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13 May 2025

The Hon Chris Bowen MP Minister for Climate Change and Energy Chair, Energy and Climate Change Ministerial Council

Dear Minister,

Re: Review of payment difficulty protections in the National Energy Customer Framework – final report

I am writing to provide the final report, attached to this letter, from our <u>Review of payment</u> <u>difficulty protections in the National Energy Customer Framework (NECF)</u>.

One of the actions under our <u>Towards energy equity strategy</u> was to consider whether improvements can be made to the NECF to ensure that customers experiencing payment difficulty receive effective, tailored assistance. In examining this, we have explored the case for change by considering the effectiveness of current protections, the gaps, weaknesses and unintended consequences of the current framework, and the effectiveness of other potential approaches (drawing on learnings from other frameworks, including the Victorian payment difficulty framework).

After 18 months of extensive stakeholder consultation and detailed analysis, we have found that the current payment difficulty protections are not fit for purpose because:

- there is a persistent assistance gap that means some customers are missing out on help
- the quality of information about assistance is inconsistent and can often fail to meet customer needs
- assistance provided under the framework is often ineffective, places inappropriate expectations on customers and is provided in an inconsistent way across retailers
- disconnection is relied on as an engagement tool, rather than a last resort.

Our final report sets out 13 opportunities to address the problems we've identified. These opportunities would strengthen protections for customers experiencing payment difficulty by:

- making it easier to know who should be receiving assistance by introducing a single, consistent definition for customers experiencing payment difficulty
- making it easier for customers to know what assistance is available by requiring retailers to proactively engage with customers in response to an objective trigger, take steps to engage with customers in ways that meet their needs and provide generally available information about assistance that is easy to access and understand
- making it easier for customers to access assistance by banning retailers from requiring proof of circumstances to access payment difficulty assistance and by introducing minimum assistance for all customers

- making assistance more effective by strengthening protections to make payment plans more affordable and introducing minimum assistance (including assistance to lower energy costs) for customers experiencing payment difficulty
- making sure disconnection is only used as a last resort by strengthening requirements for communication in the disconnection process, strengthening minimum disconnection protections and strengthening the principle that disconnection is a last resort option
- reducing the harm of disconnection by banning reconnection fees for customers experiencing payment difficulty.

In identifying these opportunities, we have prioritised reforms that are impactful, equitable, simple and practical, with the lowest risk of unintended consequences. Together, they will:

- improve protections and outcomes for customers experiencing payment difficulty
- make customer experiences more consistent, supporting greater awareness and trust
- simplify regulatory compliance for retailers due to a simpler eligibility framework, clearer minimum standards and greater consistency across jurisdictions (including greater alignment between the NECF and the Victorian payment difficulty framework)
- reduce the burden of debt in the energy system by better ensuring retailers engage with customers experiencing payment difficulty proactively and effectively.

In our report, we also suggest that policymakers consider alternatives to disconnection to manage the risk of customer non-payment in the energy sector, in recognition of the community's expectation that all Australians should have access to essential services such as energy.

The Energy and Climate Change Ministerial Council has already commenced work on options to modernise our energy consumer protection regimes though its <u>Better Energy</u> <u>Customer Experiences</u> work program. We trust that the findings in our report will assist in accelerating this important work and that this work program will provide a mechanism through which to progress the opportunities we've identified without the need for duplication.

As a first step, we seek the support of Energy Ministers to implement two opportunities we've identified that will require legislative reform:

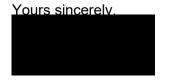
- 1. In the current framework, the protections a customer is entitled to depend on whether they are identified as a hardship customer or an 'other' customer experiencing payment difficulty – if they are identified at all. In some cases, the level of protection also differs based on whether they self-identified or are identified by their retailer. We are seeking the support of Energy Ministers to simplify this eligibility framework by amending the National Energy Retail Law to introduce a single, consistent definition for customers experiencing payment difficulty. This single definition will make clear that customers are entitled to protections regardless of the effectiveness of their retailer's processes to identify payment difficulty. This reform will significantly reduce regulatory complexity and increase the consistency of payment difficulty protections for energy customers.
- 2. We also seek the support of Energy Ministers to amend the National Energy Retail Regulations to introduce Tier 1 civil penalties for retailers who fail to uphold the principle that disconnection due to inability to pay energy bills should be a last resort option. This will significantly increase the incentive for retailers to ensure they are genuinely reserving disconnection for when no other options are available to them. Our proposal to introduce a single, consistent definition for customers experiencing payment difficulty would further strengthen this incentive, as it would ensure that more customers are protected by this principle (which currently only applies to hardship customers).

Other opportunities we've identified will require changes to the National Energy Retail Rules to make it easier for customers to know what assistance is available and access that assistance, to make assistance more effective and to strengthen disconnection protections.

The AER will act directly on the review's findings by increasing the minimum disconnection amount, which we are empowered to do under the National Energy Retail Rules. We will consult on and finalise a new amount in 2025. We acknowledge that many of the proposed changes are likely to require supporting amendments to AER instruments (such as the Customer Hardship Policy Guideline) once law and rule reforms have been made.

In providing this advice, the AER recognises that some of the proposed reforms represent a significant change. However, we believe that they are the most practical and promising opportunities to strengthen protections for customers experiencing payment difficulty. Together, they will help these customers get the right assistance at the right time. This will not only benefit those who need help but could also benefit energy retailers by reducing the overall burden of customer debt and simplifying regulatory compliance.

The AER invites further discussion with jurisdictions on this matter and will be reaching out to officials to discuss the report.



Chair, Australian Energy Regulator

CC: NEM Energy Ministers