AGL Energy Limited
ABN: 74 115 061 375

Level 22, 101 Miller St
North Sydney NSW 2060

Locked Bag 1837
St Leonards NSW 2065

T: 02 9921 2999
F: 02 9921 2552
agl.com.au

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Ms Sarah Proudfoot
General Manager Retail Markets Branch
AER GPO Box 520
MELBOURNE VIC 3001

Submitted via email to AERInquiry@aer.gov.au

Dear Ms Proudfoot,

AGL Energy Limited (**AGL**) welcomes the opportunity to respond to the Australian Energy Regulator's (AER) review of the minimum amount owing for disconnection, Rule 116 of the National Energy Retail Rules.

AGL is Australia's largest integrated Energy Company, operating across the supply chain with investments in coal-fired, gas-fired, and renewable electricity generation and is a significant retailer of energy, providing energy solutions to over 3.7 million customer accounts in the NEM. AGL is Australia's largest ASX listed owner, operator and developer of renewable generation.

The AER, in a letter dated 24 August 2016, outlined that they received evidence supporting a higher minimum threshold as a result of consumers 'struggling with finances' and the increase in the level of disconnections over the last few years.

At the AER Forum it was discussed that the effectiveness of the minimum threshold for disconnection should be considered in the context of the complete credit collection regulatory framework. Customers that make contact and engage with retailers through these activities and establish payment arrangements are protected from being disconnected for non-payment.

In this context, the role of the minimum threshold for disconnection non-payment is to protect customers that do not engage with their retailer following the issuing of a bill and all other regulatory credit collection activities (including Reminder Notice, Disconnection Warning and 'best endeavours' to contact the customer) as well as other retailer collection activities.

AGL believes the best solution for non-paying / non-engaging customers is to provide them with the environment, means and obligation to engage early and actively with their retailer. To this effect, AGL is proactively expanding our engagement mechanisms and channels to support increased engagement touchpoints possibilities in our collections processes. Additionally, AGL has undertaken extensive consultation with community and consumer groups and listened directly from these groups about the range of improvements we can make to better support our customers.

This consultation has resulted in changes from the way we communicate to more regular engagement between AGL employees and disadvantaged communities. Furthermore, AGL has also committed $6.5 million in a support fund that will go towards energy efficient appliances, home visits/audits, funding for financial counsellors and incentive payments for customers experiencing financial difficulties. All these activities are aimed at improving access for customers to make contact with us directly or through their community support.

The remainder of the submission provides qualitative and quantitative customer outcomes in response to the AER's request (in the letter dated 24 August 2016) for feedback on the proposal of an increase in the minimum disconnection amount.

Quarterly billing analysis

The AER conducted an analysis of low income household average quarterly bill data and found that all NECF jurisdictions face quarterly bills standing and market offers of greater than $300, with the majority closer to $400. However, AGL believes that if the AER considers setting the minimum threshold level based on average quarterly billing sizes, then the AER should not be focussing on the amount of the average quarterly bill but rather what the percentage change was in the average quarterly bill, between when the $300 minimum threshold for non-payment was set in 2012, to now.

Based on this analysis, the AER data (as contained in Attachment B) shows that in some jurisdictions (ACT and New South Wales) the average bill for market offers has fallen, remained relatively flat (South Australia) and increased in Queensland. The standing offer average quarterly bill has marginally increased in the ACT, New South Wales and South Australia and significantly increased in Queensland.

The significant rise in standing and market offer in Queensland between 2012/13 and 2013/2014 was due to a correction in the regulated retail price in 2013/14 to account for regulated prices being frozen by the Queensland Government the previous year. Hence, a more appropriate comparison for Queensland would be for the period 2013/2016 to July 2016. During this period the Queensland standing and market offers remained regulated but exhibited similar characteristics to other NECF jurisdictions.

Based on a percentage variation of bill averages analysis, the $300 minimum threshold would appear to remain appropriate.

Dealing with energy affordability

The trigger amount being considered in this consultation is the amount at which the National Energy Retail Rules (NERR) allows a retailer to initiate the disconnection process. Rule 111 of the NERR outlines the minimum consumer protections for disconnection for non-payment (DNP). Under these protections, customers are afforded a minimum of 24 business days post the due date of the bill prior to being disconnected for non-payment.

Therefore, based on the AER's average bill data in Attachment B increasing the minimum threshold to $500 will result in non-paying / non-engaging customers falling into 24 business days of the second billing cycle before being disconnected for non-payment. Based on Attachment B data this would result in average debt accumulation of approximately $700.

If the process extends beyond the 24 business days (which it will for most retailers) then the process will complete even further into the second billing cycle and consequently the amount owing by the customer will be even greater.

AGL research from last year found customers participating on the Staying Connected hardship program as at April 2015 on average consumed 40% more per year than the average customer base. This fact is important when you consider the often limited capacity to pay for customers experiencing financial difficulties[1].

Increasing the minimum threshold is unlikely to provide any additional protection for these customers. In contrast, AGL believes increasing the threshold as a means to address affordability will inadvertently lead to increased debt for non-paying/ non-engaging customers that may lead to a further debt spiral.

[1] http://aglblog.com.au/2015/09/effective-support-for-vulnerable-households-closing-the-gap-between-capacity-to-pay-and-cost-of-consumption-part-2/

In conclusion, AGL believes addressing energy affordability (energy consumption and therefore ongoing cost) and increased customer engagement should be the focus for policy and rule makers along with addressing capacity to pay through the income support and concessions framework, rather than changing the minimum threshold for disconnection.

Should you have any questions in relation to this submission, please contact Mark Riley on 03 8633 6131 or myself on 03 8633 6646.

Yours sincerely,

(signed for email)

Con Hristodoulidis

Regulatory Strategy Manager