



AER Issues Paper

Developing National
Hardship Indicators

QCROSS Submission

June 4th, 2010

About QCOSS

Queensland Council of Social Service (QCOSS) is the peak body for over 600 welfare and community sector organisations in Queensland. For over 50 years QCOSS has worked to promote social justice and exists to provide a voice for Queenslanders affected by poverty and inequality. We act as a State-wide Council that leads on issues of significance to the social, community and health sectors. We work for a Fair Queensland and develop and advocate socially, economically and environmentally responsible public policy and action by community, government and business.

The Queensland Department of Mines and Energy (DME) and the Queensland Department of Justice and Attorney-General (DJAG) have funded QCOSS for an energy consumer advocacy project in Queensland. The objective of the QCOSS Energy Consumer Advocacy Project is to examine and provide input into Queensland Government energy policies and where relevant the relationship to national energy policy, with a particular focus on the needs of low income and vulnerable households.

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Contents

Our submission has six elements:

1. A discussion of a direction for developing effective hardship program indicators
2. What effective hardship program indicators should do
3. Responses to the questions raised in the AER Issues Paper
4. A list of general recommendations
5. A list of recommendations related to the hardship program indicators, and
6. A proposed set of national hardship program indicators.

A direction for effective hardship program indicators

To begin, we need to be clear about what 'hardship' means in the energy retail market context. In this situation hardship is really referring to customers having difficulty paying energy bills, and what this payment difficulty might mean (such as an increase in debt levels or a possible disconnection for failure to pay). This is the only form of hardship that retailers would be expected to identify. Hardship obviously has a much wider meaning, and many customers having difficulty paying energy bills will have other sources of hardship. Some customers will also be paying energy bills but experiencing hardship in other ways. Hardship in the context of the energy retail market is therefore limited and any customer numbers that are reported through retailer hardship program indicators will be a subset of the customers in hardship.

Payment difficulties can manifest as debt (measured as any dollar amount that is more than 90 days outstanding). For payment difficulties in the energy retail market we are referring to 'energy bill debt'. If we want to examine the extent and depth of customers having payment difficulties, then one of the first things we will need to examine is energy bill debt.

In terms of the scope of the ‘national hardship indicators’, both the AER Issues Paper and NECF2 limit the scope of the indicators to retailer hardship programs. This scope is acceptable provided there are other performance indicators that examine the wider extent of customers in difficulty and the AER also provides information that can place the hardship program indicators in a meaningful context. We do recommend a name change to “national hardship program indicators” to reflect this scope.

In applying this scope we must recognise that the hardship program indicators should not be considered in isolation, and that meaningful comparisons cannot be made between the hardship program indicators of each retailer. Each hardship program will operate under different conditions and these conditions alone can dictate variations in data.

As an example, consider indicators for entry into a hardship program and for a successful completion. This data will be influenced by how each retailer addresses payment difficulties across all customers. A successful approach to hardship from one retailer might identify and assist customers early in the debt cycle, preventing debt from accumulating. This approach could lead to relatively fewer customers on a hardship program. However, it may also lead to a high proportion of hardship program participants with long term payment issues since many of the customers with short term difficulties would be assisted outside the hardship program. Therefore, the rate of successful completions for participants in that retailer’s program may be relatively low.

In comparison, another retailer may provide much less early assistance to customers in payment difficulties. Such a retailer would be expected to have a much higher rate of both hardship program participants and successful completions from the program, since customers with short term difficulties would only access assistance through the hardship program. A straight comparison between hardship program indicators for these retailers would therefore be meaningless.

Finally, we need to consider what we want the energy retailers to do about hardship in the energy retail market and how we might judge retailer performance in this respect. In essence, we want the retailers to provide assistance to customers experiencing difficulties paying energy bills, and we will judge retailer performance in two main areas:

- Are retailers providing assistance to **enough** customers, both through the hardship program and through assistance measures outside the hardship program?
- Is the assistance being provided by a particular measure or program **successful** or effective in some way?

The judgement on whether retailers are providing enough assistance to customers through the hardship program depends on a wider context. Specifically:

- what is happening at an economy wide level
- what is happening across the energy retail market
- what is happening in the retailer’s customer base, and
- the assistance measures being provided to customers outside the hardship program.

Effective hardship program indicators?

To be considered effective hardship program indicators should (as a minimum):

- measure the number of customers receiving assistance through the hardship program
- measure the success or effectiveness of the hardship program in assisting customers to reach a position where they have the opportunity to manage ongoing energy bills, and
- reference various measures of the wider context for the retailer's hardship program.

There is a specific indicator in the AER Issues Paper for the number of customers in the hardship program at the end of each period. This is a suitable measure for the number of customers receiving assistance through the hardship program.

In terms of trying to measure the success of a hardship program, two situations would be considered a success from a customer perspective:

- a customer is able to stay on the hardship program (able to meet the requirements), and
- a customer is able to successfully complete the hardship program, and has the opportunity to manage ongoing energy bill payments.

Therefore, a success rate measure using hardship indicators might be:

$$\frac{(\text{customers in program at end of period} + \text{customers successfully completing during the period})}{(\text{customers in program at end of last period} + \text{customers entering program during the period})}$$

This would measure the rate at which existing and new participants are able to either complete the program or to stay on the program. It would not be a perfect indicator of success, but would place a focus on the most positive outcomes from the hardship program. This success rate measure could be included as a separate indicator.

The measures for the wider context for a hardship program should cover four main areas.

Economy wide conditions

These conditions will need to be highlighted by the AER in the retail market performance report. Of particular importance is the energy affordability report. This is the appropriate vehicle for the AER to highlight the socio-economic conditions in which the retail market must operate.

The types of information that should be included in the energy affordability report, many of which will be available from other information sources including the Australian Bureau of Statistics, are:

- measures of the affordability of a range of essential services, including energy, food and shelter; if the prices of essential services are increasing faster than incomes, then energy affordability in the coming year will be worse even if energy prices do not increase

- measures of the proportion of annual income, for various income groups, spent on energy (to source this information the AER should consider funding surveys by the ABS on household expenditure on energy; this information is already captured through the Household Expenditure Survey but this survey is infrequent)
- personal income measures including government benefit levels, and
- economic measures including unemployment, interest rates, and GDP.

State of the energy retail market

One of the functions of the retail market performance report will be to describe the energy retail market. This will include measures of customer numbers by retailer, transfers between retailers, market and standard retail contracts, and price information.

In addition, the energy affordability report must include some of the most fundamental information including:

- an assessment of the impact of price rises in energy on low income and vulnerable consumers, and
- existing information on the availability and take-up of government energy concessions, government energy grants or subsidies, and other relevant third party programs and measures including no interest loans schemes, government funded energy audits, appliance replacement schemes, and the availability and use of financial counselling resources in each jurisdiction.

Given the importance of the energy affordability report, the AER should consult with stakeholders on the content and approach of the energy affordability report.

The AER should also report on energy bill debt levels across the market. This would provide essential information for judging the state of the energy retail market. The data should be reported by ‘tiers’ of customer numbers in energy bill debt. This approach would provide both the number and depth of customers in energy bill debt. Suggested indicators to provide context for payment difficulties are:

Indicator	Measure
# of customers, total	At end of period
# of customers in credit, total	At end of period; need definition of credit.
# of customers in energy bill debt, total	At end of period <ul style="list-style-type: none"> • debt = \$ owing that is > 90 days past due
# with energy bill debt > \$1,500	
# with energy bill debt > \$500 <= \$1,500	
# with energy bill debt > \$0 <= \$500	

State of the retailer’s customer base

To examine the extent of payment difficulties in a retailer’s customer base we need to examine energy bill debt levels. The indicators listed above should therefore be reported by retailer in each jurisdiction. This information would provide essential context for judging the extent of assistance provided by retailers to customers in payment difficulties.

Assistance available and assistance provided outside the hardship program

The range of measures that might be offered to a customer in payment difficulty, but who is not in the hardship program, should be included in the overall set of performance indicators. The AER can then publicly report on the indicators to provide additional context and to allow for a judgement to be made on whether retailers are providing assistance to enough customers. The assistance measures outside the hardship program might include:

- payment extensions
- payment plans
- referrals to financial counselling services
- successful applications for a government energy grant or subsidy, and
- tariff re-assignment resulting in a lower energy bill.

Form and presentation of the publicly released retail market performance report

Collecting and reporting on the wide range of contextual data outlined above will be largely pointless if the information is not presented in a way that allows for a meaningful assessment of both absolute and relative performance by retailers. Ideally, the AER will consult with stakeholders on the form and presentation of the public reports, especially with reference to the public reporting of hardship program indicators.

Responses to the questions in the AER Issues Paper

Question 1

- An additional purpose of the national hardship program indicators should be “providing data to interested stakeholders to allow for secondary data analysis”. This purpose also applies to the wider set of performance indicators. The published data from the performance indicators should be available in electronic form to any interested stakeholder.

Questions 2 & 3

- The indicator on the total number of customers on the hardship program should be included.
- Each hardship program will be different. To allow for this, where there is uncertainty each retailer should be able to develop their own definitions for the hardship program indicators. However, the definitions must be included when providing indicator data to the AER and they must be publicly reported. The hardship program indicators will not be directly comparable between retailers, so variations in some definitions would not be a concern.
- The hardship program customers should be split into different fuel types. This would mean that a single customer that is in the hardship program for both electricity and gas would be reported twice. This is the most consistent approach, since a customer with a different retailer for electricity and gas could already be in both hardship programs and would already be reported twice.
- It is possible to decide if indicator data should be collected either at a specific point in time or collected as a cumulative measure across a period. For data that is collected at a single point in time (such as customers in the hardship program), the point in time should be the end of the period. This should be consistent across all the

performance indicators. In the case of the hardship program, the data would be collected monthly and the relevant data would be the last day of the month. The cumulative measure is self-explanatory (and would include the indicator for the number of customers entering the hardship program during the month).

- The retailers should collect all the hardship program indicators on a monthly basis, and report these to the AER quarterly.
- The AER should then publicly report some of the performance indicators on a quarterly basis. Of the hardship program indicators, those to be publicly reported quarterly by the AER should include:
 - Customers in the program (at the end of each month)
 - Customers entering the program (during the month)
 - Customers successfully completing the program (during the month).

Questions 4 & 5

- The indicator on hardship program customers receiving a government energy concession should be included. However, it needs to be much more specific.
 - It should refer to customers receiving a government energy concession where that concession is delivered in some way by the retailer. We should expect the retailer to check that the customer is eligible for an ongoing government energy concession, but we should not expect a retailer to record information on concession card status where that is not relevant to the energy retail market. Nor should we expect the customer to volunteer this information.
 - It should also refer to an ongoing government energy concession rather than a once-off government grant or subsidy.

Questions 6 & 7

- The indicator on the number of customers entering the hardship program should be included.

Question 8

- The indicator on third party referrals need not be included. The current indicator is ambiguous in terms of retailer performance. However, there are options for how positive third party relationships can be reported.
 - Under our proposal a retailer would have the option to report on any assistance provided to customers in the hardship program. Retailers would have an incentive to report on any positive relationships with third parties that they have, including financial counsellors. There would also be scope to report on access to third party resources once a customer is on a hardship program.
 - Our proposal also includes reporting on the assistance provided to customers before they enter the hardship program. One of the forms of assistance to report against would be access to financial counselling or other third party resources.

Questions 9 & 10

- The indicator on customers denied access need not be included.
 - There is uncertainty about what ‘denied access’ means, and how it might be tracked and recorded. Most importantly, the focus should be on the number of customers receiving assistance from the retailer overall. Are enough customers receiving assistance, given the context for payment difficulties?

Questions 11 & 12

- Realistically, the proposed indicators for measuring entry into hardship programs are not very effective. To be truly effective ‘entry’ indicators would be able to measure the customers who should be on a hardship program but are not, and the customers who try to gain access to a retailer hardship program but are never referred to the hardship team. These customers need to be identified outside the performance indicators, and the AER could instigate some customer focused research to examine this issue.
- Within the scope of performance reporting indicators, the proposed indicators are largely effective. It would be preferable to focus on measures of success rather than examining entry, participation and exit in isolation. Our submission includes a proposed measure of success.

Questions 13 & 14

- The indicator on average debt on entry to the hardship program should be included.
- In addition, to examine whether the average debt figure is skewed by a handful of large energy bill debts, an indicator on the number of customers entering the hardship program with > \$1,500 of energy bill debt should be added.
- We agree that debt can be defined as any \$ amounts that are more than 90 days outstanding.
- However, in this context we should be referring to “energy bill debt” specifically rather than the much broader measure of debt.

Questions 15 & 16

- The indicator on average debt upon exit need not be included. It is open to interpretation as to what the indicator might mean. It will also be incorrectly compared to average debt upon entry, irrespective of warnings that this is inappropriate.
- As an alternative, we propose to focus on measures of success of the program. As part of this approach, an alternative indicator would be the number of customers successfully completing the hardship program with debt = \$0. This is the outcome that we all want for customers on the hardship program, and that should be measured directly.
- We are also proposing that some form of energy debt profile is available for each retailer. Customers that exit the hardship program with energy bill debt, and remain as a customer of the retailer, would be reflected in the energy debt profile for the retailer.

Question 17

- We agree that the indicator on the average length of participation in the hardship program need not be included.
- However, it should be replaced with an alternative indicator measuring the number of customers that have been on the hardship program continuously for more than 2 years.
 - This would partly measure the proportion of customers on the hardship program that require ongoing assistance. A high or increasing proportion would prompt further investigation, since there may be a wider energy affordability issue.

Question 18

- We propose an alternative approach. The number of customers successfully exiting from the program, in agreement with the retailer, should be directly measured. This is what we want all customers on the hardship program to eventually accomplish. From this and other indicators it will then be possible to derive unsuccessful exits.
- However, the indicator on the number of customers excluded from the program for non-compliance should be retained. This indicator provides useful information. A high rate would be cause for further investigation.

Questions 19 & 20

- The indicator on the number of disconnections for failure to pay where the customer was in the hardship program at some point in the last 24 months should be included. A high number would prompt further investigation.

Question 21

- The indicator on the number of reconnections within 7 days, same name and address, following a disconnection for failure to pay where the customer was in the hardship program at some point in the last 24 months, should be included.

Questions 22, 23, 24 & 25

- Indicators on the assistance provided to customers on the hardship program should be included. Rather than specify the assistance, retailers should be allowed to self-report on the assistance they provide in the program.
 - To allow for differentiation between hardship programs, retailers would also be allowed to define the assistance they provide. For example, a retailer conducting lengthy energy audits would be able to report against the average time taken rather than against a generic energy audit indicator.
 - The self-reporting would be measured against the hardship customer base, and against the number of customers to which the assistance was available (to avoid over-reporting on pilot programs or the like).
 - The extent and type of assistance provided, or lack thereof, could then be judged by stakeholders.

- Indicators should also be included on the assistance provided to customers before they enter the hardship program.
 - These indicators would provide context for the hardship program. For example, a retailer that provides early assistance to all customers in payment difficulties may have fewer customers in the hardship program, but would be able to report on all the early assistance provided.
 - The assistance measures that could be reported include:
 - Use of a flexible payment method (Centrepay, bill smoothing etc)
 - Re-assignment to a more suitable tariff, resulting in lower bills
 - Energy audits conducted
 - Payment extension applied
 - Use of a payment plan
 - Referrals to third party support services, including financial counselling
 - Ongoing government energy concessions identified and successfully applied to bill
 - Government energy grants or subsidies identified and application made
 - Successful application for a government energy grant or subsidy
- The hardship program indicators should not be examined in isolation. They should only be considered within the appropriate context (socio-economic, energy retail market, and the retailer's customer base), and against the other assistance measures that retailers might provide to customers having difficulty paying energy bills (payment extensions and payment plans).
- Rather than drawing on other information to help develop the national hardship program indicators, the AER should be focusing on sourcing other information that would help provide a suitable context for judging the assistance provided by retailers to customers experiencing payment difficulties.

Questions 26 & 27

- The critical point with the reporting requirements is having some of the performance indicators publicly reported on a more frequent basis. Annual public reporting is too long between information releases. It is essential that some of the performance indicators are publicly reported quarterly (this can be without commentary).
- In terms of the hardship program indicators, the minimum set that should be collected monthly by the retailers and publicly reported quarterly by the AER are:
 - # customers in the program, end of the month
 - # of customers entering the program, during the month
 - # of customers successfully completing the program, during the month.
- We agree that the other indicators do not need to be collected monthly, but this would be preferable.
- The performance indicators should be collected and reported to the AER by the retailer on a jurisdictional basis, but should also be aggregated to the national level. The primary public reporting would be at the jurisdictional level. However, it is possible to examine retailer performance on an aggregate national basis, so we should.
- The hardship program indicators should be collected separately by fuel type.

Question 28

- The AER should strongly consider the inclusion of anonymous case studies in the public reporting. The case studies selected should highlight where retailer assistance measures have helped customers that are experiencing payment difficulties. Anything that might encourage actions to provide additional or alternative assistance to customers in a hardship program should be supported. The case studies would also provide useful information about the energy retail market.

List of recommendations - general

- In this context, the term “national hardship indicators” should be replaced with “national hardship program indicators”. The term “debt” should also be replaced with the more accurate “energy bill debt”.
- The AER hold informal consultations with stakeholders on the content and approach of the energy affordability report.
- The AER consider funding surveys by the ABS on household expenditure on energy, similar to the infrequent Household Expenditure Survey.
- The AER include indicators for each retailer on energy debt levels by tier, and the AER publish this information by jurisdiction overall and for each retailer within a jurisdiction.
- The AER include performance indicators for each retailer on the range of assistance measures that can be offered to customers outside the hardship program that are also having payment difficulties.
- The AER hold informal consultations with stakeholders on the form and presentation of the public report. The hardship program indicators need to be presented within the wider context for each retailer, and without making direct relative comparisons between the hardship program indicators for different retailers.
- The AER make the published data from the performance indicators available in electronic form to any interested stakeholder, to allow for secondary data analysis.
- The AER allow retailers to provide their own definitions for some of the hardship program indicators. The definitions should be publicly reported.
- The AER require the retailers to collect hardship program indicators on a monthly basis.
- The AER publicly report some of the performance indicators on a quarterly basis. The minimum set of hardship program indicators that should be collected monthly by the retailers and publicly reported quarterly by the AER are:
 - # customers in the program, end of the month
 - # of customers entering the program, during the month
 - # of customers successfully completing the program, during the month.
- The AER plan to conduct some customer focused research on entry to retailer hardship programs, to identify the customers who should be on a hardship program but are not, and the customers who tried to gain access to a retailer hardship program but were never referred to the hardship team.
- The AER require each retailer to report the performance indicators to the AER on a jurisdictional basis, and also as aggregate national data.
- The AER require the hardship program indicators to be collected separately by fuel type.

List of recommendations – indicators

The following indicators from the AER Issues Paper should be included in the hardship program indicators:

- number of customers on the hardship program (end of month).
- hardship program customers in receipt of an ongoing government energy concession, where that ongoing concession is delivered in some way by the retailer (end of month).
- number of customers entering the hardship program (during the month).
- average debt on entry to the hardship program (average debt for those customers entering the program during the period).
- number of customers excluded from the program for non-compliance (during the period).
- number of disconnections for failure to pay where the customer was in the hardship program at some point in the last 24 months (during the period).
- number of reconnections within 7 days, same name and address, following a disconnection for failure to pay where the customer was in the hardship program at some point in the last 24 months (during the period).

The following indicators should be added to the hardship program indicators proposed by the AER in the Issues Paper:

- the number of customers entering the hardship program during the period with > \$1,500 of energy bill debt.
- the number of customers successfully completing the program, in agreement with the retailer.
- assistance provided to customers in the program, with retailers self-reporting.
- assistance provided to hardship program customers before they enter the hardship program.
- a measure of the success rate of the hardship program:
$$\frac{\text{\# customers successfully completing} + \text{\# customers in program at end of period}}{\text{\# customers in program at end of last period} + \text{\# customers entering the program}}$$

The following indicators need not be included or can be replaced with the suggested alternative:

- third party referrals to the hardship program can be replaced with two options:
 - reporting against the assistance provided to customers before they enter the hardship program, which would include access to financial counselling or other third party resources; and
 - allowing the retailers to self-report on the assistance provided to customers in the hardship program. Retailers would have an incentive to report on any positive relationships they have with financial counselling or other third party resources.
- the number of customers denied access need not be included. The focus should be on making a judgement on whether enough customers are receiving assistance given the context for payment difficulties in the energy retail market.

- the average debt upon exit can be replaced with an alternative:
 - the number of customers successfully completing a hardship program with \$0 debt. This is the outcome we all want for customers on a hardship program.
- the average length of participation in the hardship program should be replaced with an alternative indicator:
 - the number of customers that have been continuously on the hardship program for more than 2 years.

Proposed set of national hardship program indicators

Indicator	Measure
# customers on the program	At end of period
# of customers entering the program	During the period
# of customers successfully completing	During the period, in agreement with retailer
For customers entering the program: <ul style="list-style-type: none"> • Average energy bill debt in \$ • # with energy bill debt > \$1,500 	At point of entry, new customers during the period
For customers successfully completing: <ul style="list-style-type: none"> • # with energy bill debt = \$0 	During the period
A measure of success rate of program: $\frac{(\# \text{ successful completions} + \# \text{ in program end of period})}{(\# \text{ in program at end of last period} + \# \text{ new customers})}$	At end of period
# of customers on program receiving an ongoing government energy concession	At end of period
# of customers excluded from the program for non-compliance	During the period
# of customers on program for > 2 years	At end of period; continuous participation
# of disconnections for failure to pay <ul style="list-style-type: none"> • On hardship program in last 24 months • # of reconnections in same name and address within 7 days 	At end of period
Assistance provided to customers in the 12 months before entering the program, including: <ul style="list-style-type: none"> • Use of a flexible payment method, payment extension applied, use of a payment plan, once-off government energy grant/subsidy approved, energy audits conducted, and financial counselling resources provided. 	At point of entry, new customers
Assistance provided to customers in the hardship program <ul style="list-style-type: none"> • Self-report on assistance measures provided 	During the period. Report for both the % of customers in the hardship program and the % of customers to which assistance was available