany the statistics.