

# Energy payment difficulty framework review

## Engage Victoria submission

Between 2 and 19 September 2021 we received submissions to our questions about the approach we proposed to take for this review. These questions are highlighted in blue.

### Submission written by: AGL

Date submitted: 17 September 2021

#### 1. How would you like to participate in the review?

Attend focused workshops	<input checked="" type="checkbox"/>
Participate in one-on-one interview(s)	<input checked="" type="checkbox"/>
Have a discussion with the project team	<input checked="" type="checkbox"/>
Provide a written submission	<input checked="" type="checkbox"/>
Other / comments	We also propose an audience with the Chairperson and Commissioners to present our experience and analysis of the PDF.

#### 2. What have you observed about the experience of customers in payment difficulty in the last two to three years?

##### Customer outcomes in Victoria:

AGL Energy (AGL) is observing increasing levels of debt in Victoria. It is AGL's view that the increase in debt is a result of a combination of factors, including the strict obligations under the Payment Difficulty Framework (PDF). For example, PDF introduces new customer entitlements that require energy retailers to offer payment plan periods of up to two years including six-month debt freezes, offer and accept average instalment amounts set at lower levels than pre-PDF and potentially higher consumer disengagement from the PDF process are contributing to rising debt for customers.

AGL does believe that the PDF can deliver more choice for customers in their payment arrangements. AGL promotes customer agency and believes that customers are best placed to understand their financial situation, however, there is a prevalent misconception that opting for payment arrangements with lower instalments over a longer period is good payment strategy. Our experience is that these new customer entitlement arrangements under the PDF are exacerbating the debt cycle for many customers. Customer entitlement over the terms their payment arrangement may increase positive customer sentiment about the PDF but does not necessarily address genuine payment difficulty as proposed by one of the PDF objectives.

AGL previously submitted to the Essential Services Commission (the Commission) that customers enrolled in the hardship program consume 40% more energy annually compared to our average customer (AGL Energy, Response to the Essential Services Commission New Draft Decision: Payment Difficulty Framework, 16 June 2017). This figure remained generally unchanged from the introduction of the PDF in 2019 to 2021. Our internal data and customer insights show a mixed outcome in the capacity of hardship customers to reduce consumption, as part of the practical assistance measures offered by AGL. AGL has observed that customers who did manage to reduce consumption by participating in initiatives including home energy audits, energy literacy programs and appliance replacement schemes were offset by an equal percentage of customers who did not reduce their consumption during their tailored assistance period. We believe the Commission should undertake a detailed analysis to understand why some customers do not take up the offer of energy efficiency support and why some customers who are unable to implement much of the support offered to them. It is critical this analysis is undertaken so that we understand how to improve outcomes for consumers.

#### Customer Engagement & Experience:

The Commission's intention was the PDF will mark a "shift from a rules-based approach to one that was [is] focused on positive results for customers" (Essential Services Commission 2017, Payment difficulty framework: Final decision, 10 October). However, since the start of PDF, the Commission has pursued a consistent application of PDF with and across retailers. This has led to a number of Guidance Notes being released by the Commission to achieve this objective. The Commission has also conducted a Pulse Check of retailers' application of the PDF which has underpinned the Commission issuing their Guidance Notes. Our experience of the current climate means that retailers sacrifice having a flexible and high-quality conversation based on the needs of the customer for heavily scripted interactions in order to meet the strict regulatory compliance obligations and subsequent Guidance Notes requirements.

From a customer experience perspective, for customers with payment difficulties that contact us engagement declines due to the volume of information and length these interactions. These calls are highly scripted and often result in the customer disengaging with the process or going through the prompts absentmindedly to end the call as soon as possible.

Unfortunately, the content prescribed by the PDF regulation is overwhelming for both customer and agent. AGL would be keen to work with the Commission to find the right balance between prescription and flexibility to improve the customer experience.

Since the commencement of the PDF, the Commission has issued eight accompanying Guidance Notes, compliance with which is a condition of the retailer's license. The Commission's intervention feels like a marked shift away from the intention of developing a framework where "retailers would be expected to judge how to deliver meaningful and timely assistance in light of a customer's circumstances" (Essential Services Commission 2017, Payment difficulty framework: Final decision, 10 October, p 4). The compliance and

enforcement climate in Victoria is forcing retailers to trade in quality, robust conversations tailored to the customer's circumstances. The additional Guidance Notes have resulted in a highly prescriptive framework and a 'tick-the-box' approach by retailers to meet their regulatory obligations and minimise additional Commission information gathering and enforcement actions.

Disconnects as a measure of last resort:

The Commission's latest market performance report shows that average monthly disconnections for non-payment dropped from 2019 and early part of 2020 (pre-Covid) compared to 2018 (Essential Services Commission 2021, Victorian energy market update: June 2021, 29 June, p12).

AGL recommends carefully unpacking this data and accompanying qualitative evidence to determine if any decreases in disconnections for non-payment under the PDF could be better explained by:

- the industry transition from a pre-PDF framework to PDF in 2019;
- retailer caution in disconnecting customers as they implemented PDF in its first year;
- the moratorium on disconnections in 2020 and 2021;
- retailers ceasing disconnections to offer assistance during extreme events, (COVID-19, floods);
- A lack of regulatory certainty when arranging disconnections for non-payment as the PDF introduces elements such as "acting fairly and reasonably towards the customer at all times" and "taking the customer's circumstances into consideration".

3. We have access to existing data, customer insights, and publicly available case-studies relating to the framework. Is there any other data, insights or research we should also consider?

We would encourage the Commission to review the disconnection for non-payment data points against other PDF data points. Such as the impact of average customer debt levels, successful completion of payment plans and average debt levels on entry and exit of payment plans, success of energy efficiency support in reducing energy consumption, level of customer complaints and type of complaints against the PDF, average call time of a PDF contact, level of customer led vs retailer led engagement attempts. A fulsome analysis of all the trends is critical to assess if PDF is working well for Victorian consumers and possible improvements to the framework that can lead to better outcomes for consumers.

In particular, we would encourage the Commission to use trend data and not individual case studies of customer experience as case studies may be outliers rather than industry practices.

#### 4. Are our key review questions appropriate for the review?

##### Scope:

We are seeking the Commission's clarification on the scope of the review, as the Commission writes as part of this engagement that it "will evaluate and assess the operation of the framework in meeting its objectives" but later notes that the purpose of the review is "to identify whether implementation of the framework has been effective". AGL urges the Commission to consider the level of success the PDF has had since implementation in meeting its three objectives to form a holistic view of effectiveness of the framework. If the Commission were to focus this review exclusively on retailer implementation it would shift the discourse from customer outcomes to perceived failures by retailers in implementing the PDF.

##### Analysis:

The proposed questions are generally appropriate to gather qualitative data, however, in order to assess the success of the PDF in meeting its objectives, the Commission should rely almost exclusively on actual quantitative data, trends, and macro data analytics. We believe that all customer experiences are valid, however, individual insights, anecdotal evidence and subjective experiences should not skew an impartial evaluation of the outcomes of a regulatory framework.

AGL strongly believes that quantitative data trends will provide fact-based evidence for the Commission to understand the success of the PDF and possible improvements. Further, many social and economic factors that give rise to financial vulnerability are outside of the control of energy retailers and require a collaborative approach from government, community groups and specialist intervention measures from outside energy retailers. To this end, AGL is disappointed that the review "will not consider reforms to associated government programs and policy." AGL believes it is important that the review identify all possible impacts on Victorian customer debt inflation and chronic hardship.

##### Collaborative industry consultation process:

We support bringing together industry participants and consumer groups during the consultation period through combined workshops as well as one-on-one consultations for the industry to inform the Commission's view on whether the outcomes under the PDF have been achieved. We endorse the collaborative approach taken by the Commission during the 2018 Thwaites Review.

##### Engagement on key questions - timeframe:

The Commission has allowed approximately 6 weeks for engagement on key review questions. AGL recommends extending this timeframe to 8 weeks to allow for sufficient time to analyse data findings and evaluate trends.