

Essential Services Commission

Level 37, 2 Lonsdale Street

Melbourne Victoria 3000

Via email

energyhardshippreview@esc.vic.gov.au

1 May 2015

Re: Essential Services Commission 2015, Inquiry into the financial hardship arrangements of energy retailers: Our approach, March 2015

Thank you for the opportunity to respond to questions raised in the above titled paper. Onsite Energy Solutions is pleased to provide the following responses to the specific questions raised in the paper.

The Commission's approach (chapter 2)

Q1. Are the principles of effectiveness, flexibility, consistency, efficiency and proportionality, transparency and clarity, and accountability (of all stakeholders) the most relevant principles for this inquiry? Are there other principles that should be included or used? Should some principles be given greater weight?

Onsite Energy Solutions believes respect should be the guiding principle of effective hardship programs. Many customers experiencing hardship believe their personal circumstances represent a personal failure on their part and are shy about sharing the nature and extent of their situation with their energy retailer. Energy retailers need to overtly exhibit respect for hardship customers to encourage them to come forward early and share their predicament so that a personalised plan can be jointly developed without the customer feeling that their dignity is at risk.

Regulatory framework (chapter 3)

Q2. Does the regulatory framework need to be improved to support customers who are unable to pay their energy bills in full and on time? If so, what improvements are needed? Are certain aspects of the framework ambiguous, unnecessary or ineffective? Are there other regulatory frameworks offering good examples that the Commission should examine?

Onsite Energy Solutions believes the current regulatory arrangements provide a sound framework for managing energy customers experiencing financial hardship.

Q3. What incentives could be introduced to the regulatory framework to promote innovation in assisting customers who are unable to pay their bills in full and on time?

In general, energy retailers do not need to be incentivised to develop effective hardship programs as successful hardship programs will typically reduce the level of bad debt write-off associated with non-payment of accounts by customers who are genuinely experiencing hardship issues.

However the cost to serve hardship customers is usually greater than the net profit realised from energy sales to those customers.

Onsite Energy Solutions believes there may be a place in the energy retail market for a retailer that offers very competitive energy tariffs and products to customers experiencing hardship by managing the unavoidable additional level of bad debt write-off generated by these customers. This could result from an arrangement with the Government that resulted in the Government underwriting the debt of genuine hardship customers via its social welfare program/s where that energy retailer can demonstrate that it has taken all reasonable steps to assist the customer to manage their energy debt. Such an arrangement would require a higher level of hardship management than is currently applied by most energy retailers and close oversight of the regulator to ensure the energy retailer does not exploit this arrangement.

Q4. Does the regulatory framework provide sufficient flexibility and discretion for energy retailers to assist customers in financial hardship effectively? Should the Commission's Code and guidelines be more or less prescriptive in order to facilitate best practice and promote innovation by retailers? If so, what should be changed and how?

In general the regulatory framework should be more of a guide to facilitate innovation in hardship management practices. However Onsite Energy Solutions acknowledges that energy supply is an essential community service and therefore a relatively firm hardship management framework is necessary. The current framework allows some flexibility by requiring compliance with principles rather than prescriptive actions and tasks. Onsite Energy Solutions is satisfied that the current regulatory framework is adequate and appropriate.

Performance and compliance (chapter 4)

Q5. How could the Commission better monitor the overall effectiveness of the hardship assistance provided by energy retailers?

Onsite Energy Solutions suggests that the Commission should not judge the quality of energy retailer's hardship management practices solely on the level of disconnections.

Energy retailers that do not appropriately manage hardship programs by avoiding disconnection at all costs may leave customers on supply, but with a growing and unmanageable level of debt. This does not help the energy retailer or the customer and can result in the customer feeling that their problems are spinning out of control. It may also incentivise other customers who are not genuinely suffering from hardship to attempt to free ride the system by claiming assistance. This will essentially increase the cost of energy which is ultimately borne by all customers.

Equally energy retailers that have relatively high levels of supply disconnections may in fact be delivering more effective hardship management programs. For these reasons Onsite Energy Solutions urges the Commission to develop a monitoring framework that includes a robust suite of quantitative and qualitative criteria to facilitate a sound understanding of performance.

Q6. Are there better indicators the Commission could use to assess the overall outcomes for customers in financial hardship?

The proportionate level of hardship related debt being written off by energy retailers could indicate the level of effort being put into hardship management. For example an energy retailer may choose to write-off hardship related debt rather than invest in hardship management measures where the debt may be less than the cost of the hardship management measures. However this will not assist the customer to manage their bills going forward and does not essentially facilitate the customer returning to the general customer base.

Onsite Energy Solutions suggests consideration be given to the following indicators:

- The number of attempts made by the retailer to address hardship issues for each customer.
- The length of time it takes energy retailers to identify a customer as a potential hardship case.
- The number of attempts made by the energy retailer to contact the customer
- The number and range of specific solutions offered to hardship customers.
- The proportion of hardship customers accepting solutions suggested by the energy retailer.
- The proportion of hardship customers paying off their debt in full after specific timeframes (such as in 3 or 6 months).
- The size of debt as a proportion of customers total outstanding bill.

Q7. Can the Commission improve how it monitors and enforces energy retailer's compliance with the regulatory obligations? If so, how?

Onsite Energy Solutions believes the Commission currently has adequate powers and processes to enforce compliance with hardship related regulatory obligations.

Best practice (chapter 5)

Q8. Are energy retailers currently providing best practice assistance to customers who are unable to pay their energy bills in full and on time? What evidence is available to support this view?

Onsite Energy Solutions is unable to respond to this question as it is not privy to the hardship management practices of other energy retailers.

Q9. Should retailer's hardship practices be more transparent? If so, how can transparency be improved?

Energy retailers consider their business practices to be commercially sensitive in a competitive market. This equally applies to hardship management practices where good practices will usually deliver better financial outcomes for the energy retailer. Increasing the level of transparency of hardship management practices will therefore be seen by some energy retailers as potentially decreasing their competitive advantage and stifling innovation. However Onsite Energy Solutions believes that there is far more to be gained by than lost by all parties in sharing information regarding hardship management practices. Raising the standard across the industry will assist customers to better manage their energy debt related hardship and reduce the level of aggregate bad debt energy retailers are currently writing off.

Q10. What else could we learn from practices by firms operating in other jurisdictions and industries, nationally and internationally about best practice in hardship assistance?

Onsite Energy Solutions does not have access to any additional information that is not already available to the Commission.

Q11. Are there any other themes of best practice that we have not covered in chapter 5? Do some themes require higher priority in the regulatory framework administered by the Commission?

Onsite Energy Solutions believes the 8 themes identified by the Commission are appropriate. We believe the most important of these themes are:

- Early identification
- Sensitive and flexible approach

Early identification has the potential to catch customers in the early stage of hardship and help them address the problem before their aggregate debt becomes unmanageable.

Sensitive and flexible approach allows hardship customers to feel that their energy retailer is genuinely interested in working with them to address the problem and therefore encourages hardship customers to jointly engage in the development of a pragmatic solution.

Benchmarking (chapter 6)

Q12. What other matters should the Commission take into account when designing a benchmarking framework for assessing the effectiveness of retailer's hardship programs?

The Commission should consider the net cost benefit to the community of hardship management programs. Whilst energy retailers have a social responsibility to assist hardship customers as they are delivering an essential community service, we must be careful to ensure that the regulatory framework does not result in energy hardship programs evolving over time to become inefficient social welfare programs.

Q13. Which aspects of an energy retailer's hardship policies, practices and procedures should be given priority in the benchmarking framework?

Onsite Energy Solutions believes the Commission's benchmarking focus on the following 4 key steps is appropriate:

- Options – whether retailers have established an effective and reasonable suite of arrangements that can be made available to customers so that they can avoid disconnection
- Identification – whether retailers are effectively identifying customers who are, or may be, experiencing difficulty in paying their bills on time and in full due to financial hardship
- Availability – whether retailers are effectively making known, and offering, the options available to customers experiencing difficulty in paying their bills and assisting them to identify the most suitable option
- Review – whether retailers are effectively reviewing the suitability of the particular arrangements that have been put in place to support a customer before withdrawing those arrangements (and proceeding to disconnection).

Additional question (chapter 7)

Q14. Are there any other matters the Commission should consider to help customers who are unable to pay their bills in full and on time to avoid disconnection?

Onsite Energy Solutions believes that there could be merit in the Commission hosting a hardship management best practice workshop to be attended by energy retailer hardship operatives. The Commission could encourage those energy retailers they believe to be performing well in this area to share their experience and learnings. Representatives from other energy retailers will likely join the conversation and at the very least leave the workshop with some new ideas to implement back in their workplace.

If you wish to discuss this matter further, please contact me on 0423 0821 689 or bruce@energymakeovers.com.au

Yours sincerely,



Bruce Page
Regulatory Manager
Onsite Energy Solutions