origin

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Ron Ben-David
Essential Services Commission
Level 37, 2 Lonsdale Street
Melbourne Victoria 3000

Submitted by email: energyhardshipreview@esc.vic.gov.au

Dear Dr Ben-David

ENERGY HARDSHIP INQUIRY DRAFT REPORT

Origin welcomes the opportunity to comment on the Essential Services Commission's (ESC's) draft report in relation to its inquiry into best practice financial hardship programs of energy retailers.

Origin is committed to supporting customers experiencing difficulties paying their bills. Through our Power On program, we have demonstrated continuous improvement in identifying, supporting and engaging customers who have difficulty meeting their energy bills.

Since introducing the Power On program in 2005, we have strived to develop and innovate to become the industry leader in handling customers' hardship issues.[1] Our success is evidenced in improved performance across our hardship indicators. Our recent data shows that the average customer debt on entry into the hardship program has reduced by 13 per cent and the average debt while in the hardship program reduced by 26 per cent. Our customers' commitment to complying with their hardship plans also improved with the number of customers excluded from our hardship program due to non-compliance reducing by 24 per cent. The strength of our Power On program is recognised in the Net Promoter Score of +55 for this area of Origin's business at the end of the 2014-15 financial year.[2]

The ESC considers the original objectives of the regulatory framework are failing because it provides the wrong incentives and opportunities. To address this, the ESC proposes a framework that removes the ambiguity faced by retailers and customers in the current regulatory framework by placing clear obligations on retailers to assist customers at different stages of payment difficulty.

Origin believes that the ESC's framework will restrict retailers being able to provide flexible assistance tailored to a customer's individual circumstances from the earliest opportunity. As a result, customers may become disengaged, disempowered and ultimately worse off due to increased debt levels. Our analysis suggests that under the ESC's framework, a customer could accumulate in excess of $1,100 of debt on top of the debt they had when they first entered a payment plan which clearly runs contrary to the objectives of the inquiry.

Furthermore, Origin expects operationalising the ESC's framework will take significant time, resources and cost to the detriment of customers. We are also concerned about the ESC's significant departure from the National Energy Customer Framework (NECF), which adds further cost and complexity and moves away from a nationally consistent framework.

For this reason, Origin considers that where retailers are able to offer a program to assist customers experiencing payment difficulties that better meets customer needs than the ESC's framework, this should be made available to customers. While we are, nevertheless, concerned that setting a minimum requirement for all retailers stifles innovation and prevents the development of new flexible approaches over time, the ESC's framework could provide minimum requirements for those retailers who do not currently provide sufficient support to these customers.

[1] Financial and Consumer Rights Council 2014, *Rank the Energy Retailer*, August 2014.
[2] The Net Promoter Score is a method of measuring Origin's customer relationships and loyalty. By giving a score between -100 and 100, it serves as an alternative to traditional customer satisfaction research.

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Origin also considers recognition should be given to energy affordability issues and the Government's role in this area. The ESC's framework is limited to customers experiencing temporary payment difficulties and does little to assist customers in chronic hardship. This highlights the significant challenges faced by retailers and the need for further work to address this issue. Origin strongly supports the Government examining the causes of chronic hardship and developing broader energy affordability initiatives and solutions to assist these customers. This work should consider the government support and concessions framework as well as other issues that impact energy affordability such as the chronic state of some housing.

The remainder of Origin's submission expands on our above comments, particularly by drawing on comparisons between our Power On program and the ESC's framework. We also provide targeted feedback on elements of the ESC's framework to improve its efficacy as a minimum standard.

Should you have any questions or wish to discuss this information further, please contact Lillian Patterson on [redacted]

Yours sincerely,

Jonathan Briskin
General Manager, Retail Customer Operations
[redacted]

1 Origin's Power On program

Origin services approximately 20 per cent of the Victorian retail market.[3] For each of our retail customers, we take steps to understand their individual circumstances and to offer flexible and tailored options should they experience difficulties paying their energy bill.

In the first instance and in straightforward cases where a customer may advise us of short-term difficulties paying their bill, we offer a Promise to Pay arrangement, which typically ranges between a five week and one billing cycle extension. If a customer requires a longer period to pay their bill, we offer a tailored 12-month payment plan to pay their debt as well as their future consumption with affordable repayments for the customer.

If this is not suitable for the customer, Origin provides assistance through our Power On program, where we work with each customer to determine their capacity to pay based on the information they are willing to provide us about their circumstances. We tailor a payment plan of typically between 18 to 24 months in duration to cover future consumption and arrears.

For customers experiencing greater payment difficulties, Origin provides innovative solutions such as our incentive payment plan and subsidised payment plan. The former provides a financial incentive to the customer to reduce their outstanding balance if they remain engaged and maintain the agreed instalment amounts. This may involve matching payments or providing a bonus payment when consumption goals are met. The latter offers short-term relief by allowing the customer to pay an affordable amount of their consumption for a short period as we provide additional assistance to reduce the gap between their consumption and capacity to pay. Once the customer can cover consumption, we work with them to reduce their debt balance, typically through discretionary account payments or financial incentive matching.

In addition to establishing a payment plan, our dedicated Power On team provides concessions and grants information, conducts energy efficiency audits, and ensures the customer is on the most appropriate product offer. Where appropriate, our team also directly enrols the customer in Centrepay, and refers them to external support agencies and/or financial counsellors.

Our Power On program is based on joint responsibilities for Origin and our customers. We require customers to commit to engaging with us to allow us to tailor payment plans should there be a change in their circumstances and to ensure the customer is working towards sustainable energy consumption. Each of our Power On program customers is managed by individual case managers who regularly contact these customers to understand how they are progressing and adjust their plans where required.

Origin is unique in that we actively monitor customer behaviour in order to engage early should we identify any payment difficulties. Our work was referred to in the ESC's draft report which noted that one of the nine retailers that participated in its research systematically identifies customers at risk of experiencing payment difficulties in order to contact these identified customers.[4] Our statistical predictive model allows us to undertake demographics analysis of our customer base and our customer relationship management system helps us better understand payment patterns and history. We use this information to establish the likelihood of a customer experiencing payment difficulties within the next six months. We then proactively call these customers and in a respectful manner, offer a number of assistance options to them.

[3] Australian Energy Regulator 2014, *State of the Energy Market 2014*, December 2014, p. 125.
[4] Essential Services Commission 2015, *Supporting Customers, Avoiding Labels. Energy Hardship Inquiry Draft Report*, September 2015, p. 34.

2 Implications of the ESC's framework

2.1 Retailer flexibility to offer tailored payment plans

Origin's experience and stakeholder feedback indicate that tailored, responsive plans that are implemented early and aim at debt and usage reduction lead to the best customer outcomes. This view is aligned with recent comments by the Victorian Energy and Water Ombudsman (EWOV), who noted their concern that some energy retailers were not providing effective and accessible assistance to customers with payment difficulties due to inflexible hardship programs. In particular, EWOV noted a prevalence amongst some retailers towards "processing" customers rather than reviewing their individual circumstances to provide tailored and sustainable support.[5] The high degree of prescription under the ESC's framework does not allow retailers to tailor payment plans to meet customers' individual circumstances.

By removing the requirement for a retailer to undertake a capacity to pay assessment from the outset, no consideration is given to what a customer can afford under the ESC's framework. In addition, it prescribes the circumstances under which a customer is moved to the next payment stage in the program, which may not be appropriate in all cases.

Not considering a customer's individual circumstances from the earliest point, along with the strict and relatively short payment plan terms, would have significant implications for customer debt. For example, Origin's Promise to Pay payment extensions allow a customer to repay their total amount owing over one billing cycle. If at the end of the Promise to Pay period, a customer is still unable to pay their bill in full, we develop a tailored payment plan to meet their needs. Under the ESC's framework, however, if the same customer is still unable to pay their bill in full at the end of the Early Action Plan then they enter Payment Plan One. At this point, they would have accumulated more debt than under Origin's framework given they have been allowed an additional billing cycle in which to accumulate more debt.

In the subsequent payment plans in the ESC's framework, a customer is given shorter payment plan periods of two and then five billing cycles. In contrast, Origin tailors a payment plan of up to 24 months. This is based on our experience that indicates 64 per cent of our hardship program customers nationwide need between 18 and 24 months to pay their outstanding debt and gain control of their ongoing bill management. Repaying a larger amount over a shorter period under the ESC's framework is more difficult than repaying a smaller amount over a longer period under Origin's approach.

When we compare Origin's approach to the ESC's proposal, the debt increase for customers across the industry could be in excess of $35 million per annum. It is even possible that 12 months could elapse in which a customer on quarterly billing has not paid a bill or sufficiently engaged with their retailer.

2.2 Disincentive for customer engagement

Early and continued customer engagement is a key principle of Origin's Power On program and has been crucial to our success in assisting customers experiencing payment difficulties. Our program is based on open and cooperative engagement that is both customer and retailer-initiated. We rely on customers to advise us if their circumstances change and we proactively contact the customer if we see changes to their usage patterns or payments so that we can amend their support appropriately.

This would be lost under the ESC's framework as its automated process removes the incentive for customers to engage. For example, some customers, such as concession card holders, are automatically placed on Payment Plan One after missing a regular bill payment even if they are not

[5] Energy and Water Ombudsman 2015, *A Closer Look at Affordability. An Ombudsman's Perspective on Energy and Water Hardship in Victoria*, March 2015, p. 15.

experiencing payment difficulties. In addition, for any customer that has entered Payment Plan One, they are automatically moved to subsequent payment plans when a payment is missed. This automation could impact the customer's experience and is unlikely to produce the constructive outcomes that can result from cooperative ongoing dialogue between a customer and retailer.

While there are some requirements for customers to respond to retailer communications, such as the requirement in Payment Plan One for the customer to respond to at least one formal request from the retailer if a payment is late, in our experience this is not sufficient to promote continued engagement.

2.3 Customers captured by the ESC's framework

Origin supports the promotion of self-identification in the ESC's Early Action Plan. However, we consider the ESC's automatic capture of a number of customers effectively offers payment plans to customers who may not be experiencing payment difficulties. This is an inefficient outcome and diverts resources from customers in genuine need of assistance.

Under the ESC's framework, concession card holders who miss a payment are automatically placed on Payment Plan One. Approximately one-third of Origin's customers in Victoria have a concession card. In our experience, many of these customers do not have recurrent issues paying their bills. In addition, some customers only pay a bill once they receive a reminder notice as there may be no consequence to paying a bill late. Origin does not consider a late payment as an indicator of payment difficulties.

Putting these customers on a payment plan may also have unintended consequences for their budgeting needs. If the customer is required to retain the payment plan until they contact the retailer to be removed from the payment plan, this could put unnecessary and unexpected pressure on the timing and management of their household budget, leading to increased complaints and potentially pushing customers into payment difficulties where they otherwise would not have been.

Under the ESC's framework, customers who have been in a hardship program in the last two years will automatically be placed on Payment Plan One if they miss a bill payment. This approach does not assess why the customer is no longer in the hardship program. While admitting a customer who has successfully completed an earlier hardship program may be appropriate, it may not be appropriate for a customer who has failed an earlier hardship program and refuses to engage or make any payments to their retailer.

2.4 Customers not captured by the ESC's framework

The ESC's framework does not address customers in chronic financial hardship, such as the underemployed or those living in poverty. Origin considers the proposed framework has the potential to exacerbate their already difficult situation.

There are customers in entrenched poverty who are unable to meet payments or cover their ongoing consumption. In fact, 27 per cent of our hardship customers nationwide can only afford to pay ongoing consumption but not their existing debt. Nine per cent of our hardship customers nationwide cannot even afford their ongoing consumption.

Assisting customers in chronic hardship requires a concerted effort by the Government to lead the discussion on effective solutions. Origin is also concerned that these customers could potentially enter a disconnections roundabout, where they are unable to meet their payment plan, are disconnected, are reconnected, are unable to meet their payment plan again, and the cycle continues.

2.5 Complexity of the ESC's framework

The complexity of the ESC's framework has material operational and financial consequences for retailers. Origin has undertaken a preliminary evaluation to identify and quantify the range of system and process changes that would be required to implement and continue to administer the ESC's framework.[6] Given the ESC's framework represents a significant departure from our existing approach and the requirements under NECF, Origin would need to maintain two separate schemes. This further adds to cost and creates challenges for our staff to understand the differences between the treatments for Victorian customers and customers in other states. In our view, nationally consistent frameworks are important to promote efficiency and competition.

Origin's indicative cost to redesign our systems and processes and retrain frontline and back office team is in excess of $10 million and could be significantly higher assuming the development of individual tariffs, which are not sufficiently detailed to understand the cost. Administration will be costly and result in greater complexity and proliferation of tariffs in our systems. At this early stage, however, we anticipate it would require a manual process to establish each tariff, which would result in a proliferation of tariffs in our system.

The process to transition our existing customers to the new framework would also be extremely complex. The majority of this process would have to be done manually and involves: identification (our early analysis suggests this could be in excess of 20,000 of Origin's Victorian customers); separate payment plan administration; and proactive and reactive communication, particularly as many customers could end up in less generous payment plans following the regulated change.

There is also complexity for customers. The number of payment plans and the requirement for retailers to constantly communicate changes to payment plans could lead to confusion about a customer's obligations at any point in time. This could be particularly challenging given a large number of customers that fit into the framework would come from culturally and linguistically diverse communities and/or have baseline literacy competency.

Retailer and customer complexity suggest that a full cost-benefit analysis of the ESC's framework is necessary. Such an analysis is an important component of the due diligence process when assessing any proposed regulatory change to ensure that the perceived benefits of the change outweigh the expected costs across the market to customers and retailers alike.

2.6 Explicit informed consent

Under the ESC's framework, customers can be placed on a payment plan or moved to a new payment plan automatically if they miss a bill payment. In our experience, explicit informed consent is one of the non-negotiable rights that customers should maintain. The ESC's framework is likely to lead to increased customer confusion and complaints and reduced trust for a retailer's genuine willingness to provide tailored assistance. The alternative is to require retailers to obtain consent but Origin considers this will be challenging given the high volume of customers that will enter this new framework and the disincentive to engage.

2.7 Incentives

The ESC's incentives, such as pay-on-time discounts, increase each time a customer fails to make a payment. Under Payment Plan One, there is no requirement to provide pay-on-time discounts or other incentives but these discounts and incentives are available under Payment Plan Two. This could potentially create a disincentive to honour Payment Plan One if a customer knows they can access these discounts and incentives under Payment Plan Two. This disincentive requires reconsideration as it could result in increased debt as a customer defers payment in an attempt to take advantage of potential future discounts. It also fundamentally undermines the reason these discounts are offered in the first place to customers who pay their bills on time and in full.

[6] This is based on the limited information available at present and could vary considerably following receipt of full, complete requirements associated with the ESC's framework.

2.8 Individual fully variable tariffs

Under the ESC's Active Assistance Plan, a retailer's package of assistance must include fully variable tariff(s). Origin considers this tariff would be both complex and costly to develop and administer. It also potentially provides little benefit to the customer.

There is currently a tariff reform process across the market aimed at moving towards the principle of tariff simplicity and consolidation. Developing individually tailored tariffs is contrary to this market principle. This will only lead to increased customer confusion.

The potential for such a tariff to assist customers is predicated on the assumption that their ongoing consumption is reduced. If, however, consumption increases following an event such as job loss or growth in the household size, then the customer's bills will increase, leading to further debt accumulation.

Currently, Victorian customers may be on any one of many existing tariff combinations as there are three residential electricity tariffs available across each of the five distribution networks and a number of different gas tariffs. This adds to the complexity of the individual fully variable tariff as it would be difficult to reconcile such a tariff against this framework. An existing benefit could also be lost where a customer who is currently able to defer some of their energy use to off-peak periods to reduce the cost of their consumption would no longer be able to do so.

There have been early suggestions following the release of the ESC's draft report that it may be more appropriate to develop a single variable tariff for particular meter types or distribution zones. Origin suggests this requires careful assessment as such an approach is likely to result in both winners and losers amongst customers. For example, customers experiencing payment difficulties are generally higher consuming customers so they could be worse off under such a tariff, which would be contradictory to the intent of this tariff.

2.9 Transferring customers to a different retailer

Under the ESC's Active Assistance Plan, retailers will not be allowed to approve a request from another retailer to transfer the customer for two years after the plan is agreed. This is contrary to the Victorian Government's previous position advocating for the removal of the objection to transfer on the grounds of outstanding debt. Origin suggests a more effective requirement would be for retailers to explain the implications to the customer of moving to another retailer. This could include that their payment plan ends, the full outstanding debt on the account is due and payable and then if it remains unpaid, the debt continues on the standard credit collection path.

2.10 Progressing through payment plans without making a payment

It appears that a customer is able to move through the payment plans from the Early Action Plan to the Active Assistance Plan without making a single payment. The customer would continue to accumulate increasingly unmanageable debt. We suggest the ESC consider including safeguards in each payment plan to ensure some payment is made to address the customer's debt.

2.11 Reconnection Plan

Origin welcomes the option to include prepayments as part of the Reconnection Plan. However, we note the parameters around prepayments are yet to be decided. There is also little information about the other elements of the Reconnection Plan, such as how the supply capacity controls could work in practice.

The Reconnection Plan also potentially changes the current mandate of EWOV as a free and independent dispute resolution body to one that administers public policy and represents a significant increase in the workload of EWOV and financial counsellors. Origin questions whether either has the capacity or budget to be able to undertake this task. We also query whether the prescriptive reconnection amounts is in every customer's best interests as customers themselves are often best placed to determine what payment amount best suits their budget.