



25 January 2012

Dr Ron Ben-David
Chairperson
Essential Services Commission of Victoria
Level, 2 35 Spring Street
MELBOURNE VIC 3000

Re: Performance Indicators for Customer Service

Dear Dr Ben-David

Thank you for the opportunity to respond to the concerns raised by the Essential Services Commission (ESC) regarding Australian Power and Gas (APG) performance against several key areas of the 2010-11 Retailer Comparative Performance Report (the Report).

1. Disconnections and Reconnections

As stated in the Report, disconnections industry-wide have increased for electricity customers in 2010-11 as compared to previous years. APG acknowledges that it is a contributor to this industry trend. APG steadfastly maintains that disconnection of a customer's electricity and/or gas supply is an action of last resort to seek engagement and payment from a customer.

We understand from its 2009-2010 Comparative Report that the ESC acknowledges the difficulties retailers face in managing customers that do not pay their bills and that retailers are often left with no other option but to disconnect unpaying customers. Data from our recent Retailer Audit further highlights the challenges faced by APG when attempting to engage with unpaying customers. Of the sample used to review our compliance regarding the disconnection of supply, 64% of customers did not respond to APG's repeated attempts to discuss their outstanding energy debt before the disconnection was threatened or actioned.

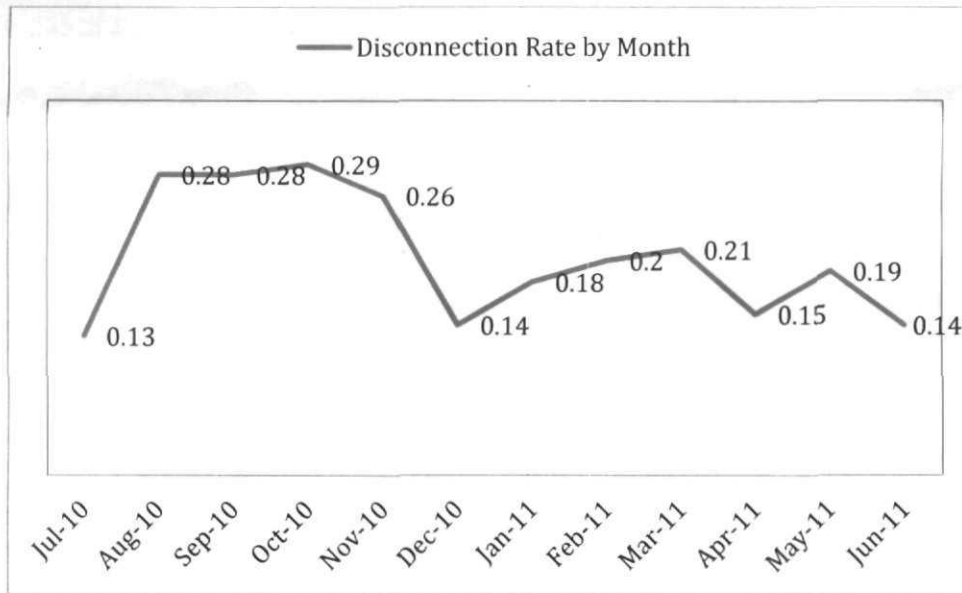
It remains in our best interest to engage with and support customers in determining with them how they can best meet their energy consumption. While we have experienced an increase in disconnections, many customers being reconnected are participating in our Hardship Program. Participation in our Hardship Program has increased substantially between January 2011 and June 2011. Additionally, we continue to improve our credit processes to establish payment plans with customers who may not be in hardship but may need a plan for paying arrears. In principle, we do not believe that allowing customers to accumulate high rates of debt to maintain their energy service is in their best interest and continue to seek improvement in our policies and processes to assist customers with their energy bills.

APG has previously raised concerns about the methodology the ESC utilizes to calculate the disconnection rate per hundred customers, and that this methodology appears to negatively

represent those retailers with a high volume of growth. The data as presented in the Report suggests that over the period we had disconnections of 2.41% of our customer base. If the ESC presented our monthly disconnections as a percentage of the monthly customer numbers, our disconnection percentages were significantly lower.

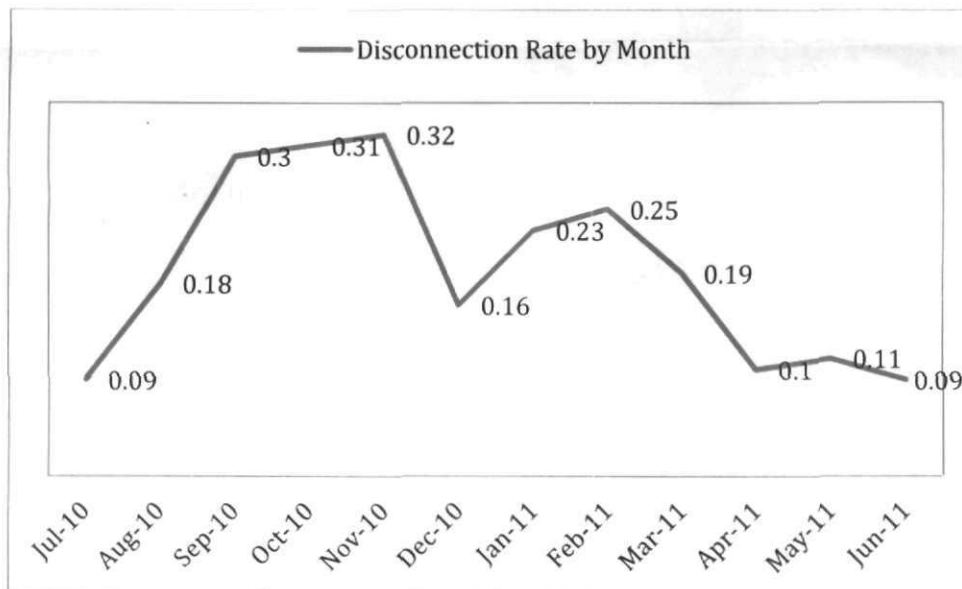
APG has performed its own calculations using the total number of customers disconnected in each of the months for the period covered by the Report. We have determined the percentage of our total customer base for each fuel based on the total customer numbers at the end of each of these months. As displayed in Figure 1, APG's disconnection rates for electricity customers on a month by month basis ranged between 0.13 and 0.29%.

Figure 1: APG Disconnections by Month – Electricity



As displayed in Figure 2, APG's disconnection rates for gas customers on a month by month basis ranged between 0.09 and 0.32%.

Figure 2: APG Disconnections by Month – Gas



While we may not agree with how the calculations by the ESC are generated, we do acknowledge that our disconnection levels are up, consistent with what we understand to be an industry trend. Regrettably, disconnection is a last resort action used in order to be able to engage with customers, assess their capacity to pay and offer them needed assistance.

In response to the query as to why APG has a higher than average reconnection rate for disconnected customers at the same address, as a practice, APG requires a low percentage rate to be paid on outstanding debt in order for a customer to be reconnected. For customers without any indicators that they are in financial hardship, we only require 20% payment on outstanding debt for reconnection. For customers that cannot meet the 20% necessary, we conduct a Capacity to Pay assessment to determine if the person may qualify for our Hardship Program. If that Capacity to Pay indicates that they may be in hardship, they are reconnected and an individual, affordable payment plan is set up with the customer under the Hardship Program and information on government assistance (concessions) and financial counselling are offered. We believe that this practice may account for higher reconnection rates for persons disconnected.

2. Direct Debit Defaults

The increase in direct debit defaults appears to be indicative of an increase in affordability issues, which are industry-wide. This is supported by the ESC's own findings in relation to an increase in disconnections, as well as the increase in complaints referred to the Energy and Water Ombudsman of Victoria (EWOV) relating to payment difficulties and an apparent increase in the number of customers facing financial hardship during the financial year.

APG has reviewed the direct debit defaults indicators in the Report and there is no indication that the increase in this area have been caused by APG's systems or processes. It is our position that this increase is due to customers not ensuring that adequate funds are available at the time that APG attempted to withdraw the balance on the due date as indicated on the customer's invoice.

3. Customer Complaints

APG acknowledges that there has been a significant increase in complaints received during the reporting period. In acknowledging the increase, APG believes that there are several key factors that need to be considered in determining the cause for the increase in customer complaints:

- APG has seen a significant increase in its customer numbers over the reporting period. Electricity customer numbers increased from 79,008 in July 2010 to 112,234 in June 2011. Gas customer numbers increased from 63,475 in July 2010 to 95,411 in June 2011.
- An increase in the complexity of billing requirements in the Victorian market, with the increased rollout of Smart Meters and a significant increase in the installation of solar panels.
- Increased media coverage of issues around price increases, smart metering and concerns around door to door marketing.

It is evident from the increase in complaints received via EWOV and from the Report, that an increase in complaints is an industry trend. Of particular note is the increase in customers raising complaints about the increase in energy costs and affordability due to high energy bills.

Whilst APG believes that these external factors do have an impact on the number of customers that lodge a complaint, we have taken steps to increase customer satisfaction with the long term goal of a reduction in the number of customers lodging complaints both directly with us and with EWOV. These include:

- Improvements to our billing system to reduce billing errors and delays;
- The creation of a Customer Insight and Improvement team in our contact centre to better identify and respond to complaints unresolved during a customer's first call before the issue is referred to EWOV; and
- Increased access to our Hardship Program to better respond to customers experiencing financial difficulties, which is a significant cause of complaints as stated in EWOV's annual report.

APG appreciates the opportunity to respond to the concerns of the ESC in relation to its assessment of our performance in 2010-11. While a rapidly growing energy retailer, APG remains committed to providing high standards in service to our customers and to continue to seek improvement in our performance. If we can provide further information or respond to further requests, please let me know or please contact Hilary Priest on 02 8908 2714 or at hpriest@auspg.com.au.

Yours sincerely



James Myatt