AUSTRALIAN
ENERGY
REGULATOR

RETAIL ENERGY MARKET UPDATE

July to September 2012

Contents

About this report

The Australian Energy Regulator (AER) is Australia's national energy market regulator and an independent statutory authority. The AER is funded by the Commonwealth, with staff, resources and facilities, provided from the Australian Competition and Consumer Commission (ACCC).

The National Energy Customer Framework (NECF) commenced on 1 July 2012 in the Australian Capital Territory (ACT) and Tasmania (for electricity only).

New South Wales and South Australia (which have each passed the legislation in preparation for NECF implementation) have indicated their intention to commence the NECF in 2013. New South Wales is aiming for a start date of 1 July 2013 and South Australia is working with stakeholders to prepare for commencement on 1 February 2013, although this date is still subject to formal endorsement by the Government. In June 2012, the Victorian Government announced it will defer its transition to the NECF and Queensland is yet to consider the matter. Western Australia and the Northern Territory are not adopting the NECF.

The NECF comprises a single set of national laws, rules and regulations, and introduces a consistent customer protection framework to regulate the sale of energy to small business and residential customers in participating states and territories.

As well as setting out key protections, the legislative package also introduces new regulatory roles and powers for the Australian Energy Regulator (AER). In states and territories where the NECF has commenced, the AER is required to monitor and report on the performance of the retail market and the energy retailers that it regulates.

The AER's *Performance reporting procedures and guidelines*[1] (guideline) specifies the manner and form in which energy retailers are required to report information and data to the AER, including the dates by which it must be submitted.

This first quarterly update provides an overview of key market and retail performance indicators for the ACT and Tasmania, including customer switching levels, customers experiencing payment difficulties, hardship, disconnections and reconnections, and complaints.

The AER will provide a more comprehensive report and analysis of retail market performance indicators, including energy affordability, in its *Annual retail market performance report 2012–13* (to be published in November 2013).[2]

As this is the AER's first report, and many of these indicators have not been collected previously, it has not been possible to make comparisons with historic performance in many instances. Further, given the limited number of retailers active in the ACT and Tasmania most analysis has been done at the jurisdictional level. As further data is collected over time and from more retailers as additional jurisdictions implement the NECF, the AER will be able to present a more complete analysis of the retail energy market.

We welcome any feedback or comments on our first report which we can use to inform and develop subsequent reports. We would particularly welcome stakeholders' views on the format and structure of this update, how easy it was to understand and how informative you found it. Comments should be sent to AERinquiry@aer.gov.au with the subject heading **'Feedback on AER retail market performance update —Q1 2012–13' by Wednesday 30 January 2013.**

1 The AER's *Performance reporting procedures and guidelines* is available at: www.aer.gov.au

2 Some quarterly indicators refer to 'the previous 12/24 months'. These will not be reported to the AER until the first 'Q4 and Annual' report (due 31 August 2013) and are not included in this report.

Quarter 1 2012–13 snapshot

The AER's first retail market performance quarterly update covers 1 July to 30 September 2012 (Q1 2012–13). It discusses electricity and gas retailers in the Australian Capital Territory (ACT) and electricity retailers in Tasmania where the Retail Law and Rules commenced on 1 July 2012.

Retailers in the ACT and Tasmania

In the ACT, ten retailers sold energy to customers. Four retailers supplied residential, small business and large customers. A further six retailers supplied small business and/or large customers. ActewAGL is the dominant retailer, supplying 96 per cent of gas and electricity residential customers.

In Tasmania, Aurora supplies electricity to all residential and small business customers. Large customers were supplied by Aurora, ERM Power Retail and Progressive Green.

Contracts and switching

In the ACT 82 per cent of small customers are on standard retail contracts for electricity and 77 per cent for gas. Customer switching rates in the ACT ranged between 0.09 and 0.14 per cent of customers during the quarter and remain low when compared to other jurisdictions.

In Tasmania 85 per cent of small electricity customers are on standard retail contracts. The only residential customers on market retail contracts were prepayment meter customers.

Customers with payment difficulties

In the ACT, 3371 residential electricity customers and 6022 gas customers had energy bill debt. While almost twice as many households owed a debt for gas, the average amount owed for electricity was higher—$711 compared to $450. In Tasmania 4602 residential electricity customers had an energy bill debt and the average debt was $898. The majority of customers owed less than $500.

2490 residential electricity customers in Tasmania were on a payment plan (just over 1 in 100 customers). In the ACT 566 residential electricity customers and 659 residential gas customers were on a payment plan (0.4 and 0.6 in every 100 residential electricity and gas customers, respectively).

298 electricity and 161 gas small business customers were reported as having energy bill debt in the ACT. The average electricity bill debt was $878 and for gas it was much higher at $1234. In Tasmania, 682 small business electricity customers were reported as having an average bill debt of $2375.

Hardship programs

In the ACT 561 residential electricity customers (0.37 per cent) and 208 residential gas customers (0.19 per cent) were on hardship programs at the end of the quarter. EnergyAustralia had a higher proportion of gas and electricity residential customers on its hardship program when compared to ActewAGL. Aurora had 63 residential electricity customers on its hardship program at the end of the quarter (less than 0.03 per cent of residential electricity customers) however it expects to have around 1500 customers on it by the end of the financial year. This program takes the place of Aurora's previous voluntary hardship program and assistance fund. ActewAGL reported one electricity customer who was denied access to its hardship program during the period.

Customers entering ActewAGL's hardship program had an average electricity debt of $994 and $1713 for gas. EnergyAustralia's customers had average debt levels of $1811 for electricity and $1495 for gas on entry to its hardship program. In Tasmania, Aurora's customers had an average electricity debt of $2178 when they entered its hardship program.

Disconnections and reconnections

In the ACT, 14 residential electricity customers and 325 residential gas customers were disconnected for non-payment (0.01 in 100 electricity and 0.3 in 100 gas residential customers). This is a decrease in disconnections when compared to 2011–12 levels.

In Tasmania, 156 residential electricity customers were disconnected for non-payment. This is an increase from lower disconnection rates reported during 2011–12, however, Aurora advised it stopped disconnecting customers between October 2011 and June 2012 due to internal restructuring. Disconnection rates this quarter were lower than those reported in years prior to 2011–12.

Very few small business customers were disconnected during the quarter—14 gas and three electricity small business customers in the ACT and none in Tasmania. None of the disconnected small business customers were reconnected within seven days.

Complaints

534 complaints by residential customers in the ACT were reported during the quarter (around 0.2 in 100 customers). The majority (65 per cent) were in relation to billing matters. Tasmanian households made a total of 125 complaints (0.06 per 100 customers) with a greater majority being about billing issues (87 per cent).

Very few small business customer complaints were reported—22 in the ACT and nine in Tasmania—and again the majority of these were about billing matters.

Prepayment meters

In Tasmania there are 34 732 residential electricity customers using prepayment meters (15 per cent of all residential electricity customers; down 2.3 per cent from the previous quarter). 48 per cent of these customers were in receipt of an energy concession.

Only 875 prepayment meters had the ability to detect and report self-disconnection events. During the period there were 261 self-disconnection events affecting 229 prepayment meter customers. The average duration of the self-disconnection events was 182 minutes.

1. Retail market overview

All National Electricity Market (NEM) jurisdictions[3] except Tasmania have introduced full retail contestability (FRC) in retail electricity and gas markets, allowing customers to enter a contract with their retailer of choice.[4] The introduction of retail contestability can create an incentive for energy retailers to develop new energy offers with diverse prices, terms, conditions, and features. Small customers can choose to be provided under these 'market retail contracts', and must be chosen by customers. All large customers are on market retail contracts.

Before the introduction of retail contestability, customers were not able to choose their retailer and were on 'standard retail contracts'. Small customers[5] may still be on these 'default offers' if, for example, they have not changed retailer since competition was introduced; or if they moved into a new premise without agreeing to a contract with a retailer of their choice; or if they chose to return to their retailers' standard offer.

The AER monitors activity in the retail energy market. This retail market overview sets out the number of energy retailers in the ACT and Tasmania, the proportion of customers on standard and market retail contracts and the extent to which customers are switching retailers.

1.1 Energy retailers in the ACT and Tasmania

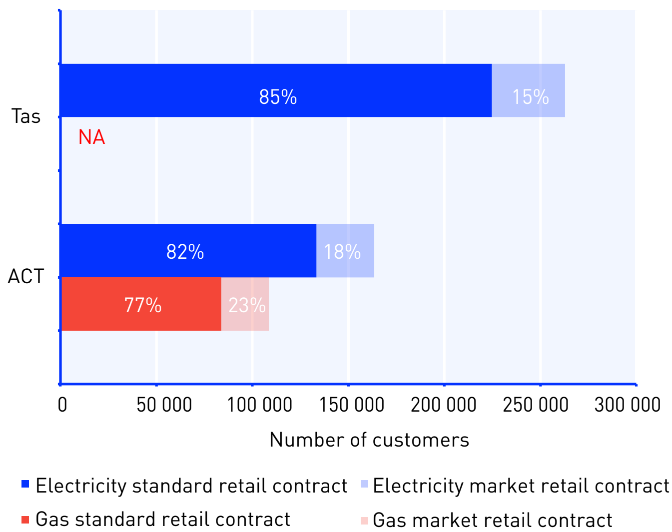
In the ACT, ten retailers sold energy to customers. Four retailers supplied residential, small business and large customers—these were ActewAGL, EnergyAustralia, Origin Energy and Red Energy. A further six retailers supplied small business and/or large customers only—AGL Energy, Aurora Energy, EnergyAustralia Yallourn, ERM Power Retail, Momentum Energy and Powerdirect. ActewAGL (a joint venture between the ACT Government and AGL Energy) remains the dominant retailer in the ACT, supplying 96 per cent of residential electricity and gas customers.

In Tasmania, only customers who use more than 50 megawatt hours (MWh) per year are able to choose their energy retailer. Aurora Energy—a wholly government owned retailer—supplies electricity to all residential and small business electricity customers under this threshold. FRC in Tasmania is expected to be extended to all small customers in 2014. As at 30 September 2012 there were three retailers—Aurora Energy, ERM Power Retail and Progressive Green—selling electricity to small business (consuming above 50 MWh per year) and/or large customers in Tasmania.

1.2 Proportion of customers on standard and market retail contracts

In the ACT, 82 per cent of small electricity customers and 77 per cent of small gas customers are on standard retail contracts. In Tasmania, 85 per cent of small customers are on a standard retail contract for electricity. The only residential electricity customers on a market retail contract were those with prepayment meters (15.4 per cent of residential customers). A slightly lower proportion (9.4 per cent) of small business customers were on market retail contracts.

Figure 1: Proportion of small customers on standard and market retail contracts—by jurisdiction



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3 National Electricity Market (NEM) jurisdictions include: Queensland, New South Wales, Victoria, South Australia, Tasmania and the Australian Capital Territory.

4 FRC is not available to customers in Tasmania using less than 50 megawatt hours (MWh) of electricity per year.

5 In the ACT a 'small customer' uses less than 100 MWh of electricity per year and 1 terajoule (Tj) of gas. In Tasmania a small customer uses less than 150 MWh of electricity per year.

1.3 Customer switching rates

The frequency with which customers switch their energy retailer is one indication of customer participation in the retail energy market. While switching (or churn) rates can indicate competitive activity, they must be interpreted with care as a number of factors can affect customer switching behaviour (for example, the level of competition in a jurisdiction, customer awareness of their ability to switch or customer satisfaction with their current retailer).

The Australian Energy Market Operator (AEMO) regularly publishes gas and electricity retail market switching data.[6] Figures 2 and 3 below show the percentage of electricity and gas customers who switched retailer in each quarter for the previous three years in Queensland, New South Wales, Victoria and South Australia.

Figure 4 shows the switching rates for electricity and gas customers in the ACT for each month since NECF commenced. Switching data for Tasmania will become available when FRC commences.

6 An explanation of how AEMO's switching data is calculated is available at: www.aemo.com.au

Figure 4 shows a comparatively and consistently low level of switching in the ACT for both electricity and gas customers, ranging between 0.09 per cent and 0.14 per cent during the quarter.

This outcome reflects the findings of the Australian Energy Market Commission's March 2011 review which found that competition in the small customer market was not effective, partly because customers were unaware of their ability to switch retailers. ActewAGL's dominant position and the small size of the ACT market relative to other jurisdictions might act as a natural barrier to new entrants. The AER's online price comparator, Energy Made Easy (www.energymadeeasy.gov.au), contains all the generally available offers for residential and small business customers in the ACT. Customers in the ACT can use this website to compare all the electricity and gas retailers in their area to see if they are on the best energy offer for their needs. This tool may help to raise awareness among customers of their ability to switch and the offers available to them.

Figures 2 and 3 show a significantly higher level of switching in those jurisdictions where competition in the retail energy market is more developed, with 2–7.5 per cent of electricity and gas customers switching retailer each quarter over the past three years.

Figure 2: Quarterly electricity customer switching rates—by jurisdiction

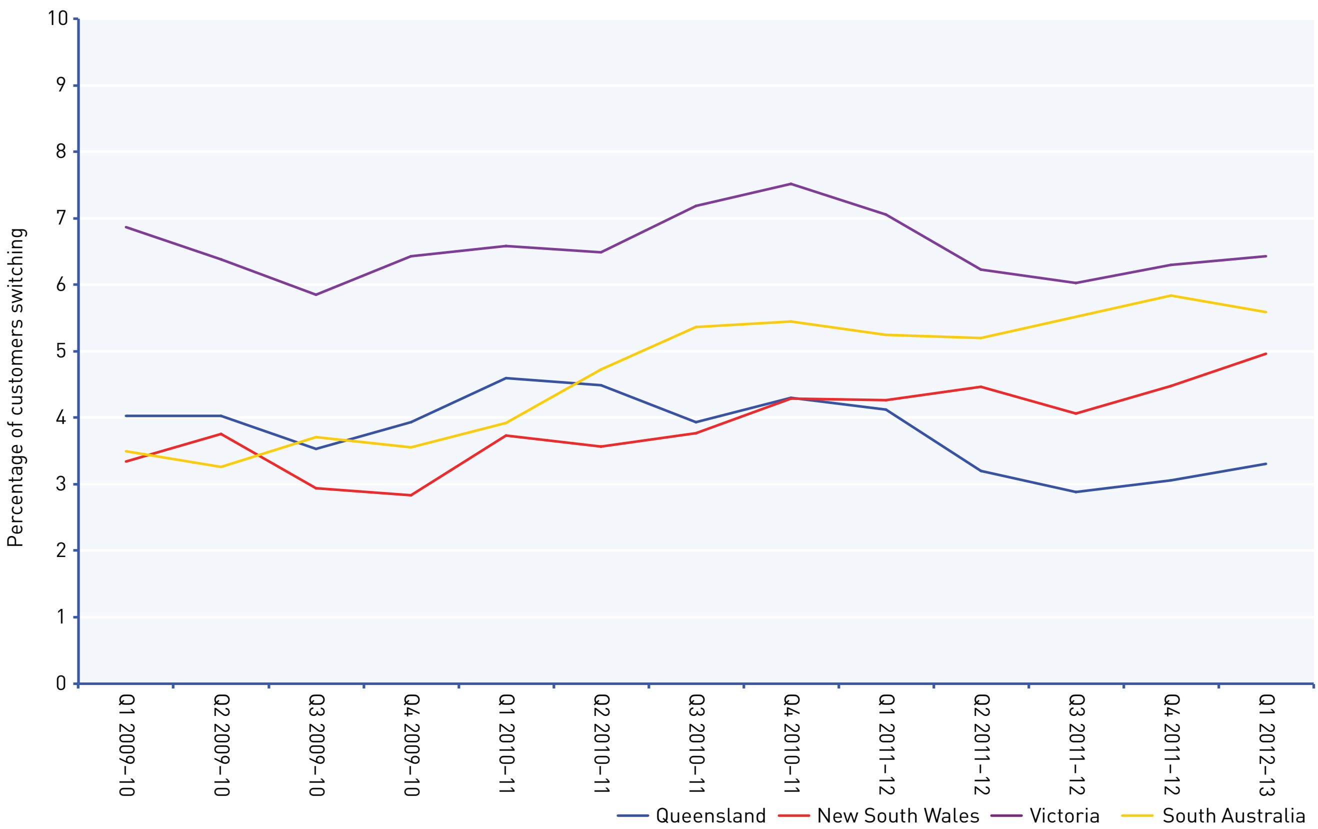


Figure 3: Quarterly gas customer switching rates—by jurisdiction

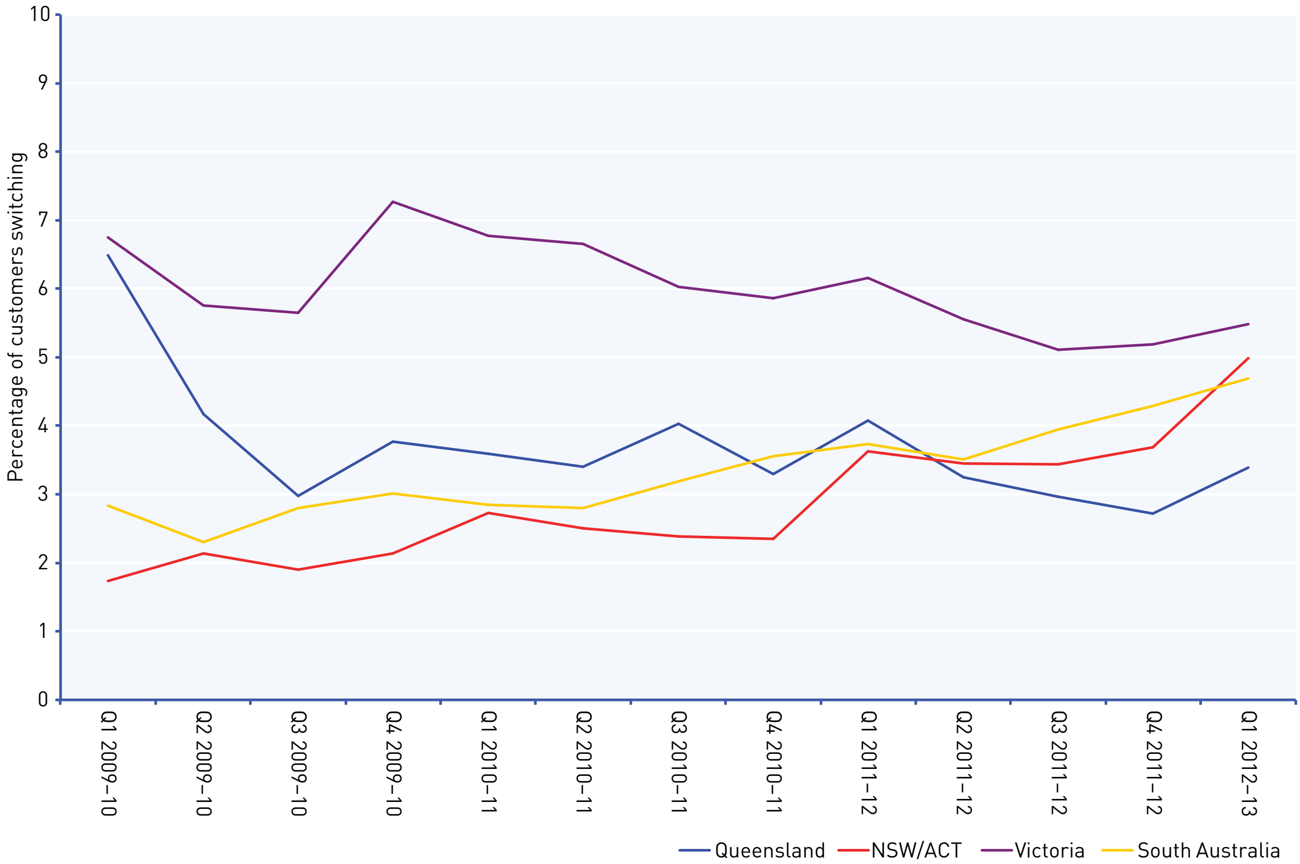
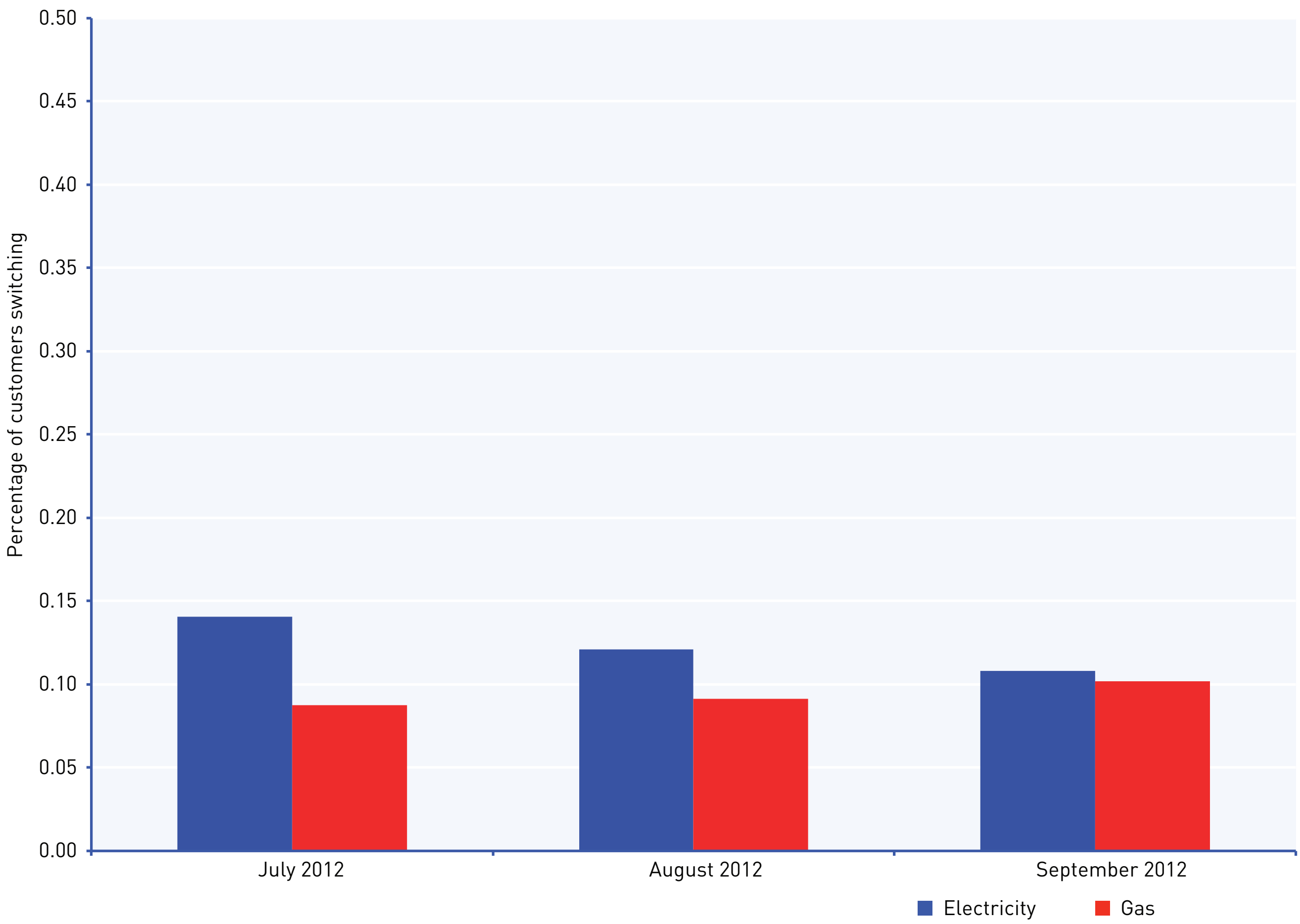


Figure 4: Monthly electricity and gas customer switching rates in the ACT



2. Retail market activities report

The Retail Rules require the AER to prepare an annual retail market activities review. This quarterly update report provides information on:

- retailers' handling of customers experiencing payment difficulties
- customer disconnections and reconnections
- customers on hardship programs
- the number of type of customer complaints
- customers using prepayment meters.

2.1 Handling of customers experiencing payment difficulties

Monitoring the number of residential and small business customers with 'energy bill debt', and the average level of that debt, can assist in understanding the number of customers who may be experiencing payment difficulties. 'Energy bill debt' for this purpose is defined as an amount owed to a retailer that has been outstanding for 90 days or more. Energy bill debt indicators can also provide an indication of the overall affordability of energy.

The Retail Rules require the AER to distinguish between customers experiencing payment difficulties generally and customers on hardship programs. The data presented here exclude customers on hardship programs. Hardship indicators are presented in Section 2.2.

The Retail Law requires energy retailers to assist residential customers experiencing payment difficulties. Early identification of customers experiencing payment difficulties and provision of effective assistance, through a payment plan or a retailer's hardship program, may assist customers to better manage and reduce their energy bill debt. The relationship between energy bill debt indicators and the performance of energy retailers, however, must be interpreted carefully. A number of factors can influence the level of energy bill debt that customers have, including a customer's own circumstances and the broader economic climate.

Further care must be taken when considering small business energy bill debt indicators. Energy consumption varies significantly across different business types which in turn influences the quantum of small business energy bills (and what proportion of revenue this may represent for any particular business). Small business energy bill debt is most likely to be influenced by business conditions and commercial considerations. Given the vast differences across small businesses it may be difficult to draw meaningful conclusions from this data. As such, this section largely focuses on residential customers experiencing payment difficulties and the assistance provided by retailers.

2.1.1 Residential customer energy bill debt

In the ACT, 3371 electricity customers and 6022 gas customers had an energy bill debt at the end of the September quarter—around 2.2 in every 100 electricity and 5.6 in every 100 gas customers. While almost twice as many households owed a debt for gas, the average amount owed for electricity was higher—$711 compared to $450.

Figures 5 and 6 below show the number of customers with energy bill debt and the average amount of energy bill debt for customers in the ACT and Tasmania.

Figure 5: Residential customers with energy bill debt—by jurisdiction

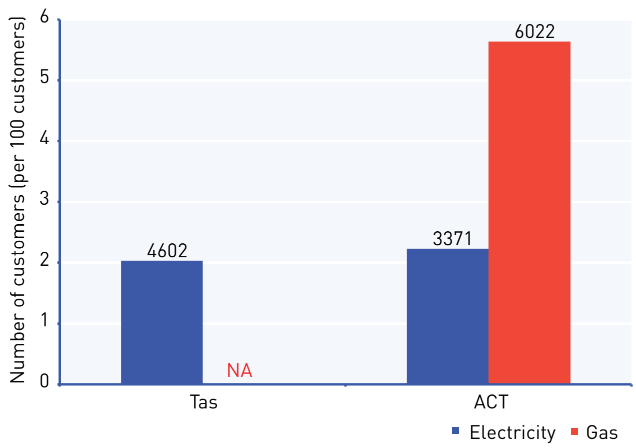
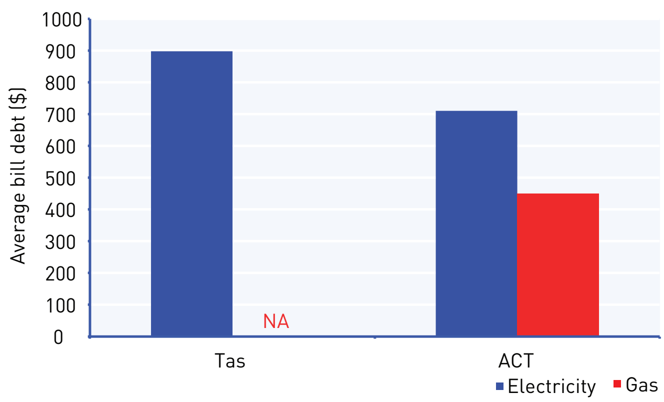


Figure 6: Average residential energy bill debt—by jurisdiction



For the majority of residential customers in the ACT with an electricity bill debt, the level of the debt was below $500 (59 per cent).

Thirty per cent had a debt of $500–1500 and a further 6.8 per cent had a debt of $1500–2500. Four per cent had an electricity bill debt over $2500. Similarly for gas, the majority of residential customers with a gas bill debt owed less than $500 (75.4 per cent). Nearly 18 per cent have a gas debt of $500–1500. A smaller proportion (4.6 per cent) owed $1500–2500 with only two per cent having a debt above $2500 (figure 7).

These figures may reflect energy bill debt accrued during the cooler autumn months when customer start to receive gas and electricity heating bills. The full effects of winter heating bills may not peak until the December or March quarter, given the 90 day lag before an overdue amount will be reported as energy bill debt. Energy bill debt data was not previously collected in the ACT and as such it is not possible to draw out any changes or trends in this data.

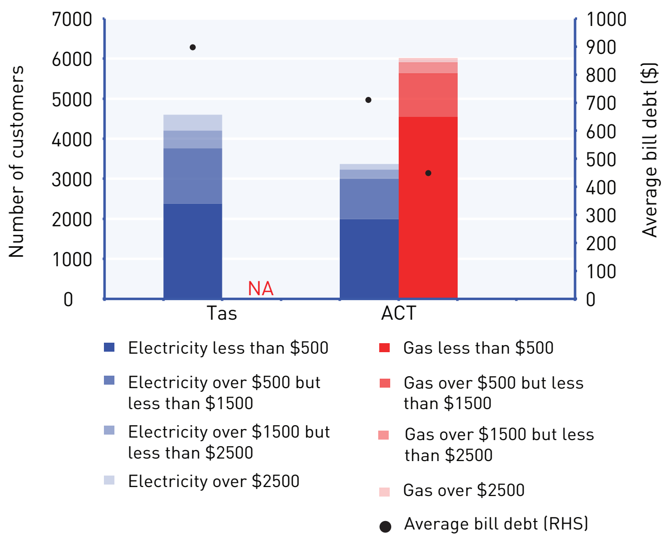
In Tasmania, 4602 residential customers had an energy bill debt at the end of the September quarter. This is 15 per cent below the number reported to the Office of the Tasmanian Economic Regulator (OTTER)[7] for the previous quarter (5438 customers).

The proportion of Tasmanian residential customers with an electricity bill debt in the September quarter was on par with the ACT (2.03 compared to 2.2 in every 100 electricity customers). The average electricity bill debt, however, is markedly higher at $898 (compared to $711 in the ACT). This may be explained by the limited number of customers with access to gas in Tasmania and the reliance on electricity as the main energy source.

Of the residential customers in Tasmania with energy bill debt, over half (51.7 per cent) had a debt below $500.

Thirty per cent had a debt between $500–1500, 9.7 per cent had a debt of $1500–2500 and 8.7 per cent had a debt in excess of $2500. As at the end of June 2012, 1344 residential customers owed more than $500 so while the overall number of customers in debt decreased, a greater proportion now owe more than $500.

Figure 7: Residential customer energy bill debt levels—by jurisdiction



2.1.2 Residential customers on payment plans

Payment plans are agreed between residential customers and retailers to allow customers to make regular payments towards their energy bills, including any arrears they may owe. Payment plans are one of the main tools used by retailers to assist residential customers who may be experiencing difficulties paying their energy bills.

Retailers are required to report the number of residential customers (excluding hardship program customers) on a payment plan. A payment plan must consist of at least three instalments and provide for the repayment of arrears. Retailers are not required to report on customers who are paying for their energy through regular instalments for convenience or budgeting purposes.

When considered together, the number of customers with energy bill debt and the number on payment plans provides information on the assistance provided by retailers to customers experiencing payment difficulties.

Figure 8 below shows there were 2490 residential electricity customers in Tasmania on a payment plan, equating to just over 1 in 100 customers. This is a slight decrease from the number of residential customers on a payment plan as reported to OTTER at the end of June (2694 customers, down 7.6 per cent).

7 OTTER was responsible for retail energy regulation in Tasmania prior to the commencement of the NECF.

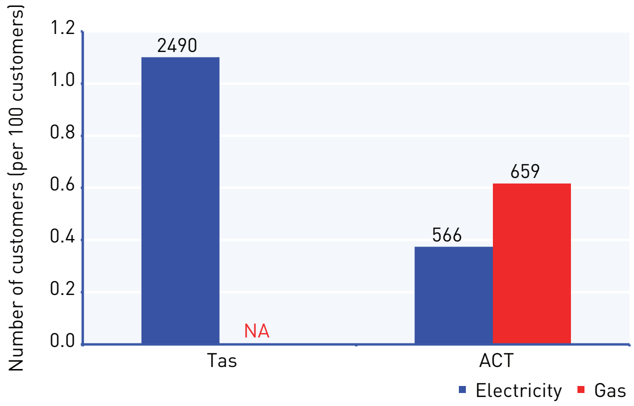
Aurora also cancelled 2052 payment plans during the September quarter. This high number of cancelled payment plans resulted from a review undertaken by Aurora during the fourth quarter of 2011–12. The review identified a number of customers whose payment plans required amendment to account for new energy rates and changed consumption patterns. Aurora established a small team to contact customers to recast their payment plans. It also established an outbound calling team to encourage customers with debt to commit to payment plans. This has resulted in a higher than usual number of new customers starting a payment plan and of payment plans being cancelled. Aurora has advised that during this period in many instances a single customer will be reported as having both a payment plan cancelled and a new plan established.

In the ACT, 566 residential electricity customers were on payment plans (0.4 in every 100 customers), a decrease of 18 per cent from the number reported to ICRC[8] at the end of June (691 residential electricity customers). There were more gas residential customers reported as being on payment plans at the end of September (659 or 0.6 in every 100 customers). This represents a significant increase from the 238 residential gas customers on payment plans at the end of June 2012 as reported to the ICRC.

Most of this change is attributable to ActewAGL who placed an additional 419 residential gas customers on payment plans in the September quarter. ActewAGL has advised that the number of residential gas customers using payment plans typically follows a seasonal trend—higher numbers during winter/spring months (when gas usage and bills are higher) and fewer in summer/autumn months. Similar patterns were recorded in 2010 and 2011. This is a welcome trend given the number of residential gas customers reported as having bill debt in the ACT. The AER continues to encourage retailers to assist their customers with arrears and to offer payment plans and access to their hardship programs as a way to help customers better manage their energy bills.

8 ICRC is the Independent Competition and Regulatory Commission. It was responsible for retail energy regulation in the ACT prior to the commencement of the NECF.

Figure 8: Residential customers on payment plans—by jurisdiction



2.1.3 Small business customer energy bill debt

In the ACT, 298 electricity and 161 gas small business customers had an energy bill debt at the end of the September quarter—equating to 2.5 in every 100 electricity and almost 9 in every 100 gas small business customers. The average electricity bill debt owed by small business customers was $878, while the average gas debt was much higher at $1234. In Tasmania, 682 small business electricity customers had an average bill debt of $2375. This equates to 1.9 in 100 electricity small business customers and is an increase from the number of business customers reported to OTTER as repaying a debt as at the end of June 2012 (487).

As discussed above, it is difficult to draw conclusions from this data as energy consumption, bill amounts and turnover can vary significantly across different small business customers. Furthermore, small business energy bill debt is more likely to be influenced by business conditions and commercial considerations. The AER will continue to monitor these indicators over time which will help to understand the experiences of small business customers with energy debt.

2.2 Hardship program indicators

The Retail Law requires energy retailers to have a customer hardship policy for residential customers. The purpose of these policies is to identify customers experiencing payment difficulties due to hardship and to assist them to better manage their energy bills on an ongoing basis. Hardship programs are designed to help customers avoid disconnection while they work toward creating sustainable energy consumption practices and manage any financial challenges they may be experiencing.

While retailers have obligations to identify customers experiencing hardship, customers too, should advise their energy retailer that they need assistance as soon as they experience payment difficulties.

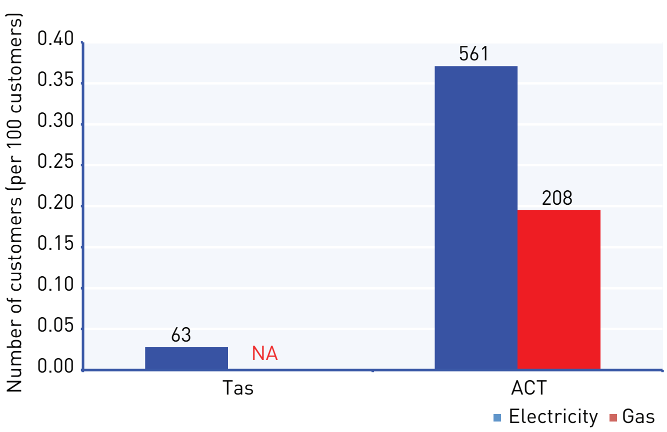
The AER approves each retailer's hardship policy and monitors the performance of retailers' hardship programs through the indicators considered in this report. These indicators aim to provide an overall picture of retailers' activities to assist residential customers experiencing financial hardship.

While hardship indicators may provide some information about how effectively a retailer is meeting its obligations to its customers, care must taken when drawing inferences—these trends are also likely to be affected by the broader economic climate and the socio-economic profile of each retailer's customer base.

2.2.1 Residential customers on hardship programs

Figure 9 shows the number of residential customers in the ACT and Tasmania on hardship programs as a proportion of the total number of residential customers.

Figure 9: Number of residential customers on a hardship program—by jurisdiction



In the ACT, 561 residential electricity customers were on a hardship program at the end of the quarter (equating to 0.37 in 100 residential electricity customers) and 208 residential gas customers were on a hardship program (0.19 in 100 residential gas customers).

ActewAGL had 531 electricity and 187 gas residential customers on its hardship program at the end of the period and EnergyAustralia had 30 electricity and 21 gas residential customers on its program. Origin Energy and Red Energy did not report any residential electricity or gas customers in the ACT on their hardship programs (however they have a very small customer base). EnergyAustralia had a higher proportion of gas and electricity residential customers on its hardship program when compared to ActewAGL.

In Tasmania, Aurora had 63 residential electricity customers on its hardship program at the end of the quarter (0.03 in 100 residential electricity customers).

Aurora advised that before the Retail Law and Rules took effect on 1 July 2012, it maintained a hardship policy and hardship assistance fund, however, this was done on a voluntary basis as no previous hardship regulation existed. Under this voluntary approach to managing hardship, Aurora did not record specific hardship data. As such, the numbers reported reflect a 'zero start' as at 1 July. On current trends, Aurora has advised it expects to have approximately 1500 customers in its hardship program by 1 July 2013.

The AER will continue to monitor this trend over time. Energy retailers should be actively promoting and publicising their hardship programs so that customers experiencing payment difficulties know what assistance is available. As customer awareness and acceptance of hardship programs increase we would also expect to see the numbers of customers being assisted under these programs increase.

Some retailers set eligibility criteria that customers must meet to enter hardship programs. Not all customers who seek access to a hardship program may meet these criteria. Some reasons why a customer may be 'denied access' include a history of failing to meet their commitments under a previous program or not being a current customer of the retailer.

The number of customers denied access to a retailer's hardship program may indicate whether the program is appropriately targeted, or effectively promoted and implemented. If many customers are being denied access to the hardship program it may indicate that the eligibility criteria for entry to a retailer's hardship program are too restrictive. ActewAGL reported one electricity customer who was denied access to its hardship program during the period.

2.2.2 Debt levels of hardship program customers

The AER collects data on the average debt upon entry into a hardship program. High debt levels are likely to be an indicator of customers experiencing payment difficulties. Differences between retailers may identify whether they have effective processes in place to promptly identify customers experiencing payment difficulties and to provide an early response, as well as reflecting retailers' general debt collection practices.

As retailers become more effective at identifying and targeting customers in need of hardship assistance, earlier entry into hardship programs should result in a lowering of average customer debt levels on entry over time. Again, differences in performance across retailers may indicate which retailers are more proactive in identifying and responding early to customers experiencing payment difficulties.

The average debt of customers who entered ActewAGL's hardship program was $994 for electricity and $1713 for gas. EnergyAustralia's customers owed $1811 for electricity and $1495 for gas. In Tasmania, the average electricity bill debt of Aurora's hardship program customers was $2178 on entering its program.

Figure 10: Average debt of customers who entered the hardship program—by retailer

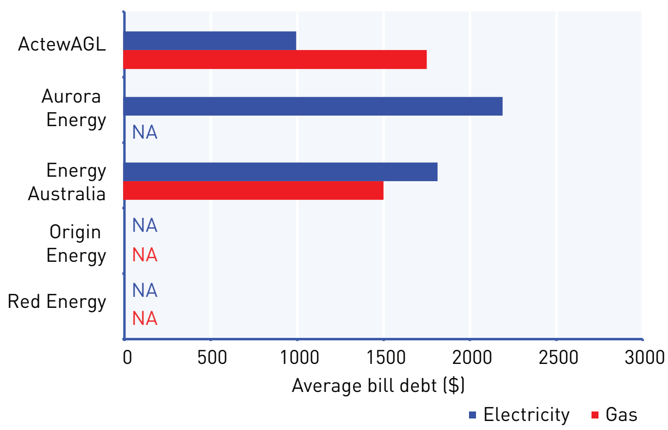


Figure 11 shows the average debt of all customers on hardship programs. Over time, where the average debt of all hardship program customers is lower than the average debt of customers who entered, this may suggest that these programs are assisting customers to reduce their energy bill debt.

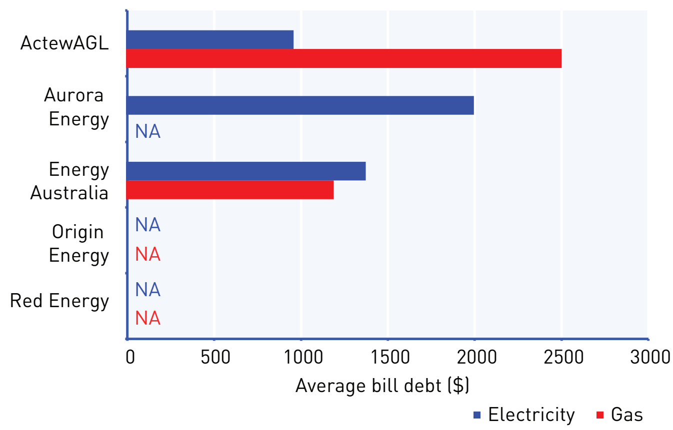
In Tasmania, the average debt of Aurora's hardship program customers is $2003 compared to an average of $2178 for those who entered the program.

In the ACT, the average debt of all EnergyAustralia's hardship program customers is $1353 for electricity and $1203 for gas. This is lower than the average debt of customers who entered EnergyAustralia's hardship program at $1811 and $1495, respectively.

ActewAGL's gas hardship program customers had an average debt of $2507, higher than those who entered the program—$1713. ActewAGL's electricity hardship program customers had a slightly lower average level of debt than those who entered the program this quarter ($964 compared to $994).

The AER will continue to monitor these trends over time and will be able to draw more meaningful comparisons as more data is collected.

Figure 11: Average debt of hardship program customers—by retailer



Aurora reported that the vast majority of its hardship program customers were receiving an energy concession (59 of 63 customers, almost 94 per cent). Around 55 per cent of EnergyAustralia's hardship program customers receive a concession on their energy bills and 41 per cent of ActewAGL's hardship program customers receive a concession.

2.2.3 Customers exiting hardship programs

Retailers report the number of customers exiting their hardship programs for each of the following reasons:

- customers who successfully completed the program or exited with the agreement of the retailer
- customers who were excluded or removed from the program for not meeting the program's commitments (this also includes hardship program customers who leave the program because they feel they are not able to meet the program requirements or payments requested by the retailer), and
- customers who transferred, switched or left the retailer.

Higher percentages of customers who are successfully completing a retailer's hardship program may suggest it is more effective at reducing customer debts. If there is a higher proportion of customers excluded or removed from the program for not meeting its commitments, this may indicate the program is less effective at engaging customers to assist them to better manage their energy bills.

Of those customers exiting ActewAGL's hardship program during the quarter, seven electricity customers successfully completed the hardship program (18 per cent), 20 were excluded (51 per cent) and 12 transferred or left (31 per cent). In gas, 42 customers who exited successfully completed the program (66 per cent), 15 were excluded (23 per cent) and 7 transferred or left (11 per cent).

EnergyAustralia reported four electricity customers who exited as successfully completing the program and another four who were excluded. In gas, one customer exited because they transferred or left EnergyAustralia.

Aurora reported two customers who exited their program during the quarter—one was excluded and one transferred or left.

No hardship program customers were disconnected during the quarter.

2.3 Disconnections and reconnections

Residential customers

A general principle of the Retail Law is that disconnection of a customer due to hardship or an inability to pay their energy bills should be a last resort option. This reflects that energy is considered to be an essential service, and a prerequisite for social participation and an adequate standard of living. Disconnection can have significant impacts on individuals and households.

When an energy retailer has genuinely exhausted all of its obligations to assist a customer manage their energy bill debt—including payment plan options, hardship programs and reminder and disconnection warning notices—a disconnection may occur. The number of disconnections for non-payment can therefore be an indicator of the number of customers struggling to pay their energy bills as well as retailers' debt management and risk policies, the training of their call centre and credit staff, and how their hardship programs operate.

In the ACT, 14 electricity and 325 gas customers were disconnected during the July to September period, equating to 0.01 in every 100 electricity customers and 0.3 in every 100 gas customers.

ActewAGL and EnergyAustralia each reported seven electricity disconnections, and ActewAGL reported almost all of the gas disconnections for the quarter. Whilst significantly more gas customers were disconnected when compared to electricity, these figures represent a decrease in the rate of both electricity disconnections (down 87 per cent) and gas disconnections (down 45 percent) when compared to the previous year. During 2011–12, 420 electricity disconnections were reported (around 105 each quarter prorated) and 2377 gas disconnections (approximately 594 each quarter).

In Tasmania, Aurora reported 156 residential electricity disconnections during the quarter (almost 0.07 per 100 customers).

This is higher than the number of disconnections reported for the same quarter last year (140) and for the previous quarter (30). Aurora advised that it stopped disconnecting customers for debt in October 2011 due to an internal restructure and did not recommence disconnections until June 2012. Overall, electricity disconnections for non-payment in Tasmania have decreased over the last three years from 0.62 per 100 customers in 2009–10 to 0.08 per 100 customers in 2011–12. See figures 12 and 13 below.

Figure 12: Residential customers disconnected for non-payment—by jurisdiction

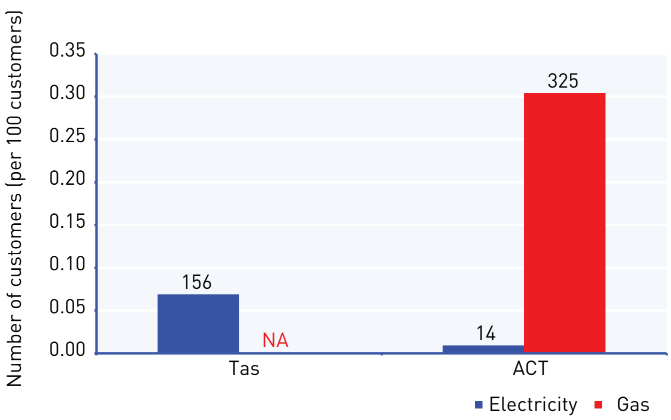


Figure 13: Residential electricity customers disconnected for non-payment over time

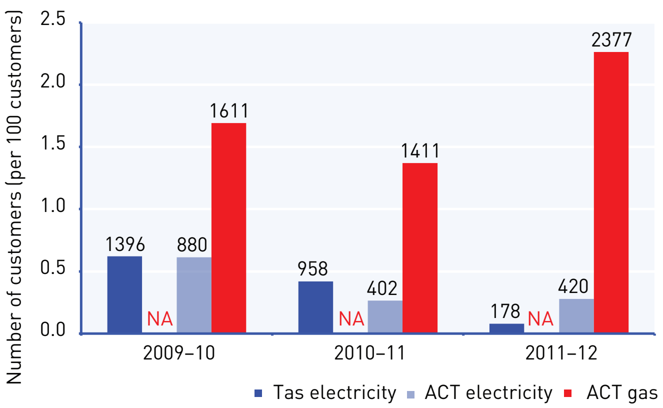
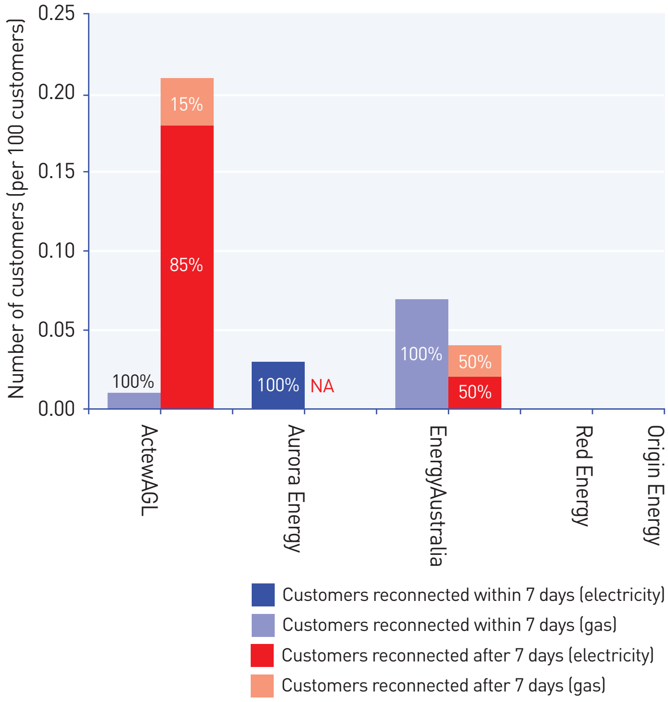


Figure 14 shows the number of customers reconnected at the same name and address after being disconnected, and distinguishes between those reconnected within seven days, and those reconnected after seven days. Reconnection rates may be less than 100 per cent where properties are disconnected and then reconnected under a different name, or not reconnected at all.

In the ACT, ActewAGL reconnected 15 electricity customers in the same name and address, and none of these were reconnected within seven days. 213 residential gas customers were reconnected in the same name and address, 180 of these were within seven days. EnergyAustralia reconnected four electricity customers, none within seven days of the disconnection and two gas customers, one within seven days.

Aurora reconnected 69 of the 156 electricity customers disconnected (or 44 per cent) and all of these were within seven days of the disconnection occurring.

Figure 14: Residential customers reconnected following disconnection—by retailer



Small business customers

While the Retail Law requires the AER to report on disconnection rates for small business customers, such rates can be problematic to interpret meaningfully. This is partly due to energy being a business cost and that small business customer disconnections may be more influenced by business conditions and commercial considerations.

In the ACT, ActewAGL disconnected 13 gas and three electricity small business customers for non-payment during the period. EnergyAustralia reported one small business gas customer disconnection. There were no small business electricity customer disconnections reported in Tasmania.

Of the small business customers disconnected none were reported as being reconnected in the same name and address within seven days of being disconnected.

2.4 Complaints

Customer complaints can give an indication of customer satisfaction and how well retailers are managing aspects of their service delivery.

Energy retailers are required to report the number of small customer complaints they receive in each of these categories:

- Billing complaints—includes complaints about prices, billing errors, payment arrangements, debt recovery practices and disconnections.
- Energy marketing complaints—includes complaints about sales practices, advertising, contract terms, sales techniques and misleading conduct.
- Customer transfer complaints—includes complaints about timeliness of a transfer, disruption of supply due to transfer and billing problems directly associated with a transfer.
- Other complaints—includes any other complaint, such as complaints about customer service, privacy issues, failure to respond to complaints, and health and safety issues.

Residential customer complaints

In the ACT, a total of 534 complaints by residential customers were reported during July to September 2012 (0.21 per 100 residential customers). The majority of complaints (65 per cent) were in relation to billing.

Only a very small proportion of complaints were in relation to energy marketing (3 per cent) and customer transfers (almost 7 per cent). The remaining 25 per cent were recorded in the 'other' category. See figure 15.

ActewAGL received the highest absolute number of complaints from residential customers of all the energy retailers in the ACT (499 complaints) and this level of complaints is consistent with the numbers reported for the previous year (on a prorated basis). EnergyAustralia received a higher number per customer (0.36 per 100 customers) compared to ActewAGL (0.2 in every 100) however it has a much smaller customer base. Origin Energy and Red Energy did not receive any customer complaints, again these retailers supply a very small proportion of ACT residential customers.

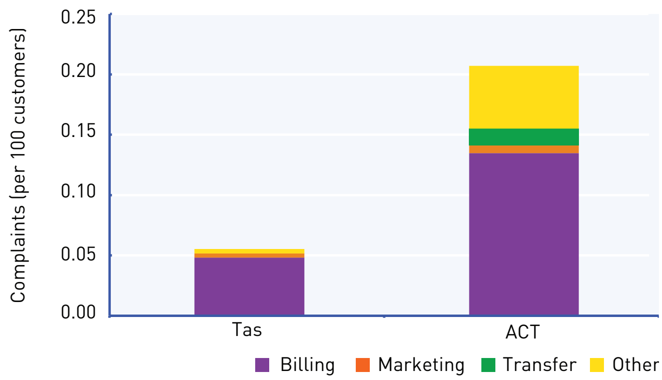
Figure 15 also shows the number of complaints made by residential customers to Aurora.

Tasmanian households made a total of 125 complaints during the period (0.06 complaints per 100 customers). Billing complaints represented the majority (87 per cent) of all complaints made, with marketing and other complaints comprising the remainder (both 6.4 per cent).

This level of complaints is lower than that reported by Aurora for the same quarter last year (205 complaints during July to September 2011–12) though higher than that reported for the previous quarter (109 complaints during April to June 2011–12).

Whilst the level of complaints in the ACT is higher than in Tasmania, it is difficult to draw meaningful cross-jurisdictional comparisons. This is because residential energy customers in Tasmania are not able to choose their energy retailer and so there is little likelihood that Tasmanian households would make complaints about energy marketing and customer transfer issues. Furthermore, very few customers in Tasmania have gas connections (whilst most households in the ACT do) and this reporting framework does not apply to Tasmanian gas customers.

Figure 15: Residential customer complaints—by jurisdiction



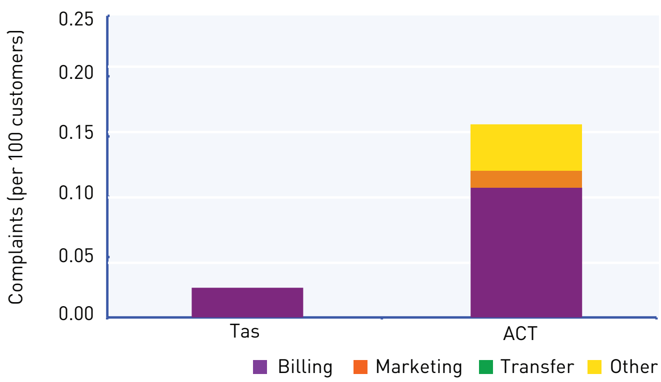
Small business customer complaints

Small business customers in the ACT reported relatively few complaints to their retailer. Only 22 complaints were reported for the July to September period, equating to 0.16 complaints per 100 customers. More than two thirds of these complaints were in relation to billing (68 per cent), and were all reported by ActewAGL. Marketing accounted for 9 per cent of total small business complaints in the ACT. EnergyAustralia reported significantly fewer complaints overall however it has a much higher relative number of complaints, 0.66 per 100 customers compared to ActewAGL (0.15 per 100 customers). This may be due to its much smaller customer base. See figure 16.

Figure 16 also shows the number of complaints made by small business customers in Tasmania. Only nine small business complaints were reported during the period

(0.02 complaints per 100 customers) and all of these were billing complaints.

Figure 16: Small business customer complaints—by jurisdiction



2.5 Prepayment meters

The Retail Rules require the AER to report on the number of customers using prepayment meter systems, self-disconnections and the number of prepayment meters removed due to payment difficulties.

Prepayment meters are an alternative form of electricity metering which allow households to pay in advance for the electricity they consume rather than receive a quarterly bill in arrears. Like a prepaid mobile phone, prepayment meters allow residential customers to buy 'credit' in advance. As the customer uses electricity, the meter records how much credit remains. The prepayment meter also stores a small amount of 'emergency credit' as a contingency against disconnection if a customer has not 'topped-up' their meter in time.

Some customers consider prepayment meters have a range of benefits, particularly that they do not receive large quarterly bills or accrue energy bill debt. Prepayment meters may also allow customers to keep better track of household spending on energy and help customers to better manage their household budget. There are also some disadvantages that can result from using prepayment meters. For example customers on prepayment meters may defer other household bills and expenditure to ensure they can 'top-up' their meter and remain connected. Alternatively, they may run out of credit and self-disconnect when their usage is higher than expected or when they have not been able to 'top up' the credit on their meter.

Electricity prepayment meters are currently used by residential customers in Tasmania have been since they were introduced in 1997. Although permitted under the Retail Law and Rules, there are currently no customers using prepayment meters in the ACT.

Aurora reported 34 732 customers using prepayment meters in Tasmania as at the end of September (roughly 15 per cent of all residential customers).

This is a decrease in the number of customers using prepayment meters reported to OTTER, falling from 35 561 in the previous quarter and confirms a decline in the use of prepayment meters over the past five years (OTTER reports show the number of prepayment meter customers peaked in January 2008 at around 40 000).

There are two types of prepayment meters currently being used by Aurora customers in Tasmania—the older, more common Siemens meter and the newer Actaris meter. The newer Actaris meter is capable of detecting and reporting self-disconnection events, whereas the Siemens meter cannot. Only 875 prepayment meter customers (approximately 2.5 per cent) have the Actaris meter, so data on self-disconnection events is only available for this small proportion of customers. For these customers, during the quarter, there were a total of 261 self-disconnection events affecting 229 customers (meaning that some prepayment meter customers self-disconnected more than once). This represents an increase when compared to data reported to OTTER for the previous quarter where a total of 188 self-disconnection events affecting 168 prepayment meter customers were recorded.

The average duration of self-disconnection events for this period was 182 minutes. Whilst this data was not reported to OTTER previously, it did report on the number of self-disconnection periods longer than 240 minutes. In the previous quarter, there were 70 such events.

Of all customers using prepayment meters, around 48 per cent received an energy concession. This may support contentions that prepayment meters are seen as an attractive alternative for customers on low or limited incomes as a way to help manage their energy usage, as well as avoid large quarterly bills and the accrual of energy debt.

During the reporting period no prepayment meters were removed for payment difficulties.