

# Executive summary

The Essential Services Commission promotes protections for consumers experiencing vulnerability and supports access to regulated essential services for all Victorian consumers. A key objective of the commission is breaking down the barriers consumers can face when seeking information and assistance.

One of our roles is to facilitate the effective implementation of regulations for the energy industry, which includes support for customers who are having trouble paying their energy bills. The energy payment difficulty framework (the framework) was developed by the commission to reduce these barriers and support residential Victorian customers experiencing vulnerability.

The framework was introduced in 2017 and came into effect on 1 January 2019 through amendments to the Energy Retail Code (now Energy Retail Code of Practice).<sup>1</sup> The framework seeks to reduce the number of customers being disconnected for having energy arrears and does this by protecting and supporting residential customers to help pay their energy bills. The framework entitles Victorian energy customers anticipating or experiencing payment difficulty to minimum levels of assistance. These minimum standards of assistance and the obligations for retailers in providing that assistance, are set out in the code.

The framework was developed to meet the following objectives:

- To help residential customers avoid getting into arrears with their retailer.
- To make it easier for residential customers to pay for their ongoing energy use, repay their arrears when they have missed a bill, and lower their energy costs.
- To ensure residential customers are only disconnected for non-payment of a bill as a measure of last resort.

## **Our review of the effectiveness of the framework's implementation**

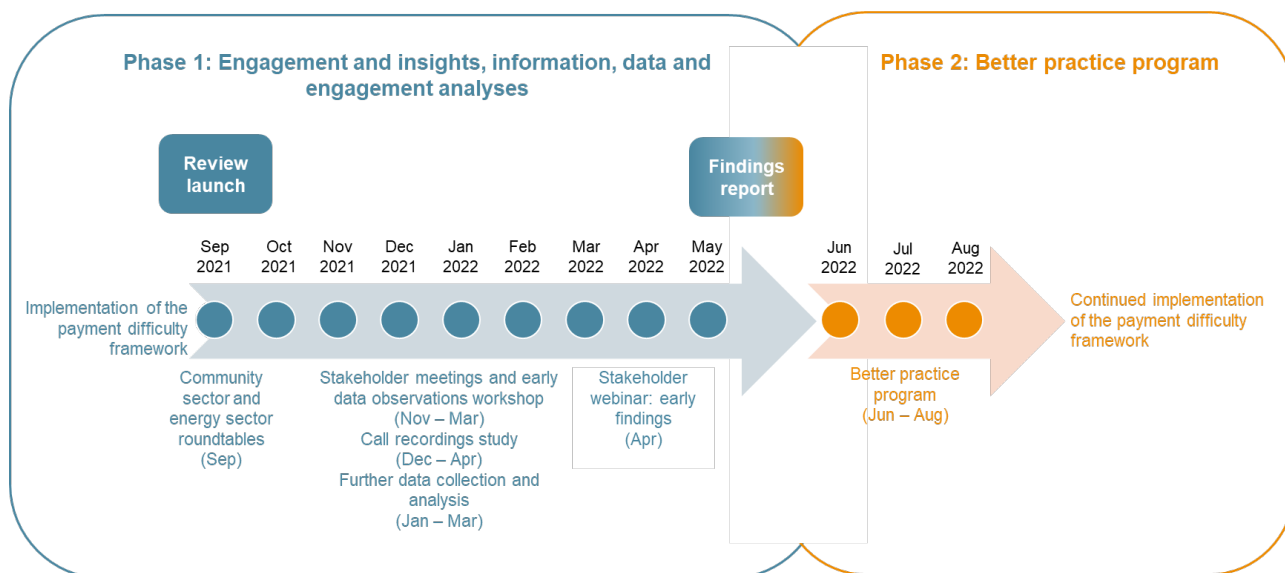
We committed to holding a review into how energy retailers were applying the framework in practice two years after its introduction. The aim was to consider the effectiveness of the framework as implemented by energy retailers against its objectives, and to identify areas for improvement.

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<sup>1</sup> At that time, this was version 12 of the Energy Retail Code. The framework is now in the Energy Retail Code of Practice, and specific provisions relating to disconnection have been transferred to the Electricity Industry Act 2000 and Gas Industry Act 2001.

Since September 2021, we have been gathering information to inform our review. This involved receiving and evaluating feedback and data directly from stakeholders, retailer data, publicly available consumers insights research, and analysis of call recordings between retailers and customers receiving payment assistance.

**Figure 1 Our review timeline**



This report presents the key information and insights we have collected through this process. Our key findings provide the basis of our assessment of how effectively the framework has been implemented against its objectives since 2019.

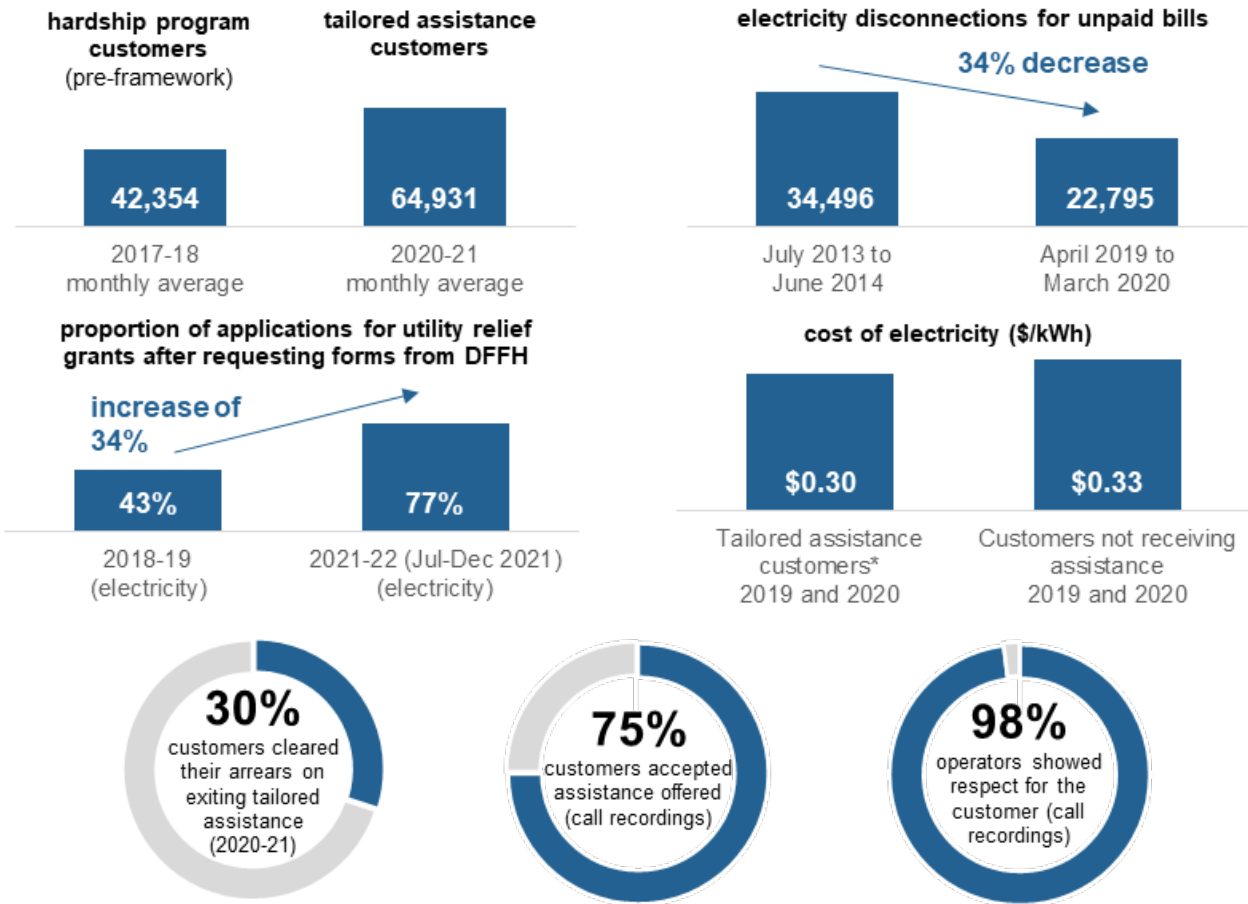
It is important to note that the framework’s implementation coincided with stay-at-home orders issued by the Victorian government to help contain the spread of COVID-19 during 2020 and 2021. Various temporary measures and supports providing financial assistance to individuals, households and businesses affected by the pandemic have affected how energy retailer responses operate, as well as customer needs and experiences during this period. We have considered this when making our key findings.

We have also highlighted opportunities for further collaboration across the sector, particularly between the commission, energy retailers, and consumer groups and advocates to improve the framework’s support of customers experiencing vulnerability.

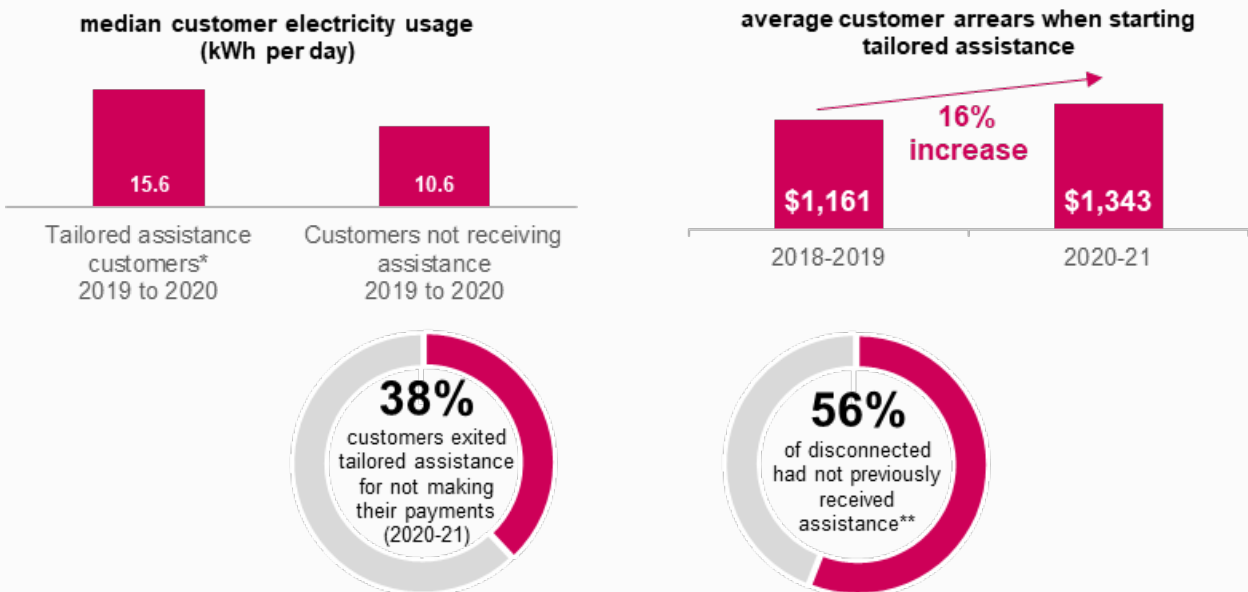
The release of this report marks the beginning of the next phase of our review. From June to August 2022, we will engage with stakeholders to facilitate discussions about better practice and to develop practical actions that focus on improving the operation of the framework, as identified in this report. The findings from our review, and the actions we develop with stakeholders will then inform our on-going regulatory work to implement the framework.

# Victoria's energy payment difficulty framework: At a glance

## Positive and improved customer outcomes



## Negative customer outcomes

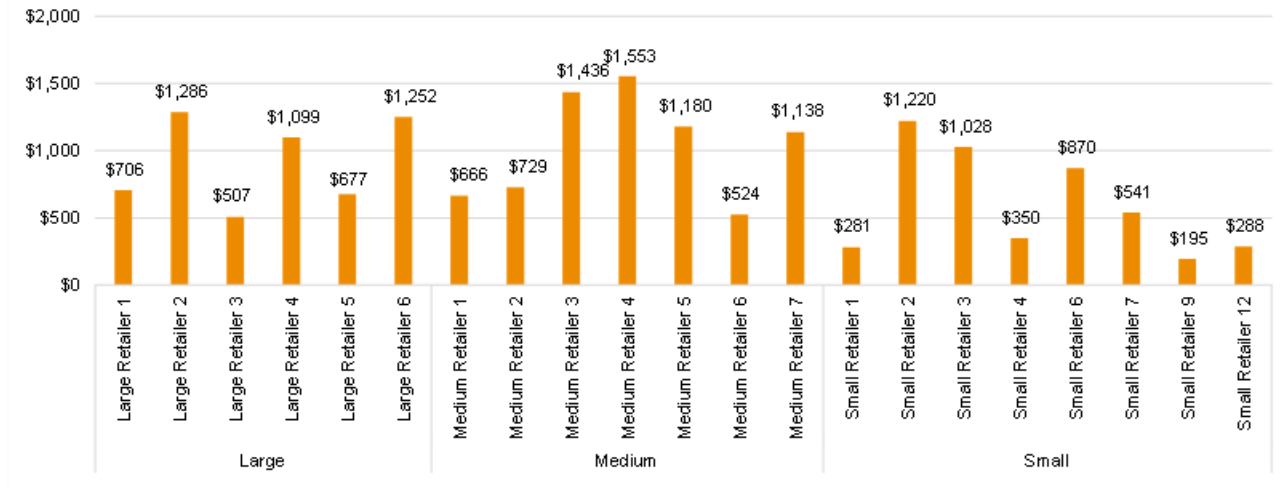


\*Defined as hardship customers in the data

\*\*Between January 2019 and June 2020, which captures the disconnections that occurred in the period prior to the pandemic.

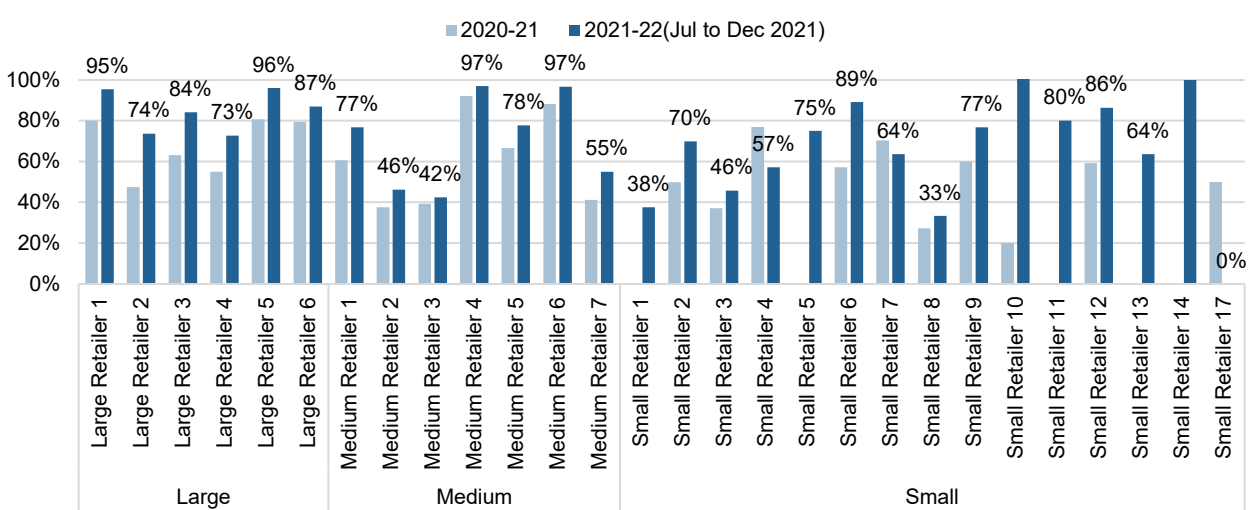
## Examples of variable customer outcomes across retailers

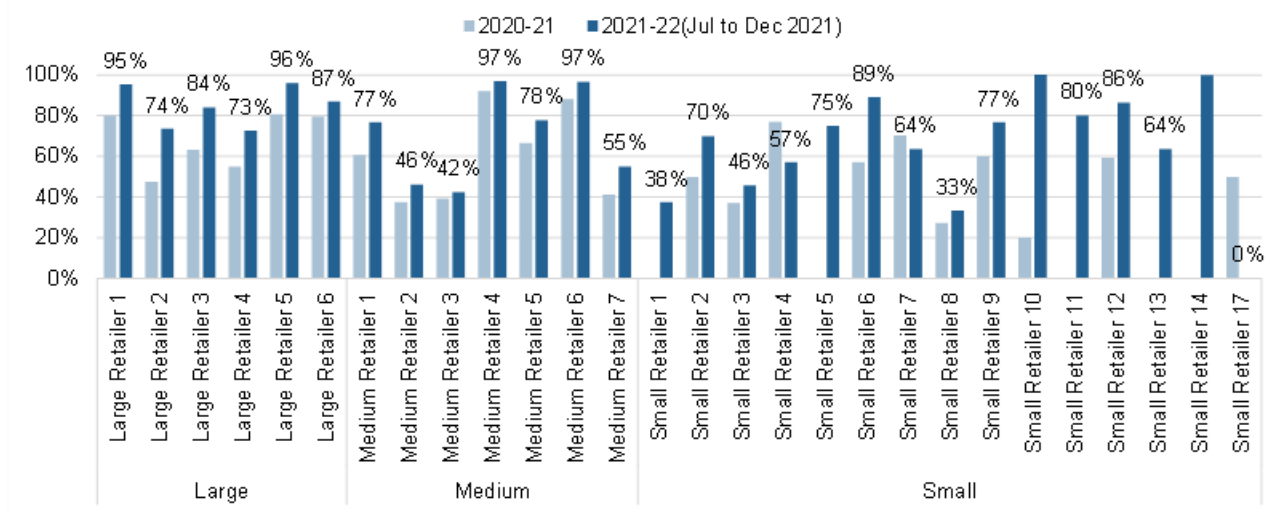
Average customer arrears when starting tailored assistance for customers who can pay for their on-going usage, 2020-21, by retailer



Source: Voluntary data request to retailers to inform the review. Note: Some small retailers are not shown due to the retailer either not having tailored assistance customers, or no applicable data relevant to this metric for this time-period.

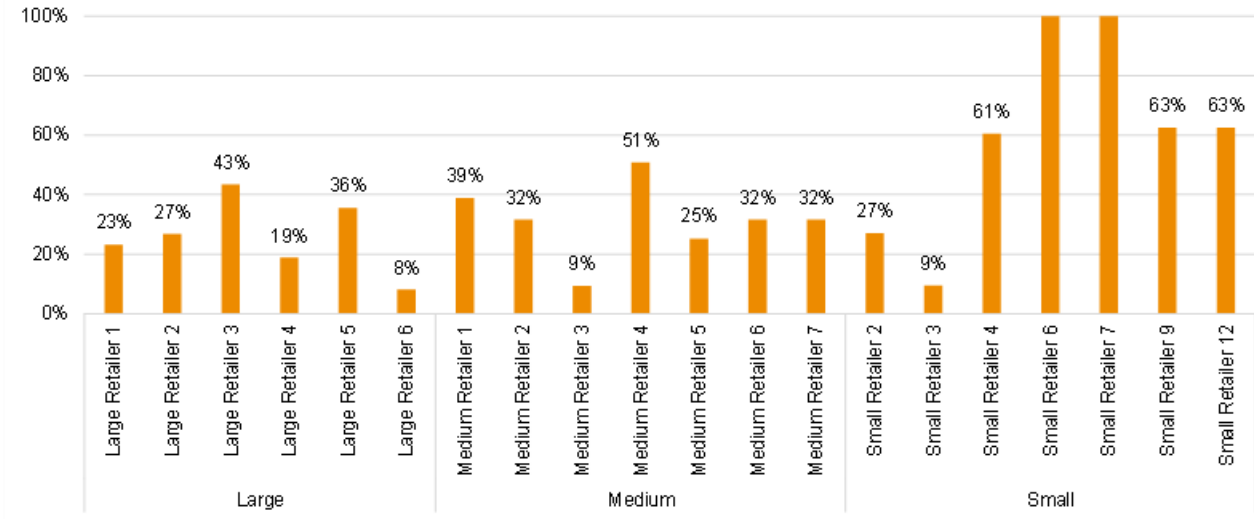
## Proportion of applications for utility relief grants after requesting forms from the Department of Families, Fairness and Housing, 2020-22, by retailer





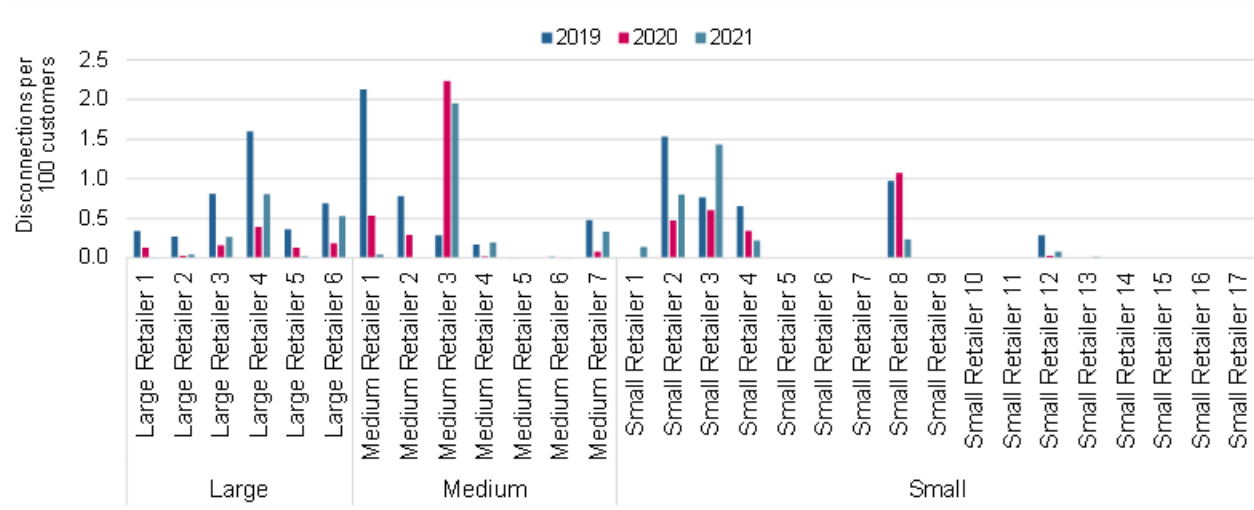
Source: Data from Department of Families, Fairness and Housing Victoria

**Proportion of customers successfully clearing their arrears on exiting tailored assistance for customers who can pay for their on-going usage, 2020-21, by retailer**



Source: Voluntary data request to retailers to inform the review. Note: Some small retailers are not shown due to the retailer either not having tailored assistance customers, or no applicable data relevant to this metric for this time-period.

**Disconnections for unpaid bills (per 100 residential electricity customers) by retailer, deidentified**



Note: Some small retailers are not shown due to the retailer either not having tailored assistance customers or had no applicable data relevant to this metric for this time-period.

## Our key findings

### 1. Implementation of the framework is broadly meeting its objectives



- More customers are receiving more appropriate assistance.
- There have been fewer disconnections for non-payment, but more than half of these customers had not received assistance beforehand.
- Energy customers' awareness and knowledge of their entitlements continues to vary.

### 2. Customer outcomes vary significantly between and within retailers



- Average customer arrears vary by retailer, despite assistance aiming to help customers avoid getting into arrears.
- Retailers' use of discretion in delivering payment plans varies.
- Concessions and utility relief grants can be more effectively provided to customers as part of payment assistance.
- Lowering energy costs and usage is also key to supporting customers.

### 3. The level and quality of retailer-customer engagement affects customer outcomes



- The appropriateness and timing of retailer communication with customers varies.
- Early intervention with customers improves outcomes.
- Some retailers are more successful in engaging with customers before they build up large arrears.
- Some customers requiring support with their energy bills may be experiencing multiple barriers.



### 4. Customers who can pay for their ongoing energy use benefit most

## Summary of our key findings

### Key finding 1: Implementation of the framework is broadly meeting its objectives

Our review suggests that over the past two years, the framework has provided a clear basis for customers to receive help when paying their energy bills, especially when they are experiencing payment difficulty.

Since the framework came into effect in 2019, more customers have been receiving tailored assistance compared to customers in past retailer hardship programs. Consumer groups we consulted with also observed a general reduction in customers being offered unmanageable payment plans by retailers by default or being required to undertake complex or difficult processes to receive assistance.

Interactions between customers and energy retailers are improving. The representative sample of recordings of retailer calls with customers experiencing payment difficulty revealed constructive and friendly interactions with customers when providing support. Of all the call recordings we collected and reviewed, retailer staff were found to be 'respectful' in 98 per cent of cases. We also found that in 2020-21, 30 per cent of customers successfully completed their tailored assistance with the support of their retailer, resulting in no arrears.

These are positive signs. Before the framework, there was little consistency across retailers on whether a customer would receive assistance, what form it would take, and when they would receive it. These factors were subject to retailer discretion. Community stakeholders recognise there have been improvements in the support offered to customers, but also continue to observe examples of poor customer experiences for many of their most vulnerable clients.

However, a significant proportion of customers still do not receive assistance. There are many complex reasons why a customer may not reach out to a retailer for support, but we note that the data indicates some retailers seem to be more effective than others in achieving constructive engagement.

We remain committed to improving outcomes for customers experiencing vulnerability. This includes, where necessary, acting on retailer non-compliance we identify.

In the last two years, two retailers paid penalties for alleged actions for non-compliance with the framework. Alinta Energy paid \$1.125 million in penalty notices we issued for allegedly requiring customers to provide personal or financial information as a condition to receive assistance. Sumo paid \$500,000 for allegedly wrongfully disconnecting 142 customers for not providing enough time for customers after issuing a disconnection warning notice. We also issued seven guidelines to help the industry further support customers in payment difficulty.



The number of electricity customers being disconnected for non-payment has fallen significantly since reaching a peak of 34,496 in 2013-14. Between April 2019 and March 2020, electricity disconnection numbers dropped to 22,795, a decrease of 34 percent from 2013-14 levels. We have also seen a general reduction in wrongful disconnection payments made and reported by retailers. During 2020-21, 430 customers were paid a total of \$487,403 in compensation, the lowest number of customers affected and payments made in five years.

As most retailers halted disconnections in 2020 and 2021 in line with the commission's statement of expectations during stay-at-home public health orders, it has been difficult to confirm a trend in these figures attributable to the framework. The pandemic also had a profound effect on the financial capacity of many customers and are likely to have contributed to increased levels of arrears for energy customers.

Despite disruptions to their operations due to the pandemic, energy retailers continued to deliver the payment difficulty framework. More Victorian residential customers accessed tailored assistance, with 61,560 customers receiving assistance by the end of 2021, compared to 57,039 customers in March 2020. Importantly, the average arrears of customers who can now pay for their ongoing usage has not grown over the past two years, despite the difficult economic circumstances.

These results demonstrate the durability and value of the framework, even during unpredictable and high impact events.

## **Key finding 2: Customer outcomes vary significantly between and within retailers**

Before the framework's introduction, customers experienced inconsistent approaches and responses to requests for payment assistance from Victorian energy retailers. Retailers had different eligibility criteria for customers to receive assistance and offered different types of assistance. The framework sought to address these inconsistencies by providing a minimum set of standards and entitlements that Victorian customers experiencing payment difficulty can expect from their retailers. While the framework sets out the types of assistance that must be offered to customers, retailers have some flexibility regarding how some assistance is offered.

This report outlines the various ways the framework is being implemented by retailers and highlights positive instances that demonstrate the framework's effectiveness. For example, some retailers have taken more proactive approaches to supporting customers with information about their eligibility for energy concessions, and some have been more effective at helping customers successfully apply for utility relief grants. However, many retailers could do more.

A critical area for further consideration is the different levels of customer arrears across retailers at the time assistance commences, as well as the timing of when customers commence their assistance with their retailer. In some cases, customers are entering assistance with high levels of

arrears accumulated over a long time – sometimes the equivalent of an average Victorian’s annual energy bill – and that assistance might be too late to provide meaningful debt relief for the customer.

We also found variation in how retailers support customers to lower their energy costs and usage, which helps to directly reduce a customer’s arrears to more manageable levels. Some retailers are more effective at directly supporting customers to receive utility relief grants, checking whether they are on the best offer, checking eligibility for energy concessions, and providing practical energy efficiency options. There is also a need for better connections with, and referral to, existing government and community supports and programs, to make permanent improvements towards helping customers lower their energy usage and costs.

### **Key finding 3: The level and quality of retailer-customer engagement affects customer outcomes.**

The payment difficulty framework was designed to promote communication and engagement between retailers and customers. It is critical that customers can effectively engage with their retailers in order to be provided with their full entitlements.

Important to this is customer awareness of their entitlements. We found that under the framework, this awareness has grown among customers, as well as community sector organisations and retailer staff. However, there are opportunities to improve awareness, which would better enable customers to engage with their retailers earlier, as well as enhance retailer response. For example, increasing general awareness of customer entitlements to assistance could encourage and improve timely engagement of customers with their retailers.

Retailer call centre staff are showing a greater understanding of the issues faced by customers experiencing vulnerability and requiring payment assistance. This is crucial for them to provide customers with their full entitlements. Call recordings collected for the review demonstrated the positive impact of call centre staff speaking to customers. In most calls, operators were respectful of customers (98 per cent of calls) and were empathetic in their communication (88 per cent of calls).

If customers are unable to or cannot engage with their retailer, retailers are unable to effectively provide customers with their full entitlements. We see opportunities for improving the quality of engagement between customers and retailers, which may lead to better application of customer entitlements under the framework.

The framework was also designed to promote early engagement with customers – the importance of this has been confirmed by our findings. Once a customer, who has arrears of more than \$55 including GST) misses a bill payment by the due date, retailers must provide a customer with information about their entitlements to assistance. While this early notification is mandated under

the code, we have found that the way call operators communicate with a customer can improve the support provided to them, particularly for customers experiencing vulnerability.

We observed that early intervention can and does help improve longer term or ongoing engagement with customers, therefore improving a customer's experience of receiving assistance. When a customer initially contacts a retailer who proactively offers support such as help to receive concessions and government grants or advice on the best plan, this improves the effectiveness of the support over time. This leads to benefits for both customer and retailer, as it focuses on managing customer arrears early and at more manageable levels.

Our work in this review aligns with the work we conducted in developing our 'Getting to fair' strategy in 2021. This three-year strategy seeks to improve the experience of consumers facing vulnerability by supporting our regulated and administered sectors to provide more responsive, inclusive, and accessible services. Although the framework is removing barriers for some customers to better access and receive assistance, we have found that some customers requiring support with their energy bills may be experiencing multiple barriers to accessing and receiving assistance. These barriers may be further heightened for some energy customers such as those experiencing family violence, First Nations customers, customers from culturally and linguistically diverse backgrounds and those with low financial or English literacy and LGBTIQ+ customers.

In this review we also sought to deepen our understanding of the gendered dimension of the framework in practice. This aligns with our new duty under the Victorian Gender Equality Act of 2020 which requires the Victorian public sector to consider and promote gender equality in their policies, programs, and services. We found that women are more likely to be seeking assistance under the framework.

#### **Key finding 4: Customers who can pay for their ongoing energy use benefit most**

The objective for both energy retailers and community sector organisations to support customers who are unable to or have not engaged with their retailers remains a challenge. In June 2021, over 49,000 energy customers were not receiving assistance from their energy retailer and were in arrears of \$1,000 or more. In 2019-20, more than half of customers disconnected for non-payment had not received assistance in the six months prior. These figures suggest there is still much work to be done under the framework to support Victorian customers who are unable to pay their energy bills.

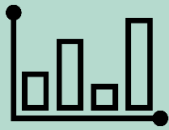
We found the framework benefits many customers, particularly those who are in arrears with their retailer and able to pay for their ongoing energy use. There were more of this category of customers receiving assistance during the pandemic and overall, their average arrears remained stable over the past two years.

However, our review highlighted the complexities in supporting customers experiencing acute or chronic financial difficulties or vulnerability. Based on call recordings we reviewed, customers experiencing payment difficulty are more likely to face multiple barriers, such as changes to household income, a lack of work, or illness. Many of these customers also use much higher levels of energy than the typical household for a range of reasons, and supporting these customers is particularly challenging.

We recognise that some of these challenges are long-standing and require continued support from a range of stakeholders beyond the framework. That said, initiatives such as retailers being more proactive in assisting these customers access concession and utility relief grants, as well as alerting them to other relevant government programs can help.

## Improving the operation of the framework

### Customer outcomes vary significantly between and within retailers



- Improve retailers' effectiveness of establishing and reviewing payment arrangements and plans.
- Improve customer access to payment arrangements from their retailer.
- Improve retailer processes to ensure eligible customers are receiving concessions and utility relief grants.
- Improve appropriateness and timing of assistance provided by retailers to customers about lowering energy usage and costs.
- Increase retailers' understanding of customers in payment difficulty with high energy use, to help to tailor approaches to energy efficiency.
- Improve the way that retailers link customers to existing energy efficiency and usage schemes and programs.

Priority

Priority

Priority

### The level and quality of retailer-customer engagement affects customer outcomes



- Improve retailer interactions with customers, focusing on communication that recognises a customer's circumstances, including the barriers they may be facing.
- Further support customers' entitlement to assistance during retailer communication.
- Promote earlier customer engagement by retailers.
- Improve retailer links with trusted third parties who support their clients or customers.

Priority

### Customers who can pay for their ongoing energy use benefit most



- Consider alternative approaches to support customers prior to disconnection, particularly for those who cannot pay for on-going use

## **Improving the operation of the framework**

Our findings demonstrate that the framework delivers positive outcomes for customers when it is implemented effectively. However, we have identified areas where implementation could be improved for the mutual benefit of customers and retailers.

We have identified particular areas as a priority for improvement, which we aim to address in the next phase of the review.

We determined these priorities by considered the areas that are likely to most benefit customer outcomes, and our degree of influence in improving these areas (whether customer outcomes can be improved within the scope of the payment difficulty framework). Stakeholders' views have also contributed to the development of our priority areas, including the views expressed at our stakeholder webinar in April 2022.

### **Next steps**

We aim to explore these priority areas further with our stakeholders and develop actions that we and the sector can take to improve the framework's implementation. Between June and August 2022, we will work with our stakeholders to identify and consider practical solutions, facilitate discussions on better practices and new practical approaches when supporting customers, and including the consumer voice when implementing specific actions. Our findings will also inform our on-going work to support the implementation of the framework.

We also remain committed to using our compliance and enforcement powers to protect consumers – especially those experiencing vulnerability – and to enhance trust in the energy retail market. The framework has also been a strategic compliance and enforcement priority in recent years. This means that we will consider taking enforcement action where it is necessary and appropriate to do so. Our compliance and enforcement approach is informed by our recently published Compliance and Enforcement Policy.

We will also continue our on-going monitoring of retailers' implementation of the framework. Given the value of additional data sources has provided for this review, we are also considering how to incorporate this into our normal regulatory work. This might include additional performance measures for retailers to report on, and the regular collection of call recordings from retailers.

We thank our stakeholders for their participation, and look forward to continuing this work alongside retailers, the community sector, and government to improve the ways we support and deliver essential energy services to Victorians.

If you would like to speak to us about this review or ensure you are on our mailing list, please contact us via email at <mailto:pdfreview@esc.vic.gov.au>.