



TELSTRA CORPORATION LIMITED

Response to stakeholder comments and concerns regarding Telstra Energy applications for gas and electricity retailing authorisations

30 July 2021



Introduction

The following information has been prepared in response to stakeholder questions and concerns regarding our retail gas and electricity authorisation applications to the Australian Energy Regulator (AER).

The AER received seven submissions from interested stakeholders, with varying views on our applications. While some stakeholders supported our application, acknowledging the positive impacts greater competition can have on the market, others had questions about Telstra's previous market activities, and how we would treat our energy customers.

The four key themes that emerged from those submissions raising questions are:

1. Telstra's past sales practices
2. Telstra's treatment of Vulnerable and First Nations customers
3. Telstra Energy's ability to meet energy regulatory requirements
4. Telstra Energy's approach to products and services (including bundling)

We have sought to provide more information on these matters below, to demonstrate that Telstra has improved our services and support for our customers – and plan to carry this over through new services in electricity and gas.

We acknowledge the concerns stakeholders have raised throughout their submissions regarding the misconduct towards Indigenous customers in remote communities. We also acknowledge that real changes arising as a consequence of these actions, and data demonstrating the positive impacts of those changes, will be important in rebuilding the trust and confidence of consumers, regulators, and advocates. We have provided an overview of some of those changes and early indicators of the improvements in customer experience below.

Overview - Telstra's commitment to change

Telstra has more than seven million customers and supplies close to 19 million services to these customers through a variety of channels, and conducts tens of millions of transactions each year. In many cases, we get it right and deliver a positive experience. Our size and scale offer real advantages in terms of the reach of our services and retail network. But in a business the size of ours, if we get it right for our customers 99.9% of the time, we still let down thousands of people. Inevitably, we will make mistakes and so our focus is on limiting those to the greatest extent we can and having robust response processes when things go wrong.

Over the past few years, we have made significant changes to improve how we serve our customers, especially those in vulnerable circumstances. These steps, which began in earnest in 2017, have involved us looking at our culture as a company, and every aspect of how we sell to, and serve customers, including:

- the training we provide and standards we set for the people (whether they work for Telstra or a third party we engage) who interact with our customers;
- the way we identify and manage vulnerability and hardship, including in the context of credit management and debt;
- how we monitor performance to ensure our standards are upheld.

We continue to improve on our approach, but we believe we have already delivered materially better outcomes for customers. We have:



- reduced complaints about the sale of products (and including the experience at point of sale) by 81% between FY18 and FY21;
- reduced complaints about excess data charges (which had been a key trigger to drive customers to hardship) by 88% between FY18 and FY21;
- reduced Telecommunication Industry Ombudsman (TIO) complaints to their lowest rate in 6 years, although we acknowledge the difficulty some customers had contacting us during the initial COVID outbreak.

Regarding customer debt and balance, since FY19 we have:

- reduced the maximum handset repayments we allow a customer to commit to by more than 50% (i.e. monthly charges for phones and tablets) and reduced our credit assessment cut-offs by ~30 basis points; and
- reduced the number of customers having a debt with Telstra by 22.7%, and their average debt is 27% lower. This has meant that overall, we have reduced the total amount of debt customers have with Telstra by 51.6%.

We recognise that these examples arise in the context of Telstra as a telecommunications provider, but we believe they demonstrate that we have a willingness to act, and an ability to implement changes, that can have a positive impact on customer experience and are therefore relevant to an assessment of the culture and mindset Telstra would apply to its energy customers. More information on how we have achieved these outcomes is provided in Attachment 1.

1. Telstra's past sales practices

We have failed some of our customers in recent times. The entirely unacceptable sales practices towards 108 First Nations customers between 2016 and 2018, undertaken by five of our licensed stores, has been well documented, and is a source of shame for Telstra. We acknowledge that because of this, we have not only lost the trust of the communities where these issues took place, with First Nations communities more broadly and with key representative bodies for First Nations people but also with elements of the Australian community more generally. We are determined to do what it takes to rebuild that trust and to demonstrate that the Telstra we are today is not the Telstra we were three years ago.

Telstra has fully remediated the affected customers, in addition to undertaking broader remediation programs. Remediation has involved waiving all debts and refunding all amounts paid to Telstra, plus interest, withdrawing any credit listing, and ensuring almost all customers were able to retain mobile devices that would otherwise have needed to be returned as unpaid.

We are confident the issues that arose in 2016-2018 would not occur today or would be identified significantly earlier. This is because:

- We have made a number of changes to simplify our products, including removing contracts for mobile services (contracts only remain for device repayments) and we no longer have plans with excess data charges. Excess data charges were the other primary source of financial over-commitment.
- We now have much better means of detecting anomalies in our credit assessment process. Over part of the period in question, manipulation of our assessment process was able to happen without it being quickly flagged in our monitoring systems. That is no longer the case, meaning that if similar conduct occurred today, we would detect it much more quickly.



- We have much tighter rules around being able to purchase devices on a repayment plan. The majority of the affected customers were in receipt of Centrelink benefits, meaning they would not, today, be eligible to take a device on a repayment plan. Device repayments were, for those customers, one of the major sources of their financial over-commitment.
- Our processes have changed such that we would treat any complaints from these customers much differently. Over the relevant period, it was not as simple as it should have been to contact our hardship and special assistance teams. Those teams, who receive a heightened level of training, would now be the recipients of any complaint.
- Furthermore, Telstra has no intention in the short term to sell energy through our Telstra stores. Sales through the Telstra stores will not commence (other than for closely monitored trial purposes) until we have confidence in the relevant training, systems and processes to prevent negative outcomes for customers.

While the work to be the responsible business we aspire to be is never done, we have made considerable progress in eliminating the root causes of the problems that led to the past sales practices arising. Telstra Energy is taking forward the learnings from this matter to ensure that we build an appropriate product for our customers.

2. Treatment of vulnerable and First Nations customers

We recognise that the considered treatment of vulnerable and First Nations customers is important in ensuring that they have access to telecommunications and energy on a fair and affordable basis. We have implemented initiatives at Telstra to help support these customers. Our expectation is that these initiatives will be applied in energy as we build up our energy retail business.

2.1 First Nations

Changes to how we support First Nations customers include:

- a) A First Nations Connect hotline now set up in Darwin is staffed by people who identify as Indigenous. They provide 'in-language' support and use interpreter services where they need to communicate in an Indigenous language they do not speak themselves.
- b) From 2021, new cultural awareness training has been rolled out and made mandatory for anyone at Telstra who engages with Indigenous consumers – its effectiveness will be independently reviewed by PwC Indigenous Consulting.
- c) A new Indigenous Cultural Compliance Officer has been appointed with responsibility for reviewing and continuously improving the way we engage with Indigenous customers and overseeing our Indigenous customer consumer protections.
- d) We are also cognisant of the unique circumstances faced by our First Nations people and our energy team is placing special emphasis on the appropriate treatment of such people. In addition to the mandatory awareness training discussed above, specialised energy specific training will be provided with a focus on understanding the very specific challenges faced by First Nations people in the areas of utilities debt, disconnections, and energy related financial hardship.

2.2 Vulnerability

Changes to how we support vulnerable customers include:



- a) Changes to the way we manage debts for customers in vulnerable circumstances.
- b) Significant reductions in the amount of debt on-sold to collection agencies through further exclusions for vulnerable customers and sensitive situations.
- c) Engaging in the vulnerability discussions happening across telecommunications and energy regulators to help improve outcomes for vulnerable customers.¹

3. Ability to meet energy regulatory obligations

Stakeholders have raised concerns that Telstra may not fully appreciate the different regulatory requirements as between telecommunications and energy, and therefore may fail to deliver adequate and acceptable outcomes for our customers.

Telstra acknowledges that energy is subject to stricter regulation than telecommunications services, and we understand that as an essential service, energy must be held to a high standard of consumer protections.

Our approach to building our energy business for our customers has focused first and foremost on the energy regulatory requirements. A key part of this approach has been to recruit people highly experienced in operating energy retail businesses, including legal, regulatory and compliance specialists with deep energy experience. As detailed in our applications, we are also developing a robust and new compliance program for our energy business, which will be subject to ongoing review and internal and external audit.

Stakeholders raised specific concerns relating to how Telstra would meet specific energy regulations relating to financial hardship, disconnection and how this will flow through to our customer-facing staff. We have outlined our approach to these important aspects of the energy market below.

3.1 Financial hardship

Telstra is already subject to financial hardship obligations for telecommunications products, however the requirements for financial hardship and payment difficulties are more prescriptive in the energy sector. We are cognisant of the difference between the two sectors, but also within the energy sector with the distinct approaches of the AER and the Essential Services Commission.

Due to the specificity within the energy requirements, we needed to develop separate hardship policies for Victorian energy customers and National Energy Customer Framework (NECF) customers. These policies have been developed to ensure we meet the obligations prescribed within the relevant jurisdictions, and we have provided training to staff on the distinction between these regulatory frameworks to help ingrain that learning and understanding. Going forward, it will be our practice that anyone who serves a customer of our Energy business must have completed and passed the energy hardship and payment difficulties training.

Our intention is to harmonise our backend processes and support for customers experiencing hardship and payment difficulties across our products and services where it is practical to do so, and

¹ More detail in how we approach vulnerability at Telstra is available in our submission to the Essential Services Commission Victoria, 2 July 2021, [Getting to fair draft strategy 2021 submission – Telstra Corporation Limited](#) and through Telstra's [2020 Sustainability Report](#).



within the bounds of the regulatory regimes. This will help us deliver the best support for our customers in a consistent way.

3.2 Disconnection as a last resort

We recognise the distinct regulatory frameworks that exist for disconnection of energy services. The energy regime includes unique requirements that do not exist in telecommunications, with additional protections for certain customers (such as those requiring life support equipment), and an extensive series of steps to ensure customers are informed and have an opportunity to avoid disconnection.

Some questions were raised regarding Telstra's intention for disconnection of energy services which is linked to a lack of payment for telecommunication services. Disconnection of a customer's electricity or gas service will never be related to their telecommunications activities. As required under the energy rules and regulations, disconnection of energy services will only occur in relation to obligations under contracts for the provision of energy and even then, only ever as a last resort.

Our systems will ensure that there is a human review before the final step to disconnection occurs. In our early phases, there will be no disconnection unless it has been approved at the Senior Executive Level.

3.3 Staff training in energy

Telstra Energy is in the process of preparing a compliance program, including a schedule of mandatory training for staff who will be interacting with energy customers. Our intention is that the training modules will consist of questions which participants must answer correctly. Staff who do not pass key training modules will have their access to Telstra's customer relationship management system and customer service systems suspended and they will not be able to sell to customers, access customer records or interact with customers until they pass the training module.

Initially, Telstra Energy will be utilising a small, specialised team to handle all our customer-facing interactions such as enquiries and requests for assistance. This team has a knowledge of both Telstra systems, and the retail energy market system and processes. While this is not intended to be the longer-term solution for our energy products, we recognised the importance of providing specialist support and understanding for the short and medium term given the unique and complex regulatory arrangements within the energy sector.

In addition to broader Telstra training on responsible selling and other training, our specialised energy team has already received a range of energy specific training including 'Overview of the Energy Market', 'Energy & Water Ombudsman', 'Gas Safety' and 'Complaints Handling'.

Further, to help embed the knowledge and understanding of the regulatory requirements, our customer-facing energy team have been assisting in the development of the information and education tools that will be utilised during customer calls.

4. Telstra Energy's approach to products and services

We are in the process of developing our energy products and services, but we know through our telecommunications business that customers prefer simple, clear and affordable solutions without complex additions or the need to assess too many options.



4.1 Product Design

The design principles we are using in developing our energy offering include:

- a) **Simple product proposition:** We are designing our product and service offering with simplicity at its core. This includes not just simplicity in the construct of the product design but also in the way we communicate with our customers and the information they receive from us.
- b) **Ease of access:** We will make product and service information available to customers in easily accessible formats including making usage and billing data available on our website and My Telstra app. We will also have multilingual support services available to ensure ease of access for all of our customers and we are designing to applicable accessibility standards for vision impaired customers.
- c) **No lock in service contracts:** Our energy services will be provided on a month-to-month basis. This means that customers will be able to cancel their energy service at any time, with no additional charge.
- d) **Pricing clarity and simple billing:** We will have simple, easy to read bills ensuring that customers understand information relating to what they have used, how much they must pay for that use and when they must pay it.
- e) **Regular assessment of product and service value:** We will review our products and services regularly to check they remain competitive and continue to offer value to our customers.

4.2 Bundling

We recognise that bundling of energy and telco products may be confusing for consumers, may make comparisons on competing offers difficult and potentially identify gaps between the relevant regulatory schemes. As a retailer, it is also a practice that raises significant legal and regulatory risks. For these reasons, it is not our intention to bundle energy and telecommunication products at this stage and for the foreseeable future. We would not offer bundled products unless we are able to satisfy ourselves that the concerns of consumer advocates, consumers and the regulators have been genuinely and appropriately addressed.

4.3 Community Engagement

We understand the importance of community engagement and that when we bring people together from different backgrounds, different upbringings and people who have lived different experiences, we gain a richer understanding of our customers and their needs. For this reason, we have consulted with a variety of community groups to help inform the way we design our products and services and the policies and procedures that sit behind them. This has included community interest groups for lower income Australians and financial counselling bodies. We will continue to engage with community groups as we further develop our energy offering.