Energy Retailers Association of Australia Incorporated

5 July 2007

Dr John Tamblyn
Chairman
Australian Energy Market Commission
PO Box H166
AUSTRALIA SQUARE NSW 1215

Dear Dr Tamblyn,

RE : Review of Effectiveness of Competition in Gas and Electricity Markets

The Energy Retailers Association of Australia (ERAA) welcomes the opportunity to comment on the 'Review of Effectiveness of Competition in Gas and Electricity Markets' issues paper, released by the AEMC on 1 June 2007.

The ERAA believes that there is clear evidence that the level of competition in the Victorian market is effective. We believe that after five years of full retail contestability in Victoria, the gas and electricity markets are operating effectively. This is supported by the large number of retailers who are competing vigorously for the customers in this market, and the fact that increasing numbers of customers are exercising choice by switching between retailers and entering into market based contracts.

The ERAA supports the removal of retail price controls in the energy sector, and we have established a position paper that outlines the basis under which retailers believe that retail price controls can be removed, while ensuring that vulnerable customers are not excluded from participating in the market.

We have attached this paper titled 'Retail Price Regulation and the Protection of Vulnerable Customers', for your reference.

The ERAA has been a strong advocate for the establishment of clear and measurable criteria to assess the effectiveness of competition, so that industry participants are provided with a degree of certainty, and procedural fairness in the assessment process that the AEMC is undertaking, and we look forward to hearing the outcomes of the review.

We have provided a response to several of the specific questions that were raised in the issues paper below.

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Should you require any further information in relation to this matter please feel free to contact me on (02) 9437 6180.

Yours sincerely

[Transmitted Electronically]

Cameron O'Reilly
Executive Director
Energy Retailers Association of Australia

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Are there obstacles to retailers competing vigorously in the market or is there evidence of more effective competition amongst retailers?

As the AEMC is aware, retail competition in the Victorian electricity industry commenced in 1994, and progressively rolled out until 2002 when all customers became contestable.

The introduction of new retailers into the Victorian market has increased from three retailers to in excess of twenty retailers who have held (or continue to hold) licences, and current indications are that there are more than ten retailers currently active in selling energy to small customers in Victoria.

This level of interest from retailers in the Victorian energy market would 'on the face of it' indicate that Victoria is a market that is relatively easy for new retailers to enter, and that there are little or no barriers to market entry.

Our members are not aware of any issues that indicate there are barriers to entering the Victorian market as a second tier retailer, and we are not aware of any issues being raised by first or second tier retailers which would impact the entrance of additional retailers.

We refer the AEMC to the reviews undertaken by the Essential Service Commission Victoria (ESCV) where in 2004 they have found that;

> *"...'the Commission has concluded that the strength and reach of competition has been increasing over time and can now be considered to be fully effective in substantial sub-markets covering of the order of 40 per cent of the customers within the residential and small business energy submarkets.*
>
> *It has also concluded that competition is likely to be effective for a much larger proportion of small energy customers as the current competitive momentum continues to build and the full effects of existing and proposed measures to enhance competition are felt."*[1]

The findings of the ESCV in 2004, and the continued increase in the number of retailers in the market is encouraging and clearly establishes that there are few barriers to entry in the market.

Are customers able to effectively enter market contracts or switch retailer based on an informed choice in the energy retail market or are there obstacles to customers effectively participating in the market?

The ERAA comprises eleven retailers who service approximately 11 million customers. It is the collective view of our members that there are little or no barriers that prevent customers from entering market based contracts, other than the continued maintenance of retail price caps.

[1] Essential Services Commission, 'Special Investigation: Review Of Effectiveness Of Retail Competition In Gas And Electricity', March 2004

It is our view that the most significant issue that stifles competition and innovation in the Victorian market is the maintenance of retail prices, which effectively inhibits competition by introducing cross subsidy between the classes of customers, and results in customers avoiding cost reflective pricing.

We believe that customer switching rates are an important indicator as to the effectiveness of competition in energy markets. These indicators (while they are not exhaustive) provide measurable and comparable data that illustrate the level of choice that customers have, as well as whether customers are exercising that choice.

In 2004 approximately 10% of electricity customers and 9% of gas customers were exercising their choice by switching retailers, on an annualised basis.[1]

This level of switching has increased, and our members believe that in excess of 20% of gas customers and 25% of electricity customers churn on an annualised basis.

While it is important to note that Victoria enjoys high level of customer switching behaviours when compared to Australian jurisdictions, it is also worth examining the experience compared with overseas markets.

We have attached a report titled 'World Energy Retail Market Rankings - Utility Customer Switching Research Project', which indicates that Victoria ranks as the most active customer switching market in the world alongside that of Great Britain. [2]

The ERAA can therefore only conclude that there are little or no barriers to customers switching retailers.

What impact has energy retail competition had on the circumstances and experiences of vulnerable energy consumers and the extent to which the safety net arrangements and the Government's hardship policy has improved circumstances?

While the ERAA is a strong advocate for the removal of retail price caps, we have only formed this view after careful consideration of the impacts on vulnerable customers.

A full copy of our report, 'Retail Price Regulation and the Protection of Vulnerable Customers' is attached to this submission and addresses the ERAA's response to this issue in detail.

In summary the ERAA's view is that retail price regulation for electricity and gas should be phased out and more targeted programs for assisting customers in financial hardship should be implemented.

The ERAA believes that market forces are the most efficient method of regulating price in all but the most exceptional circumstances. The ongoing price regulation of retail energy is stifling competition, particularly where tariffs have been set below cost-reflective levels, and this may create a barrier for new retail entrants.

[2] First Data Utilities & VassaEMG, 'Energy Retail Market Rankings - Utility Customer Switching Research Project', 2006

Price regulation, with its inherent cross-subsidies, distorts efficient market outcomes and prevents appropriate price signals reaching customers. Such price signals otherwise influence customer behaviour and consumption.

This distortion can make it difficult for regulators to adequately asses the impacts of competition on vulnerable customers, and the best way to protect these customers is by providing adequate, well-targeted and transparent community service obligations.

The ERAA considers there is no justifiable link between price regulation and consumer protection, and our policy recognises that more targeted arrangements are required to assist customers in genuine financial hardship. The ERAA strongly supports arrangements to protect customers in genuine financial hardship, however more effective policies are needed to address customers in hardship and continued price regulation is not part of the solution.

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World Energy Retail Market Rankings

Utility Customer Switching Research Project

SECOND EDITION JUNE 2006

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The Utility Customer Switching Research Project

The Utility Customer Switching Research Project was founded jointly in 2004 by First Data Utilities (formerly Peace Software), a world leading developer of utility billing software and provider of outsourced billing and payment services, and VaasaEMG, a university-based research centre in Europe that specialises in modelling utility consumer loyalty and marketing. The Project monitors customer switch rates and trends in over 30 competitive energy retail markets worldwide and has provided the first global view of utility customer switching activity.

Customer switch rates are an important dimension of energy market competitiveness and have the advantages of being objective, measurable and comparable between markets. While many energy market commentators tend to focus on the wholesale aspects of the utility value chain as a measure of restructured market success, such as generation sources, transmission interconnections and wholesale market trading, the Project contends that both retail and wholesale markets must be successful for consumers to receive the full benefits of competition. In this context, the Project focuses its research on energy retail competition and those market participants that are all too frequently ignored: the customers.

For more information about the Utility Customer Switching Research Project, please visit http://www.firstdatautilities.com/customer-switching.

Utility Customer Switching Research Project Scope

- Research, measure and compare customer switch rates
- Historical customer switching trends and projections
- Identify factors promoting and hindering competitive retail activity
- Insights into successful customer acquisition and retention strategies
- Customer switch rates as a benchmark for market success
- Retail market share analysis

Methodology

The Project's customer switch rate metric is calculated by dividing the number of customers who switched suppliers in a given period by the total number of customers in the market, and the result is then converted to an annual rate. For example, if one per cent of customers switch supplier in a given month, that month exhibits a 12 per cent annualised customer switch rate. The Project's metric framework was recently adopted in the European Union to measure the relative success of deregulation in member states.

Markets are ranked by switch rate and classified into four categories:

- Hot market : over 15 per cent of customers switching per year
- Active market : between five and 15 per cent of customers switching per year
- Slow market : between one and five per cent of customers switching per year
- Dormant market : less than one per cent of customers switching per year

This second edition of the World Energy Retail Market Rankings Report is updated to include customer switching activity during 2005.

The world's hottest competitive retail energy markets are Victoria in Australia and Great Britain.

Market Rankings Table

Category	Market*	Rank
HOT	Victoria (Australia)	1
	Great Britain	1
ACTIVE	South Australia (Australia)	3
	Texas (USA)	4
	Norway	5
	New Zealand	6
	Netherlands	7
	Sweden	8
	New South Wales (Australia)	9
	Finland	10
SLOW	Flanders (Belgium)	11
	New York	12
	Denmark	13
DORMANT	Austria; Germany; Spain; Ireland, Portugal, Alberta, Ontario (Canada); Connecticut, Illinois, Maine, Maryland, Massachusetts, Michigan, California, New Jersey, New Hampshire, Ohio, Pennsylvania, Rhode Island (USA)	Not ranked

* Designated by country, province, or state

Source: FIrst Data Utilities, VaasaEMG

Hot Markets

Great Britain and the state of Victoria in Australia rank first equal as the hottest energy retail markets in the world. Utility customers in these two markets switched supplier during 2005 at rates exceeding 20 per cent per year.

Victoria

Down under in Australia, the state of Victoria has fast become a hotspot of energy retail competition. Following several years of competitive supply to commercial and industrial customers, Victoria introduced full retail competition for electricity and gas in 2002 and it has exhibited increased customer switching year-on-year, reaching 21 per cent in 2005. Strong competition from out-of-state incumbents and new start-up energy retailers have contributed to this dramatic level of switch activity, along with the introduction of lifestyle products and affinity programs cleverly targeted at niche customer segments, and the availability of effective websites where customers can compare suppliers' prices.

Great Britain

Great Britain has been at the forefront of utility customer switching activity since full market opening in 1999. Rising energy retail prices in recent years motivated British utility customers to switch supplier and led the incumbent suppliers to launch more aggressive customer win-back campaigns. Adverse publicity relating to price increases has especially impacted British Gas, which is believed to have lost 1.5 million customers since August 2004. The principal market share beneficiaries are other major utility retailers, particularly Scottish Power and Scottish and Southern Energy. In 2005 it was Powergen on the receiving end of adverse publicity, following a series of severe billing problems.

Active Markets

Active markets include South Australia, Texas, Norway, New Zealand, the Netherlands, Sweden, New South Wales and Finland.

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South Australia

South Australia opened its doors to full retail electricity competition in 2003 and customer switch rates quickly soared. Principal reasons behind this rapid acceleration include the divestment of the retail customer base by the state government that removed the incumbent brand advantage, the granting of switching credits to a portion of the customer base, the selling experience of retailers established in neighbouring Victoria, and rising retail prices that motivated customers to shop around. Customer switching in South Australia eased in 2005 to an estimated 11 per cent.

Texas

The Texas electricity market opened to full retail competition in January 2002 and is widely considered the most competitive North American retail energy market. It stands alone amongst US markets for having separated its utility retail operations from distribution, a market structure that has more in common with competitive retail markets in Australia and Europe than with other US states, most of which employ a hybrid coexistence of regulated and competitive utility operations. In 2005, Texas exhibited customer switching around the seven per cent level. Texas experiences seasonal variation, with switching consistently higher in the third quarter and lower in the fourth quarter of each year. The statistical research cannot confirm the cause of the seasonal variation but a likely contributing factor is the high air conditioning load. Texas consumers' electricity bills are at their highest in the summer months when air conditioning is at its peak. A high bill draws a consumer's attention to energy use, leading to greater awareness of energy supply options and consequently provides more motivation to switch in the late summer and fall seasons.

Norway

Norway was one of the most active energy retail markets in the world in 2003 with customer switching around the 20 per cent level, following a temporary but massive hike in wholesale prices and aggressive utility acquisition marketing. Customer switching levels have since stabilised at the seven-to-10 per cent level. Norway experiences pronounced seasonal activity, with much higher customer switching rates during winter months. Norway is also notable for having the highest measured rate of re-switching in the world; three switches for every customer who has switched. That is, if a Norwegian customer has ever switched then they have switched between suppliers on average three times.

New Zealand

All electricity consumers in New Zealand were free to choose their retail supplier from 1994. However this world-first achievement of the full retail competition milestone did not immediately lead to significant levels of switching activity. Many market commentators consider the New Zealand electricity retail market to have commenced in a meaningful way only from 1999 when customer switching reached the five per cent level. In 2001 the New Zealand electricity retail market recorded the highest-ever electricity customer switch rates for a single quarter of 2001, when from April to June customers switched retail supplier at the staggering rate of 27 per cent per year. The unprecedented level of switching activity continued into the third quarter of 2001. No other energy retail market in the world has matched these levels of customer switching. New Zealand's electricity retail customer switching activity has since declined, and in recent years has dropped beneath 10 per cent. In 2005, New Zealand exhibited electricity customer switching around the eight per cent level.

The Netherlands

The Netherlands introduced full retail competition for both electricity and gas in 2004 and today it is one of the most active European retail energy markets. In the initial months after full market opening, most customer switching activity related to electricity rather than gas. Electricity customer switching has continued steadily in the range of seven-to-15 per cent per year. The gas market became more active in the first half of 2005 and now matches electricity switching levels. This healthy level of switching in the Netherlands can be attributed to Dutch customer understanding of the switching process resulting from their earlier exposure to green energy competition, as well as innovative marketing initiatives led by new entrant retailers that coincided with a spate of public relations crises for some incumbent utilities. The position of incumbent utilities may be weakened by continuing high cost-to-serve relative to new entrants employing new and streamlined utility retail business models and systems.

Sweden

Customer switch rates in Sweden increased year-on-year since full market opening in 1999 to reach 10 per cent in 2004 before falling back to six-to-seven per cent in 2005. Today Sweden has the largest number of energy customers in the Nordic region who are no longer served by their incumbent supplier. Media coverage of the benefits available to customers who switch, negative publicity for some incumbents, and price volatility have encouraged switching in Sweden in the past three years. Sweden recently adopted a national web-based price information and switching service, which has further boosted customer switching activity.

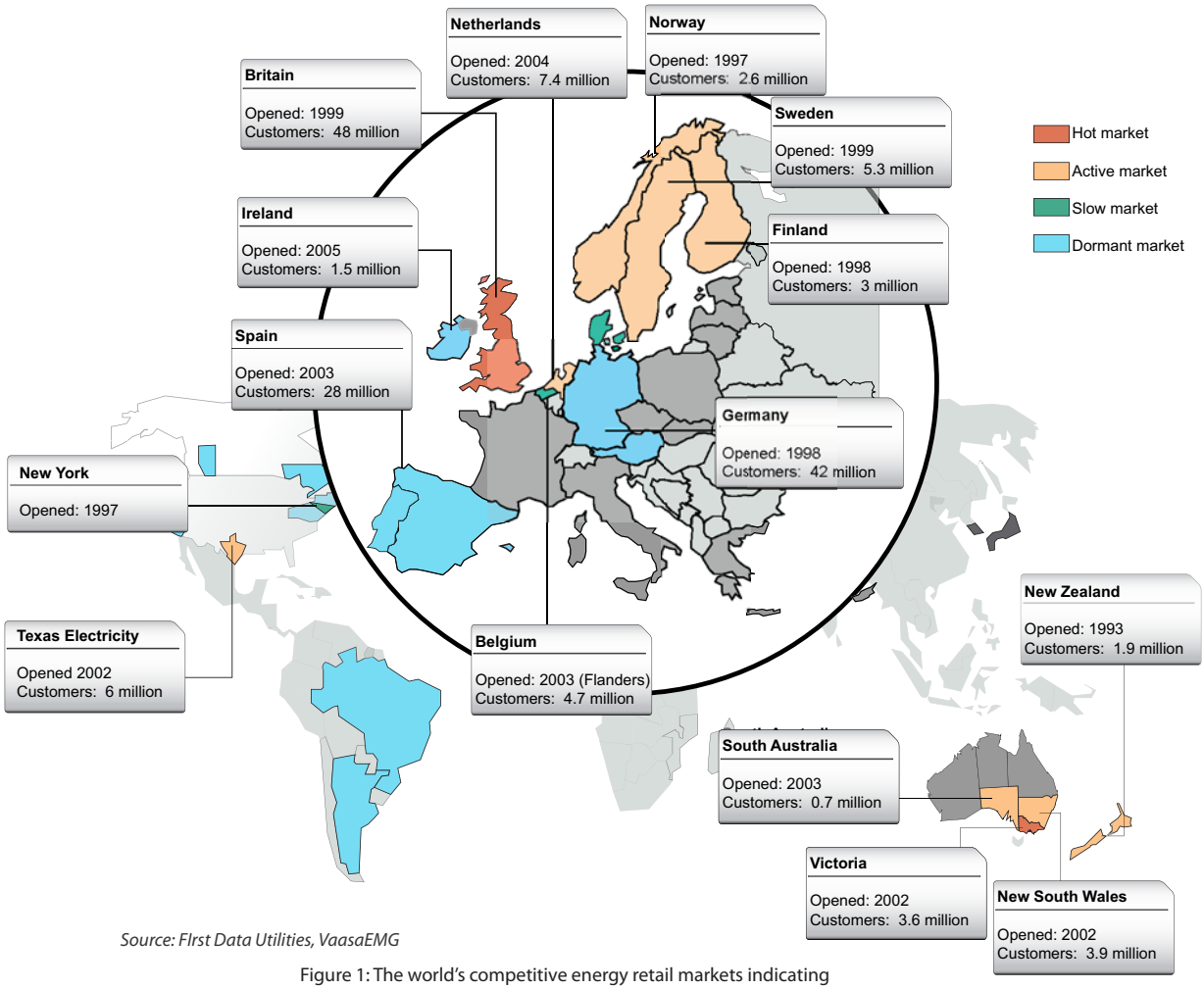
New South Wales

New South Wales in Australia has exhibited a steady increase in customer switching levels since full market opening in 2002. Customer switch rates in 2005 hovered around six per cent, much lower than its neighbouring states Victoria and South Australia, but clearly active. This lesser activity relative to its neighbours has been attributed in varying degrees to the continuing state ownership of New South Wales incumbent utilities, and lower retail margins that can discourage incumbents from aggressively competing for customers and discourage new entrants from entering the market.

Finland

Switching in Finland has historically been inhibited by low customer awareness and a lack of aggressive acquisition marketing. Up to 2004 Finland was rated a Slow market for customer switching activity, despite low cost suppliers offering Finnish customers attractive potential savings to switch. Switching activity in Finland has nevertheless exhibited a slow and steady uptrend and in 2005 reached the five

per cent level for the first time. In common with other Nordic markets, Finland exhibits pronounced seasonality in customer switching, with most switching occurring in the winter months.



Source: FIrst Data Utilities, VaasaEMG

Figure 1: The world's competitive energy retail markets indicating Hot, Active, Slow and Dormant classification.

Slow Markets

In the Slow category for 2005 are the markets of Flanders in Belgium, Denmark and New York, with switching levels of less than five per cent. Flanders was previously rated an Active market but in 2005 dropped into the Slow category as a result of declining switching activity in the wake of strong defensive marketing by market-dominating incumbent utility Electrabel. Denmark suffers from small savings potential and little competitive activity. New York State receives much press in the United States for its utility retail market initiatives but the claims of market success are not borne out by the facts, at least as regards customer switching activity. In 2005 switching in New York increased above prior years' levels, lifting it out of the Dormant category, but with just two per cent of New York customers switching supplier during 2005 it has a long way to go before qualifying as an Active market.

Dormant Markets

Dormant markets are those in which all customers are able to choose their retail energy supplier, but which do not exhibit significant levels of customer switching. More than half of all markets monitored by the First Data Utilities and VaasaEMG Utility Customer Switching Research Project remain Dormant, with switching levels below one per cent per year. This includes a number of European markets, such as Germany, which lacks a consistent method for switching and a centralised market registry infrastructure.

Almost all North American markets are classified as Dormant, including Pennsylvania, Massachusetts and Ohio. Their market structures inhibit healthy competition through the continued role of the regulated utilities as'last resort'supplier and issuer of the customer bill within their respective distribution territories. These factors discourage competitive energy retailers from selling to mass market consumers; hence low levels of switching activity are virtually assured. North American market agencies often choose to report the cumulative percentage of customers or load served in the aggregate by competitive retailers, which can obscure the fact that there may be little customer switching activity in any given year.

Figure 2 compares customer switching trends in a selection of Hot, Active, Slow. and Dormant category markets.

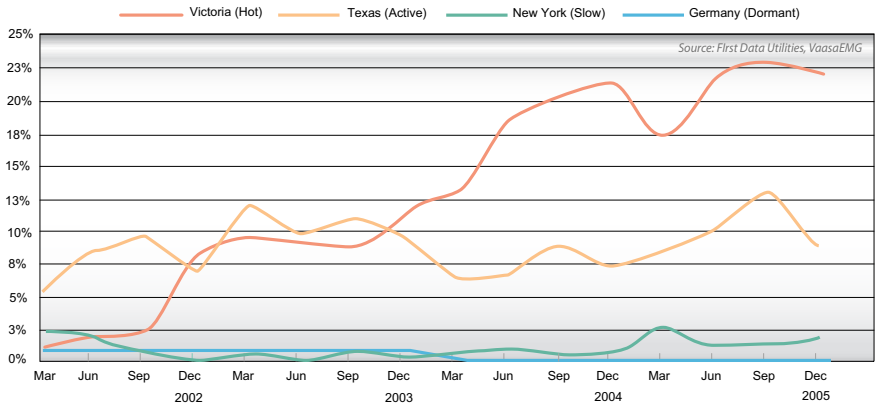


Figure 2: Examples of Hot, Active, Slow and Dormant category markets.

The Project provides a consistent and objective basis for benchmarking the competitiveness of retail energy markets around the world. Leading markets have sustained active levels of competition for many years and this should be viewed as proof that retail energy competition can thrive in new markets provided they are appropriately structured.

About the Authors

Paul Grey, Chief Market Strategist, First Data Utilities

First Data Utilities develops top-rated utility billing software and provides outsourced billing and payment services to drive down utility cost-to-serve. Utilities select from a wide portfolio of First Data Utilities' products and services which support the entire meter to cash cycle. Cost-to-serve is lowered through economies of scale, standardisation of business processes, and integration and optimisation of meter to bill and bill to cash operations. The company researches the dynamics of competitive energy retail markets to develop advanced utility software products and services that anticipate and support utilities' business needs.

Mr. Grey has nearly 20 years of experience in developing and deploying utility customer information software. His writing on utility industry and information technology topics is widely published, and he is a regular speaker at utility industry conferences, contributes to industry reports, and serves on a number of editorial and advisory boards

Dr. Philip Lewis, Group Director, VaasaEMG

The Nordic Centre for Expertise in Energy and Utilities Marketing (VaasaEMG), a department of the University of Vaasa in Finland, is the largest university-based research centre specialised in utility marketing to end customers. It has researched utility customer psychology and loyalty in 45 countries to assist utilities to predict and influence customer behaviour and grow market share. This research has led to a desire to measure and analyse utility customer switching between suppliers as a quantifiable indicator of successful marketing strategies.

Dr. Lewis is considered the world's foremost expert in the field of energy customer behaviour and psychology. In 1997 he established VaasaEMG at the University of Vaasa in Finland. He is chief editor of the Energyforum Global Report and heads the Global Roundtable of Energy and Utilities Marketing Experts, an association of 100 industry experts.

Acknowledgements

Many people around the world support the Project with data, advice, reviews and feedback. We would like to thank the following people for their input to the Utility Customer Switching Research Project:

Chris Rix, Energy Market Research Ltd.; CRE (France); Dansk Energi; Datamonitor; Delta N.V.; E-Control; ECH; Elradgivningsbyran; ENECO; Energie Nederlands; ERSE; GRD (France); Gestionnaire du Réseau de Transport d'Electricité (RTE); GreenPrices.com; Irish Commission for Energy Regulation (CER); Katrien Gielis, Economist, VREG; La Comisión Nacional de Energía (CNE); Mark Schutz, Management Consultant, Energy & Utilities, LogicaCMG; Norwegian Water Resources and Energy Directorate; PA Consulting; Platts; SEAS-NVE/Björg Bisgaard; University College Dublin; Verband der Elektrizitätswirtschaft (VDEW).

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Energy Retailers Association of Australia

Vulnerable Customer Position Paper

Issued June 2005

ERAA Position Paper - Vulnerable Customers

PREFACE

This policy was prepared in light of the establishment of the Committee of Inquiry into Financial Hardship of Energy Customers by the Victorian Government on 13 March 2005.

This paper is designed to be read in conjunction with the ERAA's Retail Price Regulation Paper which was drafted at the same time as this Hardship policy.

Historically governments through their ownership of utilities have administered social policy relating to customer hardship. Energy reform in recent years has resulted in the introduction of competition and in some States the complete privatisation of the energy industry.

Despite the introduction of these reforms jurisdictional regulators have retained price controls for certain customers in electricity and gas markets that are now open to competition. One of the main arguments put forward for maintaining regulated pricing of energy is to protect those customers in genuine hardship.

ERAA considers there is no justifiable link between price regulation and consumer protection, and sees that more targeted arrangements are required to assist customers in genuine financial hardship.

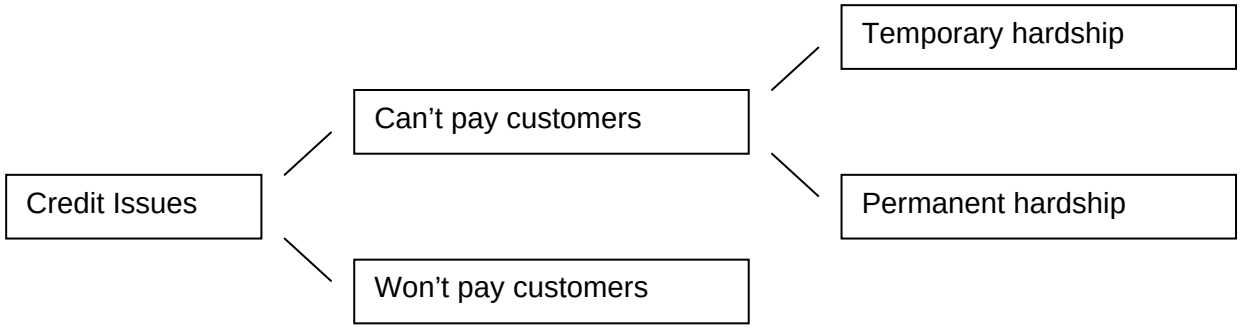
The ERAA strongly supports arrangements to protect customers in genuine financial hardship, however more effective policies are needed to address customers in hardship and continued price regulation is not part of the solution.

Customers with insufficient income need to be adequately supported with direct and transparent government subsidies through government welfare programs that are simple to administer and which do not interfere with the operation of the retail market. Energy retailers and community groups can assist governments in implementing such programs.

The combination of Government support and successful retailer vulnerable customer hardship programs will support competition in vulnerable customer segments and ensure programs are effective, transparent and efficient.

INTRODUCTION

Customers who do not pay their bills fall into two classes of customers: those who are in genuine financial hardship – the vulnerable or "can't pay" customers; and those who choose not to pay: the "won't pay" customers. Vulnerable or "can't pay" customers can further be classified as being in either temporary hardship or in permanent hardship.



The ERAA believes it is important to recognise these distinctions, as different approaches are needed to appropriately manage the different issues associated with these different customer classes.

This paper only discusses the ERAA's position with respect to the management of the vulnerable or "can't pay" customers. (As retailers have collections and debt recovery procedures already established in relation to those customers who "won't pay".)

ERAA POSITION

The ERAA recognises that sections of our community can face financial hardship and personal and social difficulties.

Historically, Australian government-owned energy utility companies have administered social policy relating to customer hardship. However, energy industry reform in recent years has resulted in Governments introducing competition, and in some states, with complete privatisation of the energy industry. Utility companies have now been separated into discrete companies responsible for generation, transmission, distribution and retailing.

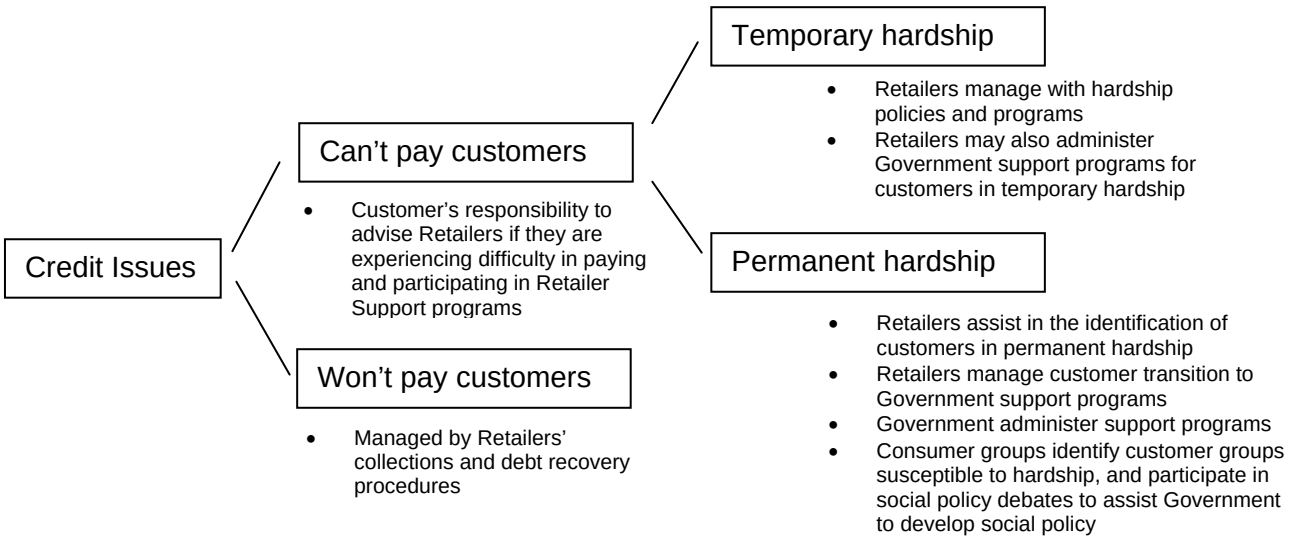
The development of sustainable solutions for managing customer hardship has not kept pace with these reforms. The ERAA believes that there needs to be a realignment of objectives and the approach to protecting customers in genuine financial hardship and will seek to engage governments, consumer groups and welfare organisations to address this important issue.

The ERAA's position is that:

- The implementation of vulnerable customer frameworks is a mutual social obligation, shared between customers, the energy industry, Governments and the broader community.
- Vulnerable customers are defined as those customers who, due to genuine financial hardship, are unable to pay for the energy they have used, be it permanent or temporary in nature.
- Vulnerable protection frameworks should be available to all vulnerable customers as defined above.
- Retailers should continue to assist those customers in temporary hardship through the provision of energy on credit, offering extended collections periods and payment plans, referral for financial advisers, government support agencies, and providing advice on energy efficiency.
- Energy affordability for vulnerable customers with permanent difficulties is best managed through comprehensive, direct social support programs, which are funded by governments, and are transparent and simple to administer. Energy retailers and community groups can assist governments in implementing such programs.
- The combination of transparent Government support and successful retailer Vulnerable Customer hardship programs will support competition in vulnerable customer segments and ensure programs are effective, transparent and efficient.
- Price regulation should not be used as a means to protect vulnerable customers. Price regulation is ineffective in protecting the vulnerable customers and has other unintended consequences including the introduction of cross-subsidies, which are inefficient and stifle market development; product innovation; investment in supply and demand management initiatives and energy efficiency.
- The ERAA will continue to work with Governments and the community to ensure that interaction with vulnerable customers is fair and equitable, and that the energy industry is providing efficient and effective hardship programs to its vulnerable customers.

SUMMARY OF RESPONSIBILITIES

In support of the ERAA's position, the following diagram summarises the responsibilities for managing vulnerable customers.



Part A of this paper provides a background and rationale to vulnerable customer policy

Part B outlines a role for Retailers in dealing with vulnerable customers, and

Part C presents the rationale for the policy principles adopted by the ERAA.

PART A. BACKGROUND

Definition of a Vulnerable Customer

The paper on Background Information on Vulnerable Customers provides analysis of various vulnerable customer policies from organisations in Australia and overseas. In these policies, each organisation has attempted to define "vulnerable customers", and not surprisingly given the complexity of the issues involved, each organisation has a different definition. However, one recurring theme is that "vulnerable" customers cannot afford to pay for the energy that they have used due to genuine financial hardship.

Vulnerable customers can be further characterised as follows, and may require different types of assistance:

- Permanent hardship customers are generally those with low or fixed incomes and may require ongoing assistance.
- Temporary hardship customers are those who have experienced a sudden change in living circumstances such as ill health, unemployment, a death in the family, a loss arising from an accident, or some other genuine financial difficulty. These customers generally require flexibility and temporary assistance such as an extension of time to pay, a one-off grant, or a payment arrangement.

Vulnerable customers can therefore be defined as those that are genuinely not able to afford to pay for their energy usage as a result of social or personal circumstances beyond their reasonable control, be it permanent or temporary in nature. These customers, due to their inability to pay, are at risk of being disconnected if left unaided.

Responsibility for Vulnerable Customers

Hardship situations are driven by a number of social and personal problems. Some of these circumstances are temporary in nature, while others are permanent. They impact on essentials of life such as food, clothing, health and utilities and therefore affect livelihood. With respect to utilities and in particular energy, lack of affordability and accessibility may exacerbate these customers' particular situation and lifestyle.

Historically, Australian government-owned energy utility companies have administered social policy relating to customer hardship. However, energy industry reform in recent years has resulted in Governments introducing competition, and in some states, with complete privatisation of the energy industry. Utility companies have now been separated into discrete companies responsible for generation, transmission, distribution and retailing.

The development of sustainable solutions for managing customers in genuine financial hardship has not kept pace with these reforms. As a result, traditional expectations for the management of hardship have shifted the burden for social policy to a very small group in the Australian community, the energy retailers.

The ERAA acknowledges that customer vulnerability is of serious concern for all Australians, including energy retailers. However, it is becoming increasingly clear that a solution cannot be found in one small section of the community. As a result, the ERAA recommends a shared social responsibility between the customer; the energy industry; State and Federal Governments; and the Australian community.

Responsibility should be shared as follows:

- **Customer** – Receives the energy and is obliged to pay. Customers are also responsible for advising retailers if they are having difficulty and seeking out and participating in programs designed to assist them.
- **Energy Industry** – Produces, distributes and sells the energy to the customer in a safe, reliable and least cost method. Energy retailers provide support to customers in genuine temporary financial hardship by providing reasonable payment plans, referral of customers to other available sources of help, and advice on energy efficiency (via hardship policies and programs). This support may also include administration of Government support programs. Retailers also assist in the identification of vulnerable customers in genuine permanent financial hardship and can assist in the transition of these customers to Government support programs.
- **Governments** – Determine social policy and put in place agencies and arrangements to fund and implement these policies. Governments are responsible for the administration of support programs for customers in permanent hardship, and also provide support to low-income earners by way of financial support through pensions and allowances, etc. (The paper on Background Information on Vulnerable Customers, Section B, outlines the various government concessions and rebate assistance schemes currently available to energy customers.)
- **Community** – Shares the responsibility for seeking to ensure Australia is a fair and equitable society. Community groups play an important role in identifying customer groups and individuals who are susceptible to genuine financial hardship, referring customers to available sources for help, and participating in social policy debates to assist Governments to develop appropriate policy.

Lack of access to energy supply has a significant impact on customers and their participation in society. However, given that energy only comprises 2-5% of average weekly household expenditure[1], solving energy hardship alone for vulnerable customers will do little to improve their participation in society.

In addition, energy industry specific programs to identify and assist customers with low income will result in duplication of effort, lead to unnecessary and multiple assessments by the different utilities causing customer frustration, and can result in the customers in most need of help not getting the assistance due to lack of coordination of support.

[1] Source: ABS Household Expenditure Survey, 2001. Households earning $1,000 per week spend approximately 2% of income on domestic fuel and power, while households earning $200 per week spend approximately 5%.

A sustainable, "whole of community" approach is required which is targeted to those in genuine need. Only a holistic strategy developed by Governments to address the affordability of those customers genuinely unable to pay for energy use will ensure a transparent and focused targeting of those customers who are in real need of support.

While there is a growing understanding of the importance of the need for a whole of community approach (refer to footnotes [2] & [3] below), there appears to be a lack of recognition in some circles that energy affordability is a broader social issue.

PART B ROLE FOR RETAILERS

The challenge for industry

The challenge to industry is to identify vulnerable customers in genuine financial hardship situations and work with Governments to assist those customers at risk due to their inability to pay for energy used.

Participation by Energy Retailers

Energy retailers are positioned to support customers who may be experiencing genuine financial hardship and then moving these customers into a more sustainable program with mutual obligations from all sectors.

The ERAA recognises that early identification and support by retailers is important in assisting in the reduction of long-term energy hardship. It is also important that customers advise energy retailers of their inability to pay, otherwise it is very difficult to differentiate between customers who genuinely can't pay as opposed to customers who won't pay.

Energy Retailers are also well positioned to assist in the early identification of inefficient appliances and poor quality housing, and providing this information to the owners of these assets (being either Government or private investors). However, unless there is a "whole of community" approach, which includes participation by housing stock owners, this information will not result in an improvement of the quality of housing for vulnerable customers.

There are currently obligations on retailers to provide ongoing support to vulnerable customers, such as:

- Flexible debt recovery options,
- Advice on the best payment solutions available to make payments manageable,
- Advice on the relevant concessions available, from pensioner to life support rebates,
- Free referral to registered financial support and community organisations on a voluntary basis as required,
- Energy consumption information and advice on ways to make cost savings,

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[2] Comments from Final Report by the Essential Services Commission of Victoria to Minister Special Investigation: Effectiveness of Retail Competition and Consumer Safety Net in Gas and Electricity, page 33, "The Commission considers that these issues could be addressed more effectively on a whole-of-government basis, which sought to better focus and coordinate existing government programs that are designed to address aspects of these customer problems."

[3] Comments from Productivity Competition's Report on transitional and distributional impacts of competition reforms, discussion draft, page 174, that the interests of vulnerable users are "best handled through transparent community service obligation payments, rather than through the general suppression of prices."

Retailers provide information to customers on how to access support from government relief agencies and charities to assist with a temporary problem or to address a more long-term issue. It is at the point when the customer contacts the Retailer and advises of their difficulty in paying the bill, that the customer can be assessed by the Retailer (with input from a relevant agency) and be identified as a vulnerable energy customer and receive the necessary support to ensure continued access to energy services.

The majority of Retailers have voluntarily developed Vulnerable Customer Hardship programs (in some cases, over and above Code requirements) that provide specialised and targeted support to vulnerable customers, and provide dedicated staff to assist customers in hardship. All retailers offer payment plans to assist customers with temporary problems.

Retailers are committed to continuing the development of their support programs for customers experiencing genuine financial hardship in an endeavour to mitigate the risk of increasing debt and disconnection.

PART C. PRINCIPLES

Economic Efficiency

Economic efficiency requires that pricing of products and services are such that they do not result in distorted signals in the market.

Equity and transparency

Access to energy is considered to be essential to minimum standard of living and is a right of all.

Governments may have views on equity grounds that customers in certain situations should pay a particular price. For example, some governments assist customers in remote locations through rebate schemes to ensure that they are not disadvantaged due to their location and that their charges do not vary significantly from those paid by customers in city regions.

Jurisdictions implementing such equity policies should do so in a transparent manner such that the true pricing signals remain.

Administrative Simplicity

Administrative simplicity requires that the complexity and cost of regulatory arrangements supporting equity principles and vulnerable customers be minimised. This includes the administration costs of measurement, monitoring, verification and compliance associated with relevant schemes to achieve governments' objectives.

Regulatory Certainty

Regulatory certainty requires that governments take a national, long-term approach to Vulnerable Customer policies. This includes the establishment of a regulatory framework that has well thought out objectives, which are nationally consistent.