

Minimum disconnection amount review – stakeholder forum

Minutes of the stakeholder forum	AER	22 September 2016
Date and time of Meeting	22 September 2016 10:20am- 11.35am	
Location	Melbourne, via VCU with Sydney, Brisbane, Adelaide, Canberra	

Chair

Sarah Proudfoot (SP), General Manager Retail Markets branch, introduced the forum and chaired the meeting. SP noted the AER arranged the forum to further inform its thinking around the appropriate amount for the minimum disconnection threshold. SP also noted the submissions received in the first round of consultation proposing an increase to the amount provided a greater level of supporting evidence than those proposing to retain the current amount. SP noted the AER would take into account discussion at the forum as well as any further submissions in reaching a final decision on the Minimum Disconnection amount (the **amount**).

1. Presentations

- a. Eva Wong (EW), AER Compliance and Enforcement team, outlined Division 6 of the Retail Rules (Rules) and provided an overview of how the AER sees rule 116(1)(g) (minimum disconnection) relating to the other prohibitions on disconnecting a customer.

EW clarified that rule 116(1)(g) is not an absolute prohibition on retailers initiating the disconnection process even if the customer owes less than the amount. She ran through the AER's views on how this provision interacts with the other provisions under rule 116 and noted the AER is planning to consult on its Compliance Guideline under which a breach of rule 116(1)(g) is currently reportable on a quarterly basis. Current reporting requirements are likely to be retained on 116(1)(g).

- b. Jane Leung (JL), Public Interest Advocacy Centre (PIAC), explained PIAC's reasons for submitting the amount should be increased to \$520. PIAC agrees with the AER's view that a customer should not be disconnected for less than one quarterly bill amount. JL referred to Attachment B of the AER's letter of 24 August and noted that prices across all National Energy Retail Law (NERL) jurisdictions for quarterly bills were above \$300. JL also noted to PIAC's review of retail performance data which indicated quarterly bills range from \$347-\$513 in the NSW distribution areas. Endeavour Energy's distribution zone has the highest bills for a range of reasons. She noted that recent St Vincent de Paul research on disconnections in NSW also pointed to high disconnection levels in rural areas such as Endeavour Energy's distribution zone.

PIAC considers \$300 is not effective customer protection against disconnection. The figure no longer aligns with the AER's principle of the amount not being less than a quarterly bill. PIAC thinks the amount should be set at \$520 because average quarterly bill rates are higher across the NERL and it would extend protections beyond the most vulnerable. All of this is in the context of the continuing high rates of disconnection and increasing numbers of customers on hardship plans. It paints a picture of affordability being a critical issue for consumers.

PIAC considers a customer should only be disconnected as a last resort and shouldn't be disconnected because they can't pay. PIAC also acknowledges that an increase to the amount could result in customers having unmanageable levels of debt. It recognises the need to balance both. JL noted the Sustainable payment plans (SPP) framework and hardship framework incentivises retailers to manage customer debt early and well. Customers with payment difficulties need assistance not disconnection action.

- c. Panos Priftakis (PP), Australian Energy Council (AEC), gave a presentation on the submission the AEC will provide. The AEC represents 21 retail and wholesale energy companies. PP noted the amount is just one element of a range of protections for customers both mandatory and voluntary, and AEC is concerned that if the amount is increased it could lead to worse debt for customers. He referred to an example in AEC's first submission and agreed that disconnection should be a last resort for retailers. PP noted that AEC will provide data in its second submission and will also provide evidence of the risk under the threshold. AEC's submission would cover a number of other issues including how the amount affects small customers. The AEC doesn't believe there is compelling evidence to increase.

2. Introductions around the offices

Attendees in each office introduced themselves and the organisation they represented

3. Open discussion

SP opened the forum up to general discussion noting the AER was particularly interested in exploring impact on retailers, including systems and debt management, if the amount is raised. The AER is also interested in the impact on customers and whether it should in fact raise the amount.

4. Impacts if the AER raises the amount

Ben Barnes (BB), Red/Lumo:

Minimising debt is a key issue.

Red/Lumo is concerned that increasing the amount doesn't help those customers who are engaged.

The amount itself is not the issue, but customers might elect to not engage (at risk of unmanageable debt) if the amount is too high

Questioned whether it remained appropriate to have a principle that customers should not be disconnected for being only one quarterly bill in arrears, as it allowed disengaged consumers to incur higher debts before they were required to engage.

Con Hristodoulidis (CHR), AGL:

Customer engagement is a key issue. AGL's experience is that customers are prompted to engage with their retailer upon receiving a bill or disconnection notice.

AGL is concerned increasing the amount could decrease customer engagement. Increasing the amount could result in a lag of seven months (or 2 quarterly bills) before customers engage.

Customer debt could be unmanageable for some customers.

SP, AER:

The discussion on this issue still refers to quarterly billing but given many retailers now bill customers on a monthly basis, does this impact on the amount or retailer practice.

Andrew Mair (AM), M2/Dodo:

M2/Dodo bills customers quarterly but puts in place monthly payment arrangements.

M2/Dodo is concerned about assessing each customer individually and in its experience only gets engagement when it starts the disconnection process.

It agrees that increasing the amount could delay when retailers contact customers via texts or calls.

M2/Dodo considers we need to work out at what amount retailers are disconnecting customers.

CHR, AGL:

AGL believes the amount should not be used to provide protections against the broader social issues underlying rising disconnections and energy prices.

AGL reiterated that an original principle was to set an amount that was less than the cost of recovering the debt.

Libby Hawker (LH), ERM:

Small business customer need to be considered in this discussion.

ERM is concerned about facilitating/allowing a business to accrue debt to unmanageable levels, and this may mask that relevant test of solvency of their ability to pay their bills by the due date.

Businesses not being triggered to seek solvency advice surrounding debt may cause issues and it could be argued that allowing debt to accrue is like allowing the business to trading while insolvent. There can be impacts to the customer and also other creditors.

Denise Boyd (DB), CALC:

CALC believes the most vulnerable customers need to be protected.

In CALC's experience the impact on customers who can't pay can be profound, as found in its 2015 report on Victorian energy and vulnerable customers *Heat or Eat*. Customers' circumstances can be exacerbated by serious social issues like domestic violence.

CALC's preference is to link the amount to two billing cycles and have an average for the two.

CALC is also concerned about how the de-energisation of smart meters may lead to less personal interaction with customers prior to disconnection.

Haiden Jones (HJ), Powershop:

Communication with customers is a key issue

Powershop views disconnections as a last resort. Powershop argued that the industry could benefit from working more collaboratively with bodies like CALC to educate customers about the need to talk to their retailer early.

The energy industry is increasingly working to engage with customers in financial hardship and the Sustainable Payment Plans framework is a step in the right direction.

Powershop is concerned raising the amount could be reactive and may not address the underlying problems.

Christopher Hanna (CH), adviser to Dan van Holst Pellekaan MP:

Data on the number of disconnections for customers owing between \$300 and \$500 would be useful.

Joe Kremzer (JK), EA:

The threat of disconnection can trigger customers to engage.

In EA's experience customers are more inclined to engage if they know inaction has significant consequences.

EA believes retailers need to deal respectfully with customer once contact is made.

AM, M2/Dodo:

Raising the amount may not necessarily result in fewer disconnections, which appears to be the case in Victoria where the minimum disconnection amount is \$120.

In M2/Dodo's experience customers fall into 1 of 3 categories, those who:

- pay on time, which is the majority of customers
- pay only when they get the disconnection notice, which is some
- don't engage at all. For these customers if amount is increased to \$500 retailers would have considerably more debt to recover.

M2/Dodo agrees that disconnection is the last resort in a suite of protections.

Chr, AGL:

The minimum disconnection protection only impacts those customers who don't engage. Customers who engage will be protected by other rules.

AGL considers entering into a payment plan as early as possible helps with engagement and managing debt levels.

General note: a few attendees commented that increasing the amount rewards bad behaviour. Some Ombudsmen and consumer representatives challenged that characterisation, noting customers who don't pay their bills are often experiencing financial stress and it is an issue of affordability and broader social challenges, rather than bad behaviour on the part of customers.

a. Engagement and disconnection

DB, CALC:

Lack of payment may not always mean unwillingness to engage. Payment issues can mask other things that are happening for a customer.

CALC's experience is that mental health issues, bankruptcy and social services issues can impact a customer's capacity to engage.

b. Clarification of the position under the Retail Rules

Jacqueline Thorpe (JT), AER:

The minimum disconnection protection doesn't prevent disconnection from occurring.

The retailer and customer do not have to have an agreement in place in the AER's view for the Rule to be satisfied.

The Rules permit the customer to say "I'll make the payment" and then benefit from the protection. If the retailer has issued a disconnection warning notice and followed the requirements under the Rules and the customer has not engaged then the retailer can disconnect. The triggers will be there regardless of the amount owed.

CH, adviser to Dan van Holst Pellekaan MP:

Suggested the amount could operate over two bill cycles. If the AER set the amount at \$500 and a customer receives a \$350 bill, the retailer could contact the customer to engage if the retailer knew by the next bill the customer would owe more than the amount.

AM, M2/Dodo:

A customer cannot be disconnected for an amount that has not been invoiced, the retailer still has to issue a bill before it can disconnect.

Rory Campbell (RC), EWON:

Early engagement is a key issue, but EWON doesn't have a particular view on where the amount should be set.

In EWON's experience retailers can engage earlier than they currently do. At present, retailers engage when the bill is over a certain amount.

Gary Sucre (GS), EWOQ:

Greater education on engagement is important in achieving effective engagement

EWOQ agreed with other's comments that industry needs to assist people trying their best to pay their account.

The cost of living is increasingly high and there are a range of social policy issues that exacerbate the issue of disconnection.

EWOQ acknowledged retailers try to engage with customers and lack of engagement can be exacerbated by customers who fail to engagement as well.

c. Additional points and clarifications

Lisa Liddell (LL), Meter2Cash:

Embedded networks may also be affected

Meter2Cash's experience is that the amount is useful as a trigger in the embedded network space where there is a relatively high level of short stay customers on the Gold Coast who are big users of electricity in particular air-conditioning.

HJ, Powershop:

Powershop agreed with other comments that increasing the amount to \$520 will mean customers' debt will grow. Retailers' debt will also grow and will ultimately feed into the price of electricity. This will be felt across the customer base.

AM, M2/Dodo:

In M2/Dodo's experience customers who do not engage are often the most expensive customers to service. M2/Dodo believes increasing the amount will just exacerbate the problem.

It agreed with other comments that for these customers a retailer often only gets engagement where they disconnect. The problem may only become apparent if the power goes off or the distributor visits the property for example the customer is not receiving their mail.

It is a matter of finding that balance between social and corporate responsibility.

JL, PIAC:

An issue for consideration is whether the other protections in the Rules have been working as we think they should be and whether retailers are as close to best practice as they could be.

PIAC thinks the minimum disconnection protection should be stronger, especially in the broader context of increasing energy prices and given disconnection operates as a last resort.

SP, AER thanked attendees for their insights. Forum concluded at 11.35am.