



TRUenergy Pty Ltd  
ABN 99 086 014 968

Level 33, 385 Bourke Street  
Melbourne Victoria 3000  
Telephone +61 3 8628 1000  
Facsimile +61 3 8628 1050

enq@truenergy.com.au  
www.truenergy.com.au

20 August 2010

Australian Energy Regulator - Markets Branch  
GPO Box 520  
Melbourne VIC 3001

[AERInquiry@aer.gov.au](mailto:AERInquiry@aer.gov.au)

Dear Sir/Madam

**RE: Australian Energy Regulator's Retail Market Performance Reporting Issues Paper**

TRUenergy welcomes the opportunity to provide the following comments in relation to the Australian Energy Regulator's (AER) Retail Market Performance Reporting Issues Paper.

**Overview**

In establishing performance indicators for retail businesses operating under the National Energy Customer Framework (NECF) TRUenergy believes that there must be clear objectives about the performance the AER expects from retailers.

Specifically, the AER should:

- Establish clear benchmark indicators;
- Design 'ground up' reporting obligations, and;
- Consider the cost/benefit trade off

**Establish clear performance indicators**

In establishing benchmark performance indicators (benchmarks) clear AER definition is required as to what a competent business should achieve in relation to the performance standards of its retail operations, and specifically those associated with billing, sales/marketing, hardship, dispute resolution and customer service.

TRUenergy believes the only way the AER can meaningfully provide the "holistic commentary on the energy retail market and the businesses operating in it" is with the aid of clear benchmarks. Without such established benchmarks TRUenergy struggles to see how the AER can accurately assess the performance of the retailers.

In establishing such benchmarks, TRUenergy believes data collection is limited to, and simplified for, that which is integral to demonstrating whether the retail businesses are performing effectively. If the data cannot validate whether retailers' performance is effective there is little justification for the AER to require retailers to monitor and report.

## **Design 'ground up' performance reporting obligations**

TRUenergy believes this is an important opportunity to design an effective and efficient performance reporting regime.

TRUenergy of the view that an effective performance monitoring regime emphasises that it is in retailers' interests to proactively report compliance breaches to the regulator. This positive assurance approach satisfies the regulators need for close to real time information on compliance breaches. This approach also compliments retailer objectives, given the significant detriment that can be brought to a retailer's brand through customer complaints and criticism in the media. In designing performance reporting obligations, therefore, TRUenergy believes that establishing practices which encourage retailers to be proactive in reporting non compliance is more effective as a reporting and management tool than the performance monitoring interval.

The importance of compliance reporting is to understand what's not working as early as possible. In this the AER and the retailers have aligned objectives. In order to make compliance reporting effective and efficient, TRUenergy does not believe that such frequent reporting as quarterly reporting is necessary or appropriate. It is likely that quarterly reporting could not demonstrate such a major change between quarters to warrant its cost, nor would it provide the necessary alignment between retailers and AER's compliance reporting objectives.

### **Consider the cost/benefit trade off**

The additional cost of any of the performance monitoring requirements should be considered, especially as the customer ends up generally paying for such costs. To this end, the AER must establish not only the additional benefits that will come from requiring retailers to report on a specific obligation, but how such data will better demonstrate that retailers and retail markets are operating effectively.

In considering costs associated with performance monitoring, TRUenergy would also highlight the significant additional costs if the AER was to require retailers to report quarterly as has been proposed. Based on the number of markets TRUenergy currently operates in, it is likely that the preparation of the data for both the retail market overview and retail activities review would at a minimum require a doubling of staff.

### **Retail Market Overview**

In monitoring the performance of the market TRUenergy does not believe that the approach used by the AER to monitor the NEM is in fact a useful starting point.

In monitoring of wholesale markets, the price of energy provides a very transparent indication about market performance. Due to the volatility of wholesale energy markets and the considerable financial risks at stake, TRUenergy understands that quarterly reporting is desirable. However in the retail market there are not the same financial risks or volatility to warrant such frequent reporting.

Whilst recognising the purpose of the measures outlined in the Issues Paper, TRUenergy struggles to follow the rationale as to why the AER needs to report quarterly. TRUenergy is firmly of the opinion that there would be such marginal benefit in requiring retailers to report on a quarterly basis on market performance to render it unlikely that such reporting would highlight market performance that would warrant the AER's concern.

Designing an effective and efficient reporting regime is not just about reducing the reporting interval. In light of the significant additional costs associated with quarterly reporting, TRUenergy believes that the AER needs to provide further justification around the benefits for end customers in the next round of consultation.

### **Customer Numbers**

TRUenergy acknowledges the intent behind requiring retailers to report on customer numbers, however this is market sensitive information, especially for public companies. If the AER

demonstrates an obligation to report customer numbers and market share the sensitivity of this data and coordination of its release with the respective businesses must become an obligation upon the AER.

#### Customer Transfers

In reporting on customer transfer numbers, TRUenergy has in the past been concerned with the inaccuracy of the customer transfer data provided by AEMO and whilst TRUenergy understands that changes have been made to improve the quality of this data, as outlined in the Issues Paper further changes are needed to address this. TRUenergy supports the AER investigating making the necessary changes to the way AEMO reports on customer churn so as the AER could source the data directly from AEMO.

#### Retailer Activity

In collecting data about market activity, TRUenergy does not support the AER's proposal to report on retailer activity. Such reporting could lead to confusion without clear definition of what an active retailer is and how this definition relates to marketing activity.

#### Indicator Definitions

In reporting against such indicators relating to the retail market overview and the retail market activities review, TRUenergy would endorse the views expressed at the Public Forum for the AER to assess the definition of the indicators currently used by jurisdictional regulators and then use these as a basis for developing national ones. TRUenergy also supports the suggestion of the AER producing a glossary to assist retailers to report on such indicators.

### **Energy Affordability**

The very term energy affordability implies that somehow this can be addressed in isolation. TRUenergy acknowledges under Rule 1002 (e) the AER is required to produce a report on energy affordability. TRUenergy believes such a report is needed to provide an objective analysis of the issue of energy affordability, however is firmly of the view that the report should not attempt to propose any policy solutions.

The biggest issue in preparing such a report is that affordability is a function of income and consumption and energy costs, not just the absolute cost of energy. While energy is an essential service for households it is important to recognise that if customers are struggling to pay their energy bills then they are most likely having difficulties paying for other basics such as housing, food, water, telecommunications and transport. As such, TRUenergy believes that the report will inevitably have to assess household income, an assessment which is beyond the AER's oversight of the energy markets.

This is an important issue, and TRUenergys view is that such a report should either produced by an external body such as the Australian Institute for Health and Welfare, the Institute for Social Welfare or their equivalent, either in conjunction with the AER or on its behalf. These organisations' core competencies are in analysing the needs and position of those vulnerable or potentially vulnerable in the community to missing out on basic services, and they have a more comprehensive view about affordability and household earnings. As highlighted in the Issues Paper there are a number of existing sources of data which could also be used in producing such a report including the Australian Bureau of Statistics, the Victorian Department of Human Services and The Independent Pricing and Regulatory Tribunal.

TRUenergy also believes the report should also provide an analysis and overview of what the customer is funding in terms of auxiliary cost that is not just in terms of the lowest benchmark cost of energy and services (retail, distribution and transmission) but also other government policies such as interval metering rollouts, energy efficiency targets and renewable energy targets.

At the Public Forum on the Issues Paper it was proposed that an affordability benchmark could be established which could ensure that households spent no more than 8% of household income on energy. Such a benchmark can not take account of all household circumstances nor of their energy needs given energy consumption varies so greatly across the country due to issues such as appliance mix, climate, housing type and household size.

In producing such a report, TRUenergy would be concerned about contributing confidential data on customer debt. Because the level of customer debt is influenced by many factors, including the broader economic environment, the level of community service obligations and other costs in the energy supply chain TRUenergy does not believe such information can provide any insight into retailer performance. TRUenergy remains confused about the purpose for collecting this data and what possible conclusions could be drawn about a retailer's performance simply on the basis of its level of customer debt?

TRUenergy does not support the inclusion of case studies. Retailers are concerned about misrepresentation and previously TRUenergy has been disappointed by reports which bias, or only use, case studies highlighting exclusively customers with bad customer experiences, even though this is not representative of general practice. While case studies can provide a useful narrative into how retailers dealt with a particular situation, they cannot account for all circumstances or future experiences.

To fully understand and research the issues associated with energy affordability TRUenergy believes the report would to be published on either a yearly or a two yearly basis.

### **Retail Market Activities Review**

In reporting on the on retailer activities TRUenergy has the following comments:

#### **Payment plan arrangements**

As previously raised in the AER's Public Forum on Developing National Hardship Indicators, TRUenergy considers that it would be inaccurate to assess access to a retailer's repayment plans simply on the basis of the number of customers on repayment plans. In establishing a customer on a payment arrangement TRUenergy believes that it is important that the customers are making progress against their outstanding debt, as well as meeting the costs of new consumption.

TRUenergy believes that the customer's preparedness to engage with their retailer is likely to have a strong influence in terms of the number of customers who are offered a payment plan arrangements and therefore struggles to see how in looking at the total number of payment plan arrangements that the AER can possibly either quantitatively or qualitatively measure access to a retailer's payment plan arrangements.

#### **24 month time frame for performance indicators**

As stated in its submission to the Australian Energy Regulator's Developing National Hardship Indicators Issues Paper, TRUenergy does not see the worth in requiring retailers to report on indicators relating to the customers previous 24 months on the basis that its too long a timeframe, much in a customer's life can change over such a period of time, and no party has demonstrated a practical purpose for this.

#### **Disconnections**

TRUenergy believes the issues of disconnections and excessive customer debt is relevant to the AER's report on hardship. However in reporting on these two measures TRUenergy would highlight that these two measure are interrelated, in that if retailers are expected to ensure customers do not accrue excessive debt then this is inevitably going to have some bearing on the number of customers being disconnected and vice versa. TRUenergy is of the belief that if the AER is going to monitor retailer performance in these areas it must provide them with a clear direction about about how it expects retailers to perform.

In requiring retailers to report on the level of disconnections TRUenergy would reiterate that retailers depend on the customer approaching them for assistance and that retailers do not have the systems which are able to identify which customers may be in hardship and those that are not. Because of this TRUenergy believes it is simplistic to assess the level of support offered by retailers only by looking at the retailer performance monitoring data.

Disconnections data that the AER collects should be correlated with distributor performance. There is a correlative dissonance between access to meters for reading being in the order of 90 percent and access to meters for disconnection being in the low 60's. Distributor failure to disconnect may be accounted for by split incentives or other causes, however there is no doubt this low disconnection

rate contributes to the high number of customers who accrue unpaid debt and continue to receive supply and avoid contact with their retailer to address it. Further AER analysis is required in this regard.

#### Small Business Disconnections

TRUenergy does not support the reporting of small businesses disconnections. While energy is an essential service for household customers, for both small businesses and large businesses energy is a key input cost and should be defined as such, no more essential to a pie shop than pies are.

What is the practical purpose of such a measure given the large number of small businesses that fail each year. In analysing the number of small business disconnections, TRUenergy does not believe that it would be possible to differentiate or validate either retailer practices or small businesses which were either not economically viable or poorly managed.

#### Direct Debit

The level of direct debit cancellations does not necessarily correlate with a customer being in hardship. Direct debit arrangements are cancelled for a number of reasons, some of which are related to the financial circumstances of the customer and some of which are related to their administrative arrangements. TRUenergy is of view that because retailers are not always able to identify the cause of the direct debit cancellation, requiring retailers to report on them is unlikely to provide any particular insight into retailer performance.

#### Credit Card Payments

TRUenergy does not support the assertion made in the Public Forum that the number of customer who pay via credit card provides insight into the number of customers who may potentially be in hardship. Because most products TRUenergy offers enable customers to pay their bills in a number of ways, for many customers using their credit card is the preferred payment option.

As well as this, from time to time retailers offer specific promotions which stipulate that the customer must pay by credit card in order to be eligible for the offer. TRUenergy therefore questions the value of analysis based upon reporting on the number of customer who pay by credit card.

#### Call centre Performance

In markets where customers can choose their retailer, TRUenergy maintains that call centre performance is not a relevant quantitative reporting indicator. TRUenergy is of the view that the ability to answer calls within a certain period of time is an insufficient measure to assess whether a retailer customer service in its entirety is good or bad. TRUenergy believes that in those markets where there is retailer contestability, customers are ultimate judges of customer service in that if they are not happy with the level of service, they can and do change retailer.

Should you have any questions in relation to this submission please feel free to give me a call on (03) 8628 1185.

Yours sincerely

Alastair Phillips  
Regulatory Manager  
TRUenergy