**AEC Retail Customer Support Project – Approach Paper for comment**

# Part A: Background

The AEC has been working with retailers in recent weeks to better understand the experiences of small and large energy customers in the NEM during the COVID-19 pandemic.

Preliminary discussions with retailers and consumer advocates have highlighted consistent experiences across the sector. The health impact of the pandemic may be under control, but the economic impact, and in particular, the impacts on energy bill affordability, are likely to peak in the coming months.

At the commencement of this project, the AEC set out three key objectives.

1. To enable customers to maintain connection to energy wherever possible
2. To ensure customer debts are mitigated in the long term
3. To protect the viability of the retail market, enabling customers to continue to benefit from competition

This Approach Paper intends to present a picture of customer experiences up until today, and considerations of how the pandemic may evolve, and therefore the types of support customers might need in the coming months. Whilst the AEC does not yet consider the case has been made that there are any significant gaps in the protections provided by retailers to date, there is a need to consider at a high level the types of support that may be beneficial in the coming months, should the need arise[1]. To that end, support measures described below are intended to balance the project objectives, but also consider changes that can be delivered at least cost, for optimal benefit.

Positively, the AEC considers that customers have been very well protected and supported by retailers since the beginning of the pandemic in March 2020. The ESC in Victoria has reported that retailers have received more than 100,000 calls for help from their customers, and in recent weeks have seen a decline in the number of customers missing paying their bills on time. This must be commended, and any further assistance measures considered in response to this pandemic should be considered in addition to the very high standard of protections already offered.

As described in further detail below, the response to the pandemic from an energy perspective can be separated into a number of distinct phases. Whilst it is not known if any additional protections will be needed during the coming months, it is important that any Retailer Support developed is flexible, scalable, and ready to be implemented if the need arises.

## Next steps

The AEC is seeking feedback from stakeholders on the narrative below:

1. Is the below synopsis reflective of the impact of the pandemic on customers up until today?
2. Do you agree with the AEC's categorisation of the 'phases' of the pandemic and the recovery?

[1] This paper refers to protections in the context of disconnections and access to assistance. It refers to support in a holistic sense, comprising the ongoing two-way engagement between retailers and their customers.

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3. Do you consider the types of support described at each stage of the pandemic would deliver positive consumer outcomes?
4. Is there anything missing that you think is important for the AEC to consider as the retailer response is further developed?

The AEC will use this approach paper, and any feedback received in response, as the basis for considering further customer support to be implemented by participating retailers in the NEM. Whilst the AEC intends to finalise this engagement by 31 July 2020, it is important to note that this pandemic is unpredictable, and as such any response developed at this stage will likely require optionality – with further support able to be triggered if and when the need arises.

The AEC welcomes any feedback from stakeholders by email to by Wednesday July 1 2020.

## Part B: What has been the experience of customers in the NEM

**Customers have been well protected during a time of crisis.**

- The AER statement of expectations is ensuring small customers can access energy, irrespective of payment or engagement
- In Victoria, there is no explicit disconnection prohibition, but largely not taking place in practice
- No debt collection activity currently underway, even on old debt

**Significant government stimulus is flowing into the economy.**

- Some of the most vulnerable households have more income than they otherwise would.
- JobKeeper is enabling many SMEs to survive, even if hibernating.
- Biggest impacted group is customers with normal incomes greater than $1500 per fortnight, and those ineligible for support (eg, migrant workers). Many customers ineligible for JobKeeper still mostly receiving $1100 per fortnight under JobSeeker.
- Existing hardship customer experiences are fairly steady – no mass increases in repeat hardship, or exits from the program.

**Customers are engaging more with retailers as a collective, but this isn't all customers.**

- Call centre volumes are going up
- For the most part, customers are contacting retailers to find out what support is available
- This is translating into an increase in customers on payment plans, and taking up offers of bill deferrals
- But, there are also customers who are disengaging, or who have never engaged
- For some 'new' hardship customers, this is their first engagement with their energy retailer, and certainly their first support request.
- C&I customers are engaging with their relationship managers on a case by case basis. For some, changing circumstances is impacting them significantly, in particular those with high fixed charges and lower variable usage.

**We have not yet seen a tsunami of non-payment hit retailers.**

- Customers who are engaging are getting the assistance they need.
- Customers who are not engaging are not yet showing up in the data available
    - Remains a question as to how many customers are not paying, when they could.

    - Similarly, unclear how many customers are not paying because they can't afford to pay.
    - But, we know that some customers are choosing to defer utility payments as no risk of disconnection. We do not know the reason they are making this choice.
- Some business customers in industries affected by the lockdown have completely lost their income, resulting in higher levels of non-payment than residential customers.

**What are we expecting to see in the coming months?**

Consensus across retailers and consumer advocates is that it is likely the worst is yet to come.

- Expectation that Government stimulus will decrease from September
    - Effect two-fold. JobSeekers drop back to historical Newstart rate of $550 per fortnight – well below the poverty line.
    - JobKeeper payment stops, potentially meaning SME's and some larger businesses might have to let staff go, with those who lose jobs only receiving $550 fortnight per fortnight.
    - SME's and some larger businesses will need to make a decision whether to continue to operate, or close.
- Assistance from the banks (such as mortgage and loan repayment holidays) will end.
- As income decreases, energy costs will rise
    - Quarterly winter bills in the southern states are highest in September and October.
    - Monthly bills do exhibit some smoothing but will still increase in the coming months due to the effect of winter and working from home.
- For C&I customers, some will return to normal operations, with tariff optimisation again critical. This will continue on a case by case basis.

**Retailers are being challenged by a new normal.**

- Retailers are currently unable to disconnect any customers, meaning they are incurring debts they may not be able to recover
- Prohibitions on debt collection, even on old debts, is further decreasing retailers ability to recover their costs
- Any additional expenses caused by increased levels of non-payment is unable to be recovered, given the presence of regulated retail pricing that as yet does not take into account the impacts of COVID
- The balance between obligations on retailers to provide support and customers to pay has been affected.
- Retailers with a disproportionate percentage of SME and large business customers will be adversely impacted by only a small number of bad debts.

**What does this mean in practice?**

*For residential customers*:

- Higher numbers of customers on payment plans and in hardship programs

    - More unpaid consumption = increased risk of non-payment
    - Leads to increased retail costs, and diminished cash flow in the short term.
    - If these customers don't pay, profitability and viability becomes an issue.
- Customers are carrying more debt than they otherwise would, across a number of essential services
    - When the time comes to repay, customers may need more support than they have historically received, or for support to be delivered in a different manner.
- Incomes of many, including the most vulnerable will fall in September.
    - At the same time as repayment is needed, affordability will be at its worst.
- Winter energy bills are often high – need to prepare now, to avoid exacerbating issues in the future.

*For business customers*:

- Business customers need help now, both to reduce their bills where possible, and to set up payment plans to assist their cash flow.
- These customers are holding higher debts than they otherwise would – deferrals have been widespread.
- Unlike residential customers, expectation that September will bring with it increased revenue, but increased expenses as well given loss of stimulus.

**Question for stakeholders:** is this reflective of your experiences?

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## Part C: What support do customers need?

Today, customers are well protected. But as noted above, we expect matters may get worse for residential and some business customers due to broader economic factors. If that eventuates, we need to be ready to transition from a period of protection, to a period of customer support.

At the end of the COVID-19 pandemic (and any following period of recession), industry wants to see customers who have been able to successfully maintain their connection to energy, without holding an unmanageable amount of debt. Without a shift from the current environment (with its focus on protecting consumers from the impact of the pandemic), the AEC is concerned these objectives will not be able to be achieved.

Right now, the development of consistent and effective messaging and building customer trust is most important. In the coming months, it will likely be easy access and flexibility. In 3 - 6 months, there will likely be some debts that are unable to be repaid.

**What does support look like?**

- Clear and simple communication
- Plain English engagement
- Proactive offers of assistance
- Assistance tailored to customer needs
- Assistance is scalable
- Assistance ready and available when customers need it
- Assistance delivered in an accessible manner
- Assistance to reduce costs
- Flexibility to change approach as circumstances change

**What does support not look like?**

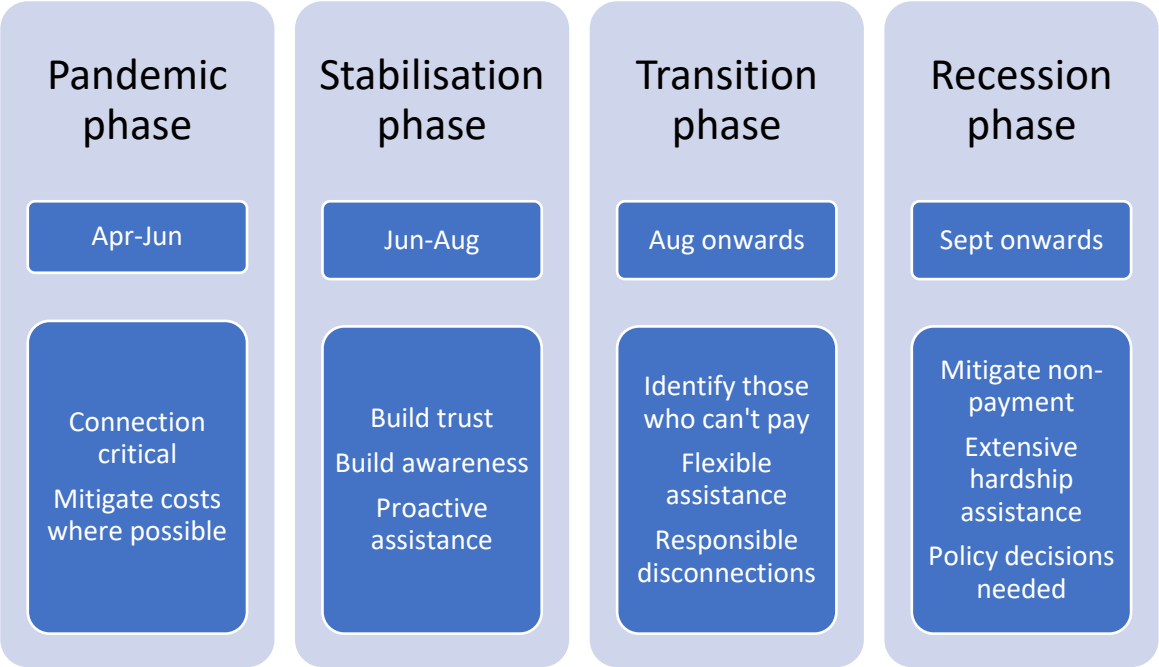
- Allowing customer debts to simply grow and therefore become unmanageable
- Failing to offer support until customer is disconnected
- Failing to assist customers mitigate high energy bills
- Leaving customers on unsuitable products for their changed circumstances
- Ongoing, unmanaged payment deferrals

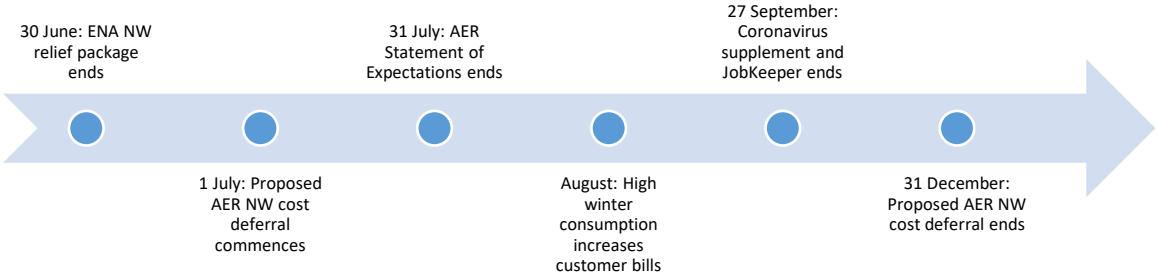
**What is needed to enable a solution?**

- Clear, consistent, and simple messaging from all stakeholders
- Retailers need to be able to deliver the solution practically
    - Cannot unnecessarily drive calls to the contact centre
    - Messaging needs to allow retailers to provide solutions in a manner that suits their operational limitations.
- Customers need to be able to trust that retailers will act in their interests
- Regulators, consumer advocates, and governments need to be clear: if customers can afford to pay their bills, they should.
- Customers must be encouraged to engage and seek out support
- Retailers must ensure that any disconnections only occur as a last resort

**Question for stakeholders:** Are these broad requirements appropriate and comprehensive?

## Part D: How should support be delivered, and when?




In each phase of this pandemic, there are a number of high-level customer needs that retailers should be seeking to deliver. These phases will likely overlap, but the customer journey will likely be similar, and are expected to be linked to external factors, such as Government Stimulus and other customer support.

In phase 1 (the ***Pandemic Phase***), roughly taking place between March / April and May, the objective for customers was to stay connected. The Pandemic Phase is a time of crisis, with customers uncertain what the future holds.

In phase 2 (the ***Stabilisation Phase***), takes place in June and July. During this phase we expect to see the health impacts stabilising, economy wide restrictions begin to lift, and customers will shift from lockdown, to returning to their *new normal* lives and business operations. During this phase, customers will likely be grappling with many conflicting issues, so it is unlikely their energy bills will be front of mind. During this phase, there may be benefit in retailers taking additional steps to ensuring customers are aware of the support available to them and ensure that processes and systems are ready to provide that support as efficiently as possible.

In phase 3 (the ***Transition Phase***), likely taking place from August, many customers will have returned to work and businesses will be seeing increasing turnover, but will likely have higher (energy and

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other) debts than they normally would. During this phase customers need to be receiving suitable support for their circumstances or paying down their debts if they are able to. For retailers, this means programs need to be readily available, but also that all debt mitigation tools can be utilised, including the threat of disconnection. In order for this period to be sustainable, retailers will need to focus their attention on customers who cannot pay, rather than customers who won't pay. The challenge for retailers will be effectively determining who is in each category.

Disconnections must always be the last resort option for retailers. Given the level of debts some customers may have incurred during the pandemic and transition phase, there are likely significant financial incentives on retailers to seek to recover this money as quickly as possible. This might be appropriate for a customer who can pay, but won't. For a customer who cannot afford to pay, disconnection may result in further disengagement, and further entrench their vulnerability. It seems reasonable for retailers seeking to disconnect customers to undertake additional steps to ensure that the customer is aware of the risks of disengagement, and the ease at which assistance can be offered. This might include steps such as door knocks, registered mail, or SMS offers of assistance.

For some, the transition phase will be replaced by a ***Recession Phase*** likely to commence in September. While a large proportion of customers will no longer need any assistance from their retailer, it is unlikely all those who were stood down during the pandemic phase will return to full employment immediately, and some will not return at all. Similarly, some small and large businesses will be restricted for an extended period (eg, tourism). For these customers, September will hit hardest, with JobSeeker payments halving, and JobKeeper support falling away for most sectors. At the same time, homeowners will be asked by their banks to begin repaying their mortgages again after a 6 month deferral.

For this group, there is likely to be a greater need for support from retailers. In practice, this group of residential customers will join the existing cohort of customers in hardship programs prior to the pandemic, increasing the operational burden on retailers. It is likely that the recession phase will lead to significant non-payment, resulting in bad debts.

Depending on the size of this group (which will depend on Australia's overall economic wellbeing), there may be a need for Governments to provide additional support, over and above existing concession arrangements designed to support customers during a typical period of economic growth. Commercial businesses should not be expected to support this group of customers without compensation, and presents a decision point for Governments. Approaches to reducing the pressures facing retailers due to increasing bad debt might include:

1. Adequately support recession impacted customers to pay their energy bills at a rate in line with historical non-payment, (eg, increase concessions & emergency relief); or
2. Increase the risk premium allowed to retailers to service this increased non-payment (ie, increase regulated retail pricing for all customers); or
3. Actively support retailers using other financial levers to maintain a risk rating equivalent to historical levels (eg, underwrite a percentage of a retailer's bad debt)

For C&I customers, there may be benefits in considering other financial levers to mitigate retailer debts, such as removing obligations under environmental schemes or rules around changing network tariffs.

If the group of non-paying customers increases to a level above a retailer's ability to recover their costs, then there is a risk of exodus from the sector. Investors will simply choose to place their money elsewhere. This would not deliver good long-term outcomes for customers dependent on a competitive retail market to deliver cheaper energy prices.

# Part E: Developing an industry wide response

The AEC does not consider the assistance provided to customers in each phase needs to be entirely uniform between retailers, but rather, there are greater benefits in uniformity in message that support is available.

## Small consumer perspective

***First steps***

Australia is currently in the Stabilisation Phase, and there needs to be a collective industry effort to increase awareness that support is available, and build trust that retailers are able to assist those in need. Given we know that a large percentage of customers who have sought out assistance during the Pandemic Phase have not received assistance before, it seems likely that a significant proportion of those experiencing payment difficulties will not even be aware that assistance is available, let alone what that assistance might look like.

There are also language challenges. The energy industry has historically referred to customers as being in hardship, which we understand does not resonate will with customers themselves. COVID impacted customers may further disassociate themselves from 'hardship' than customers who have been receiving assistance from energy retailers in the past. The AEC considers there might be benefit in describing customers in messaging and education materials as "COVID Affected" rather than 'in hardship'. The Victorian approach of describing customers as 'in payment difficulty' may go some way to bridging this gap, but there may be behavioural benefits in categorising customers in this way – in effect, the only reason they are seeking assistance is because they have been impacted by COVID, something outside of their control.

A widespread social media style campaign in the coming months, expanding on the Energy Charter's "We've Got You" messaging, may further increase awareness of COVID support, even after restrictions are lifted. The AEC considers retailers, networks, and governments could play a role in expanding the reach of a customer focused campaign.

Similarly, partnering with community organisations to develop this messaging will likely increase trust in industry. Associating the support with a trusted brand (such as Vinnies) may drive increased benefits from the product. As noted above, many customers impacted by COVID may not have experience in engaging with the energy market. The key objective of this campaign is to inform customers that support is available, and that it comes in many different shapes and sizes. For example:

- Working from home? We can help you lower your usage, lower your bills.
- Has COVID affected your ability to pay your bills? We can spread out your payments to help you get back on your feet.
- Lost your job and watching your savings run low? We have long term payment plans and other assistance measures that will keep you connected over the coming months.

- First time receiving JobSeeker? You are now eligible for concessions on your energy bills that can save you hundreds of dollars. Call your retailer now to ensure you don't miss out.

***The transition phase and beyond***

The existing energy frameworks are very substantial, so the AEC does not consider we need to reinvent the wheel with new approaches to supporting customers at this time. Predominantly, customers are likely to need support akin to the Standard Assistance options offered under the Victorian Payment Difficulties Framework, rather than the more intensive support offered under hardship programs. These include options to make more frequent payments in advance, short to medium term payment arrangements, and discussions about the most appropriate offer for the customers circumstances.

Given the need to increase awareness of support available, the AEC considers a consistent short-term payment plan marketed to COVID impacted customers would deliver better generic support than a standardised long-term arrangement. For the most part, customers seeking long term repayment options are likely to be experiencing greater financial difficulty and might benefit from a more in-depth conversation with a retailer about bespoke support. Generic assistance for these customers might hide the true hardship they are facing.

There are also likely benefits to industry collectively agreeing to additional steps to attempt to offer assistance to customers prior to undertaking any disconnections. Obviously disconnections are a challenging issue, but they are critical in the long term to ensuring retailers do not hold customer debts unnecessarily. The AEC understands that Essential Energy in NSW recently undertook a trial where they knocked on the door of properties about to be disconnected and reminded them about payment assistance measures they might be eligible for. While the AEC is not in solution mode, considers retailers should be able to implement additional support in a manner that aligns with their systems and processes, joint partnerships such as this might provide a cost effective measure in the short term that would ensure disconnections are conducted responsibly. As noted above, there are no doubt other approaches that would deliver the outcome sought – that all customers are aware that support is available, and they have options to assist them prior to any disconnections taking place.

**Question for stakeholders**: Are there other partnerships or collaboration opportunities that might benefit customers during this phase?

## Are business customers any different?

We heard from retailers that some business customers were facing existential challenges today, largely related to lockdown restrictions.

For those eligible for JobKeeper, Government was enabling these industries to remain viable.

The NW support package also benefited these customers to the greatest extent. Smaller SME's who chose to hibernate, were able to obtain both JobKeeper to pay their staff, and the NW support package will effectively result in April – June bills being written off. But, the majority of small businesses are not eligible for the NW support package and need to consider their situation in light of diminished revenues and steady costs.

Business customers bring greater risk to retailers. Debts escalate quicker, and insolvency often results in a bill being completely written off. Retailers are also businesses themselves, so while it is in their

interests to assist businesses with cash flow issues where they can, long term write-offs or non-payment erodes profitability.

For this reason, it may be necessary to shift into the transition phase immediately, ensuring that customers are given tailored support as soon as possible, to avoid debt build up in the medium term.

It is also likely that businesses will be more likely to require tailored support than residential customers. For large customers this will certainly be the case, with very complex tariffs and consumption patterns impacting the costs C&I customers pay.

For small businesses, they might present more like a residential customer, so the approach might be similar, but not as extensive. For a business, energy is an essential input, but it is not the role of the retailer to enable the business to pay for that input. For residential customers, energy is essential to life, and deserves a higher standard of protection.

The AEC considers that small business customers need short term support to help them get back on their feet. Long term assistance should be considered on a case by case basis, but in principle, business customers should be able to afford to pay their energy bills – the retailer should assist where appropriate, but the bill needs to be paid.

Business customers clearly diverge from residential customers when it comes to network tariff optimisation. The AEC heard from retailers that businesses with changed consumption profiles would benefit greatly from increased flexibility in choosing the most appropriate network tariff for each phase of the pandemic. The AEC considers that a partnership between retailers and network businesses would enable this to occur in a manner that would reduce the operational imposts facing retailers and improving outcomes for customers.

There may be other cost reduction opportunities that would both benefit business customers, but also mitigate retailer risks arising from non-payment. These might include short term changes to energy efficiency schemes or renewable energy certificates.

**Question for stakeholders:** does the timing and scope of this assistance resonate with you? Is there anything else that needs to be considered? Why?

## Part F: Conclusion and Next steps

As the pandemic evolves, there is clearly a need to deliver optimised, flexible, and scalable support to impacted customers. While the impact of COVID-19 over the coming months are not yet clear, the AEC considers that better engagement between retailers, networks, and customers can only benefit trust in the industry in the long term.

As noted above, the efforts from retailers, and other market participants to support customers to date have been immense. Any further industry responses need to be considered in this light, to ensure the benefits to customers outweigh the cost.

In the medium term, the AEC considers there are likely a number of triggers that might present opportunities to either ramp up or at some stage, ramp down support as more information becomes known. This will likely lead to more flexible, targeted, and scalable support than would be delivered if an industry package was finalised today. The AEC welcomes views on what these triggers might look like, but may include:

- Changes to the AER's Statement of Expectations

- Increases in energy consumption caused by working from home
- Impacts of the withdrawal of stimulus, or changes to stimulus measures
- Ongoing unemployment data post September

During this targeted period of consultation with stakeholders, the AEC and participating retailers will continue to develop no-regrets support measures to continue to support customers at this time and in the coming months.

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