YARRA VALLEY FUTURE WATER

RESPONSE TO ESSENTIAL SERVICES COMMISSION'S ENERGY HARDSHIP INQUIRY DRAFT REPORT

SUPPORTING CUSTOMERS, AVOIDING LABELS

OCTOBER 2015

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1. Introduction

The proposed regulatory framework in the Commission's Energy Hardship Inquiry Draft Report is premised on the objectives of avoiding debt, repaying debt, adopting leading practice in energy management and aligning energy consumption with affordability.

Yarra Valley Water commends the Commission on its objective of assisting customers in avoiding debt and repaying debt, as well as ensuring retailers adopt leading practice in energy management and aligning energy consumption with affordability.

Energy retailers and water retailers share the same vulnerable customers. Any initiatives or changes in how energy companies manage vulnerable and hardship customers will also impact their ability to pay water bills. Yarra Valley Water has put a great deal of effort into continually ensuring our processes and practices to support vulnerable customers are effective. As such Yarra Valley Water is an interested party in this review.

We support the intent of the Commission in creating a framework that will introduce a common position of good practice amongst all retailers and there are elements of this framework that will support this intent.

The draft report comprehensively explores the issues associated with the diversity and inconsistency of the current practices of energy retailers. It is effective in providing an encompassing review of the societal and community risks, including isolation and mental health that can be apparent when there is limited access to an essential utility service.

What we know through insights from organisations like Kildonan UnitingCare (Kildonan), with partnerships in customer support programs such as CareRing, is that the level of serious financial hardship being experienced in the community is increasing. Overall the cost of living has increased and utility bills have increased significantly since 2000. According to the Australian Council of Social Services report, Poverty in Australia 2014, 13.9 % of all Australians are living below the poverty line (2.5 million people), including over 600,000 children (17.7%) and 33.2% of those living below the poverty line have jobs. [1]

Kildonan noted through its consultation processes, that the demographic of customers at risk of, or currently experiencing financial hardship has changed, with debt collection agencies reporting that the percentage of 'middle-class debt' has doubled since 2009 to represent nearly 40% of cases.

Statistics provided to Yarra Valley Water from the CareRing program, highlight the severity of the issues for customers experiencing the more extreme end of financial hardship. Demographic profiles from CareRing noted that 89% of customers referred into the program cannot pay utility bills on time, 34% were unable to heat their homes in winter and 33% went without meals.[2]

Yarra Valley Water is supportive of the Commission reviewing the current framework and working towards pathways that ensure early identification and intervention for the financially vulnerable. The proposed framework has a clear focus on early identification and offers likely benefits to customers at risk of financial vulnerability where they have low or no debt, experiencing short term and intermediate financial difficulties and those who have the ability to reduce consumption and reasonably afford to cover costs.

From our understanding of the proposed assistance framework, it appears that it does not address customers experiencing more serious financial hardship. More specifically, a gap seems to exist for those customers who are engaged with their energy provider but have high levels of existing debt and/or customers who do not have the financial capacity to cover consumption costs.

Our experience has shown that, providing appropriate and targeted support to customers when they are in the early stages of vulnerability, provides the greatest opportunities to prevent them moving into hardship. However, those customers already in hardship require tailored assistance with respectful and engaging interactions that consider the individual circumstances of the customers, including payment plans that are based on what they can reasonably afford to pay.

In developing balanced support programs over the last 15 years, we have undertaken frequent consultation and collaboration with key community and advocacy groups including Kildonan, the Consumer Utility Action Centre, Consumer Action Law Centre, Financial Counselling Australia, Financial and Consumer Rights Council. Victorian Council of Social Service, Good Shepherd and AMES. This allows us to amend our programs to ensure we continue targeting our support appropriately in an ever changing environment.

A critical component of this support includes providing tangible assistance in reducing consumption where possible and linking customers into the appropriate support pathways through the government and the community sector. We also understand that this can result in increasing pressure to already stretched sectors, such as financial counsellors. To ensure we are being accountable for the load on the sector we partner with organisations such as Kildonan, to undertake and fund initiatives that provide more holistic "wrap around" support services to customers such as the service provided by the CareRing initiative.

The Commission has highlighted the need for energy retailers to support customers in reducing consumption. Recent technology in the energy space has enabled the creation of interactive in-home devices that would assist vulnerable customers more accurately understand their energy consumption, and the real time costs associated with this usage. Making such devices more readily available to vulnerable customers would be a tangible initiative to assist in managing consumption.

The proposed framework may be a significant step forward for utilities that have not been proactive in this space, but if it became the default approach (rather than a minimum requirement) we believe this could actually reduce the level of effective support available to the vulnerable.

Based on our experience and discussions with energy retailers and community welfare organisations, we believe there are five critical issues that are important to the success of the assistance framework:

Early Identification:

The intention of the paper is to ensure early identification and intervention and reducing debt accrual is relevant, valid and fully supported. We believe collaboration across the utility sector is a key element to its success and we would welcome the opportunity to be part of a working group to further explore the processes currently being proposed.

Customer Engagement:

Our experience has shown that early and continued customer engagement has been a key to the success of hardship programs. Respectful communications coupled with tangible support options, offered up front, have proven extremely successful. The automation and stepped nature of the current proposal runs the risk of a decline in customer engagement.

Inability to Meet Consumption (full or part):

While the intent of early identification is clear, the proposed structured framework does not appear to recognise that there are customers experiencing extreme financial hardship that are unable to reduce their consumption to a level where they can afford to pay the bill. This customer base is growing larger and the framework automatically moves customers to an ongoing cycle of disconnection. Our experience is that from the outset, with individual assessments of these customers and tailored plans that change with their ability to pay, they should not be disconnected from an essential service.

Current Hardship Programs:

There is a need to have a minimum standard to which all retailers must comply, however we caution that the proposed framework (a one size fits all approach) may stifle innovation and is unlikely to suit the most vulnerable customers. Hardship programs currently offered by tier 1 energy retailers and water utilities are flexible in nature and support the individual needs of each customer. Additional initiatives offered include (but are not limited to) payment matching, appliance swaps, home repairs and debt waiving, which provide real value to these customers. It is unclear whether these initiatives form part of the proposed framework. The removal of specific programs tailored to hardship customers would also increase pressure on the community sector.

Social Policy:

There is a host of well understood and long-term challenges for customers experiencing serious financial hardship, which would need to be addressed through a social policy framework. Implementing changes to the hardship programs without complementary changes to social policy around (but not limited to) energy concessions, income support, capital barriers for customers living in public, community and private rental properties, will result in increased financial and social pressures on customers experiencing serious financial hardship.

2. QUESTIONS FOR RESPONSE

Questions for response outlined in the draft paper

The Commission sought response to a series of questions as part of the consultation process.

The sections below contain Yarra Valley Water's responses to the questions outlined in section 8.1 of the draft report 'Energy Hardship Inquiry Draft Report.' Our responses are based on research undertaken in Australia, the United Kingdom, and the United States of America, consultation with customers and the community sector, and our experience in running utility customer support programs over the past 15 years.

2.1 Objectives

The proposed regulatory framework is premised on the objectives of avoiding debt, repaying debt, adopting leading practice in energy management and aligning energy consumption with affordability.

1. Are these objectives appropriate? Should any other objectives be considered?

We support the Commission's objective of assisting customers in avoiding debt and repaying debt, as well as ensuring retailers adopt leading practice in energy management and aligning energy consumption with affordability.

The proposed assistance framework provides benefits to customers at risk of financial vulnerability where they have:

- low or no debt,
- experiencing short term financial difficulties,
- intermediate financial difficulties and
- those who have the ability to reduce consumption to a level where they can afford to pay their bill.

We recognise the intent of the objectives to support customers in managing energy costs without the accumulation of debt. However the proposed framework does not address customers who are engaged with their energy provider but have high levels of existing debt and/or customers who cannot reduce their consumption any further to a point where they can cover the cost.

The objectives outlined have a targeted focus for retailers to manage debt and to use the alignment of consumption reduction to affordability as the key driver for customers to reduce their costs. It assumes that all customers, if provided with the correct advice, can manage the cost of ongoing consumption. The current objectives do not specifically address the needs of customers with systemic and long-term financial hardship.

Our experience and feedback from energy retailers, the community sector and customers, consistently reinforces there is a gap between the minimum usage requirement of customers and what they can reasonably afford to pay. This is despite relevant concessions, government grants, energy home visits, financial counselling and other support being provided. Some customers do not have the means or capacity to reduce the usage further due to factors such as large households, inefficient appliances and poor insulation which they cannot afford to replace, or do not have control over changing, e.g. rental properties.

Where vulnerable customers are disconnected or forced onto a supply capacity control agreement, there are associated risks to the retailer and the wider community. This includes issues around social isolation, increased risk of illness, including mental health and in the most serious cases, mortality.

We propose an additional objective for customers who are most vulnerable as a result of financial hardship. The objective is to ensure that customers experiencing systemic financial difficulties will not be placed on a supply capacity control agreement and will remain connected to this essential service where they:

- are engaged with their retailer
- all efforts have been met to reduce consumption and
- continue to make payments they can afford.

Our experience:

Extensive research conducted by multiple agencies confirms there is a significant segment of our customer base that experience long term financial difficulty.

The Victorian Water Industry conducted comprehensive research in 2013, commissioned by the Smart Water Fund, to explore the issues associated with vulnerable and hardship customers.

The overall aim of the research was to provide intelligence that would help shape effective and innovative strategies and programs to address current and future challenges in relation to financial hardship and vulnerability.

This research was comprehensive and the methodology included a literary review, surveys with over 1,300 customers, stakeholder and customer interviews and a two day innovation workshop with over 45 stakeholders.

The outcomes of this research were extensive with a series of key findings - this included the position that 42% of our community are vulnerable to financial hardship if one or more circumstances change and 15% are already experiencing financial difficulties. The research also indicated that customer rated energy and water equally as the second greatest priority in relation to bills in the home; however, they would present to energy with financial difficulties earlier than water.

This research indicated that, where customers had admitted to experiencing significant financial difficulties, the extent of that difficulty was largely ongoing, with 55% of respondents highlighting ongoing difficulties compared to 34% who noted it was temporary.[3]

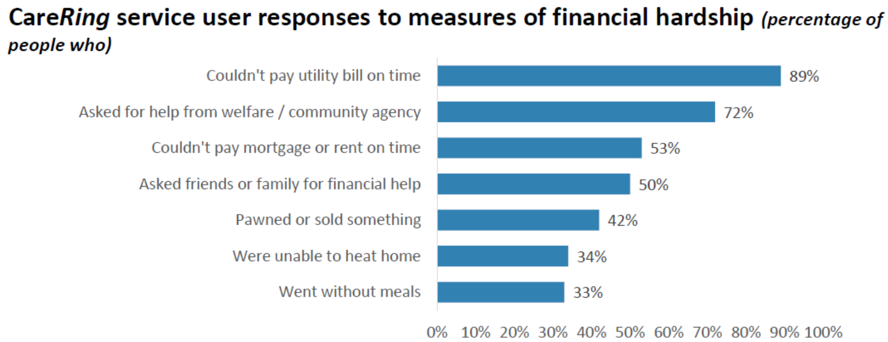
The Australian Council of Social Service also published a paper in 2012, which highlighted that 37% of people on social security payments live below the poverty line.

In addition a study conducted by the Salvation Army on the cost of living impacts on customers experiencing hardship also showed that:

- 58% of respondents are unable to pay utility bills on time
- 92% of respondents have little or no savings in case of an emergency
- 51% of respondents have gone without meals. [4]

Through our partnerships with the CareRing program, Yarra Valley Water receives quarterly reports that provide top line de-identified demographic and socio-economic profiling data that looks at relevant factors associated to customers who are referred into the CareRing support service. These reports consistently indicate that customers who have debt with water are presenting with increasingly greater instances of high complexity issues and there is a high probability they are also experiencing difficulties with energy.

The chart below shows the decisions customers in financial hardship make and the impact they experience as a result. [2]



The evidence from the research above supports the need for an additional objective that addresses customers experiencing ongoing financial hardship.

2.2 Incentives

The current regulatory framework provides the wrong incentives and opportunities. Outcomes for customers and retailers are uncertain.

2. Does the proposed framework adequately address incentives and opportunities to avoid and reduce customer debt and limit disconnections? What other measures could be considered to provide the right incentives and opportunities?

The proposed assistance framework may be effective as a minimum option for all retailers, in providing some useful incentives where a customer is at low risk or short term financial hardship, who would benefit from an extension or short term payment plan. As discussed above, the objectives and consequently this framework, need to address customers experiencing long term systemic financial hardship.

The proposed framework has a series of compulsory automated steps for retailers and customers to follow irrespective of whether it is suitable to their individual circumstances.

Our experience with managing vulnerable and hardship customers has found that customers who are engaged with the solution which is tailored to meet their individual circumstances, are much more likely to reduce their debt and transition back to mainstream.

While the framework may contain an appropriate option, the linear steps are likely to result in cases where customers are unnecessarily placed on arrangements that do not meet their needs.

The proposed framework would benefit from providing more choice to customers. For example some customers may:

- require a short term extension,
- need a longer term payment arrangement
- upfront energy efficiency in home retrofitting.

Our experience:

When customers are experiencing difficulties and require assistance, they can choose the most suitable assistance option. This includes opting for a payment extension. This option allows customers who are experiencing temporary, unexpected or short term financial stress to extend the payment period up to the scheduled date of the next quarterly account. If their financial issues are longer term, where customers are unable to cover the costs of existing debt and current usage in quarterly amounts, the customer is offered a payment arrangement called SmoothPay. This is a budgeting tool that allows customers to spread the payments over 12 months by making monthly or fortnightly instalments. Where a customer is unable to afford the cost of the debt along with the ongoing usage, then the customer is offered a payment arrangement called Arrange and Save. This payment options allows the customer to determine what they can reasonably afford to pay in fortnightly or monthly instalments.

Under the Arrange and Save model, the customer is encouraged and supported to meet their commitment through a payment reward process. Where a customer can meet their commitments on time and in full for 5 instalments, Yarra Valley Water will provide a bonus credit on the account to the value of one instalment. This process assists the customer to keep on track with meeting their payments and also assists in reducing the longer term debt through the bonus credits. The program has an underpinning philosophy of behaviour change and assists in building positive, trusted and stronger relationships between the retailer and the customer. Yarra Valley Water reported a payment compliance of 94% for customers who were participating in the Arrange and Save program last year, which shows the effectiveness of this engaging model.

The design of the Arrange and Save model was created through customer and community group consultation. Yarra Valley Water ran a series of customer engagement focus groups that were facilitated by Sue Fraser of Kildonan, to ascertain how we effectively engage with hardship customers and provide assistance that will enable them to get back on track and consistently engage. Through this process, the concept of our Arrange and Save process was developed. This payment arrangement motivates and incentivises customers for staying engaged and meeting their commitments. It sets up a relationship that is based on a foundation of trust, integrity and respectful interactions. This model was also tested with the community sector through ongoing consultation and has now been adopted by a number of retailers throughout Australia and across the US and the UK.

When the Arrange and Save model was first introduced, there were concerns and queries around the risk of excessive take up, as there were perceptions that customers would always opt for the Arrange and Save over other arrangements that provide short term assistance of covered their debt. This perception was proved to be unfounded as demonstrated in the number of customers that take up each of the support options, refer the table below.

Payment assistance provided during 2014/15	
Payment Extensions	146,450
Instalment Plans	35,459
Arrange & Save	6,680

What we have experienced is that those customers who have the financial capacity to do so, will take up the extension and bill smoothing options. Only where this arrangement is unmanageable will the customer seek a more tailored solution. This is all undertaken through respectful and two way conversations with the customer that accepts their individual circumstances.

In addition to the affordable payment arrangements, a customer who indicated they are experiencing difficulties managing their water accounts are also offered other affordability support upfront such as information around concessions, Utility Relief Grants, water audit and retrofit programs and access to free and independent financial counselling as well as access to the CareRing program which provides a full wrap around support service.

Our experience supports the need for more flexibility and choice for the customer within the assistance framework to provide the right incentives and opportunities to avoid and reduce customer debt and limit disconnections and restrictions.

2.3 Costs and Benefits

When compared to the current regulatory framework, the proposed regulatory framework will involve costs and benefits in both the short and long run. Understanding these costs and benefits will be important to implementation.

3. Are there particular costs and benefits of the proposed framework that the Commission should be aware of?

We are not privy to the fundamental costs associated with collection, debt and hardship across all of the energy retailers. We therefore feel we cannot comment with any level of authority, where it relates directly on the implementation of this proposed framework. We can however note that our business case is very positive and our experience has proven the financial benefits associated with implementing more targeted and extensive hardship and support programs, including incentivised affordability payment arrangements.

Our experience:

We have been advocates of a hardship program for over 15 years as we are assisting customers to continue to have access to water, which is an essential service. Our hardship program is built on the fundamentals of positive behavioural change with early customer engagement in building trusting and supportive relationships and empowering customers to be accountable and committed to managing bills so that they can get “back on track”. For customers that can’t pay, we also reduce the high cost of debt collection, whilst increasing cash inflow into the business that we previously could not collect.

We recently reviewed the business case for the hardship customer support program using the Commission endorsed model to access the net economic benefit of designing, implementing and maintaining an effective hardship program. The business case model only reflects those benefits that can be quantified. There are a number of benefits in maintaining a hardship program for customers which are not quantifiable, however continue to provide benefits such as:

- increased loyalty from customers who have benefited from the program
- enhanced community and stakeholder reputation
- job satisfaction from those in the customer support team delivering a positive impact on the lives of vulnerable customers as well as a favourable overall employee satisfaction in the organisation delivering on its social responsibility.

The model uses a cash flow approach to assess the net economic benefits of a hardship program. Whilst it is necessary to make a number of assumptions the model calculates the difference between the present value of cash inflows and the present value of cash outflows associated with the hardship program. The net present value of cash flows is assessed over a 10 year period.

Cash Inflows include:

- increased payment of bills while customers are on a hardship program and after graduating from a program
- payments received under the Utility Relief Grants Scheme
- avoiding costs of debt collection.

Cash Outflows flows include:

- write off of debt due to customers agreeing to a Hardship arrangement
- operating a hardship program
- costs of engaging with the welfare and social sectors
- training of staff
- administration of the program including communications, letters and postage
- water efficiency and audit customer programs.

The most recent review of the cost effectiveness of our current support program in the hardship business case model, continues to produce a substantial business case. Therefore, whilst we continue to protect the health and wellbeing of our most financially vulnerable customers, our hardship program continues to achieve a positive financial outcome.

2.4 Staging of assistance

The proposed framework is based on shared responsibility between retailer and customer to address payment difficulties at each stage.

4. Are the retailer obligations and customer responsibilities clear at each stage? If not, what further clarification is required?

The proposed assistance framework is currently defined as a series of compulsory automated steps to meet payment plans and reduce debt. This process may reduce the engagement with the customer and therefore the probability of the customer agreeing to the terms of the agreement. This increases the level of ambiguity around the responsibility of the customer to meet the arrangement.

The provision of a base minimum guideline that outlines and stipulates a range of support options that must be offered to a customer without the requirement for the customer to divulge intricate details pertaining to the financial and personal circumstances, is a positive step in the right direction.

Stages of the Assistance Framework

Early Action Option

Customers will be entitled to defer payment of:

- ***Up to $200 if they are on a month billing cycle***
- ***Up to $600 if they are on a quarterly billing cycle***

And repay the deferred amount over the subsequent two bill cycles.

The first step sets a process where there is deferment of debt. This is likely to work for a customer who is experiencing a very temporary financial 'hiccup'.

This option can increase the risk of more serious accumulating debt issues for customers experiencing longer term or entrenched financial difficulties. This is especially the case for customers at higher risk and with any language or financial literacy barriers.

Kildonan conducted focus groups with customers, testing the stages of this plan with vulnerable customers. The outcomes of this research for the Early Action Option was that:

> "All participants initially thought they would appreciate a no-questions-asked payment plan option; however, on reflection, 75% indicated this would not assist them in the longer term." (5)

This matches with Yarra Valley Water's experience through our Customer Support Program, in that offering short term write offs or deferments up front fosters negative payment behaviours when not coupled with more tailored and individual assistance.

Deferring the debt without specific solutions or limited support to change the existing circumstances for the customer can allow the debt to continue to grow. There is also often a lack of understanding from the customer about the impacts that the debt deferment can create in the future. In addition, the pre-determined deferment amount may not be appropriate for all individual customers and therefore they may need more flexibility in this.

Payment Plan One and Two

Payment Plan One will require the customer to pay:

- ***Their ongoing cost of energy use, and***
- ***Their outstanding debt over the next two billing cycles***

Payment Plan Two will require the customer to pay:

- ***Their ingoing cost of energy use, and***
- ***20% of their outstanding debt over the next five billing cycles (so 100% of debt will be paid off over the five billing cycles).***

We support the Commission's position regarding the value and benefits of offering payment plans to customers. We are concerned that the proposed fixed payment arrangements may not meet the needs of individual customers.

The "one size fits all" approach appears inconsistent with the "Customers of water and energy providers in financial hardship: a consumer perspective findings" report submitted to the Essential Services Commission by Hall Partners | Open Mind May 2011 (7)

This report highlights the importance of retailers factoring in the individual circumstances of the customer and negotiating arrangements based on customer affordability and ability to meet the arrangement:

> “However, in our sample there were also reports of negative experiences, particularly where an instalment plan does not fit with the individual’s ability to pay. Customers say these are characterised by a negotiation process that is less collaborative and more rigid and inflexible on the part of business.”
>
> “The way in which hardship arrangements are transacted clearly plays a significant role in shaping how customers view their overall experience with their water and/or energy providers.”
>
> “Respondents welcomed providers who they see as making sure customers are well informed, and who are flexible in arriving at payment solutions and tailoring the nature of assistance to customer’s capacity to pay. Where these items are lacking they report a highly negative experience. A tabular overview of how we see customer’s experiences with respect to financial hardship is set out overleaf, and then further elaborated upon in the remainder of this section.”

In addition, the feedback from the Kildonan customer forum also highlighted similar sentiments:

> “Participants suggested energy retailers initiate early conversations with customers about the implications of delaying payment. This would provide the opportunity for the retailer to understand their customers’ circumstances, ensure they were receiving all of their entitlements and tailor a payment plan and other solutions to suit.”
>
> “There was general agreement that the energy retailer should understand the customer’s financial position to work with them to negotiate a sustainable payment plan.”

The key findings of the in-depth customer research highlighted the following:

> “Two key findings emerged during the focus group session, for potential incorporation into the ESC framework:
>
> - early intervention is vital; and
> - tailored debt and usage reduction measures should be implemented at the earliest opportunity via respectful conversations to achieve a meaningful outcome for the customer.”
>
> “Participants said early and sensitive conversations with their energy retailer, more help reducing energy usage and better access to URGs and entitlements would provide assistance to manage their debt and maintain their ongoing account.’
>
> ”The participants felt the proposed framework’s payment plan approach would not resolve the customer’s affordability issue if their financial situation remained static. In fact, it would simply delay the problem until a later date.”

Our experience:

Yarra Valley Water has a strong philosophy that the foundation of a successful engagement with customers is when the customer is accountable for working with us on the solution, where customer’s individual circumstances and affordability will determine the most appropriate arrangement type and amount, and where customers are incentivised to meet their commitments and reduce their debt.

The flagship program using this model at Yarra Valley Water is Arrange and Save, which has been very successful over the past 15 years in supporting customers to keep on track. The process creates positive behaviour change and reinforces the relationship with the customer. These arrangements have consistently high compliance with 94% of customers participating in the Arrange and Save program meeting their responsibilities in 2014/15 financial year.

Active Assistance Plan

Retailers will be required to contact a customer who has missed a payment required under Payment Plan Two, and to offer entry to an Active Assistance Plan. The assistance offered under the plan must include:

- ***fully variable tariff(s)***
- ***pay-on-time discounts***
- ***practical in-home assistance to reduce energy consumption***
- ***provision of current information about the assistance available through other service providers, to help the customer address the underlying causes of long term payment difficulties.***

We agree with the position of the Commission that has highlighted the need for customers and retailers to work together to reduce the customer's consumption as well as the necessity for retailers to keep customers informed about relevant government and community programs.

As discussed above in our response to question 2.2, the proposed framework would benefit from providing more choice to customers including upfront energy efficiency in home retrofitting. The Active Assistance Plan is only available to customers at the fourth stage in the process. This provides a series of missed opportunities to change customer's behaviour and ensure appropriate support is offered earlier in the debt cycle.

At this stage of the process, the plan is dependent on the customer's ability to reduce their usage to a level commensurate with the bill. There is consistent feedback from the community sector and retailers this is not always achievable. Vulnerable customers in financial difficulties may have larger households, older appliances and no financial capacity to upgrade appliances. There are also issues associated with the lack of control customers will have where they are in private or public tenancy situations, this issue is highlighted in a series of reports being undertaken by AGL.

This issue was also raised through the Kildonan research findings that noted:

> "Most focus group participants lived in private rental accommodation and all talked of the difficulty in getting their landlords to make their homes more energy efficient. Often they would use temporary insulation measures such as curtains, bubble wrap and door snakes to block gaps and reduce the need for heaters."(5)

Currently the Active Assistance Plan, the final step before disconnection, does not factor what a customer can afford to pay into the solution. Therefore even if a customer experiencing serious financial hardship has maintained engagement with the energy retailer, adopted all leading practice in energy management to reduce their consumption, sought all possible options of external assistance - and they are still not able to meet the costs of the plan - they will still be disconnected. We note that additional steps outlined in the reconnection plan below, may be made available to customers before disconnection. (8)

Reconnection Plan

> ***This stage commences if a customer has been disconnected for failing to meet an agreed payment of an Active Assistance Plan, and EWOV or another registered third party has facilitated their reconnection. Retailers cannot require an upfront payment of more than 10 per cent of the cost of customer's average energy use over a normal billing cycle, as a precondition of reconnection. However, in order to avoid adding significantly to the customer's existing debt, they will only be able to maintain their reconnection for four weeks if they enter into a Reconnection Plan.***
>
> ***The Reconnection Plan aims to reduce a customer's energy use to a level they can afford over the short to medium term. Once the customer has reduced and is paying for their energy use, they will transition back to an Active Assistance Plan, with the aim of progressively reducing their outstanding debt.***
>
> ***Under the Reconnection Plan, the retailer will provide a direct assistance package to the customer to help them reduce their energy consumption. The package may include prepayments and/or supply capacity controls (provided it is safe to do so). Supply capacity control devices could be used to limit energy use to particular times of the day, particular appliances, or both. However, a Reconnection Plan may only include prepayment or supply capacity control if:***
>
> - ***its use is solely to assist the customer to reduce their energy consumption; and***
> - ***the customer has been assisted in their negotiation of the plan by EWOV or another third party registered with the Commission.***
>
> ***The existing prohibition on the use of prepayment meters or load capacity control for credit management will be retained.***

Yarra Valley Water supports the Commission's view on the impact of this essential service on the community, specifically the following insights noted in the draft report.

> "Today access to electricity in particular has a far more extensive impact as it underpins social and economic participation. Electronic devices at home, school and in the workplace have transformed the way we live and work."
>
> "Electricity is now essential for people to access information, communicate, study and carry out a wide range of everyday transactions. With this increasing dependence on electronic communication, a loss of access to electricity has far greater social and economic consequences today than it did a decade ago."
>
> "Importantly, there are becoming fewer, if any, practical substitutes for many of the services underpinned by electricity. The loss of access to electricity, therefore, has the potential to create social and economic isolation."

The Connection / Reconnection Plan, proposes prepayments and/or supply capacity controls to reduce customers' energy consumption to a level where they can pay their bills. Supply capacity control devices could be used to limit energy use to particular times of the day. We are concerned that such controls may increase risks to an already vulnerable customer segment including instances of isolation and health issues.

These risks are highlighted in extensive reporting conducted by the Renewable Energy Foundation (REF) in the UK, the report, titled "Energy Policy and Consumer Hardship" (9) identified the serious concerns relating to limiting peoples access to energy. This included that there was a strong correlation between this and increasing risks of physical and mental health and wellbeing. The results of studies carried out indicated actual hardship, arising from the inability to heat a house adequately over a period of time most certainly does impact health. Conversely, it also indicated that appropriate intervention programs show considerable gains in individual health and socialisation for adults and for children.

The report noted, there is no doubt that the provision of warm and dry housing and the alleviation of anxiety about the ability to pay bills are significant and beneficial contributions towards improving personal mental health and wider social issues relating to health care, education, employment and a better local environment all impact on mental health outcomes.

The inter-relationship between poverty, mental illness and debt was also reviewed by Good Shepherd in a report released in 2010 which noted that:

> "Debt and mental illness are interrelated for people surviving on a Centrelink income. They can be trapped in a culture of poverty and a state of chronic debt. They can face a constant struggle to pay everyday expenses of housing, utilities, food, and transport." (10)

The AGL research paper "Effective support for vulnerable households – closing the gap between capacity to pay and cost of consumption" confirmed that for some electricity consumers, there is a gap between ongoing consumption costs and capacity to pay.

These concerns were reflected by customers in the Kildonan focus groups findings:

> "Participants agreed that disconnection should only be used as a last resort if retailers could not contact customers. They indicated that the process should include contact and a suite of options for payment and usage reduction prior to disconnection."
>
> Customers were directly quoted as expressing the following:
>
> > "Just because you're disconnected, doesn't mean you're going to automatically come up with $500 to get reconnected."
> > "(Disconnection is) fair if someone's blatantly refusing to pay. Most people want to pay their bills but don't have the means to." (5)

The research findings above reinforce the need to have vulnerable customers connected to their essential services at all times. It also confirms that the process in the proposed Reconnection Plan, that customers experiencing financial hardship could bring their capacity to pay in line with their cost of energy within 4 weeks, does not seem achievable.

As discussed at the community forum in Traralgon run by the Commission, the model requires a much greater extent of flexibility, the flexibility discussed needs to remove the responsibility of determining the right pathway from the retailer to the customer. It needs to incorporate the customer's right to choose the options that best suit their individual circumstances. This could include the option for customers to move directly to any of the steps in the assistance framework that provide the greatest benefit to customer in achieving their objectives. This will also enhance the probability that the customer will be able to commit to and therefore meet their arrangements.

2.5 Disadvantaged customers

One aim of the proposed framework is to ensure that no customer with payment difficulties is disconnected if they engage with their retailer and cooperate with the active assistance provided by the retailer.

5. Are there any other groups of disadvantaged people in the community whose situation is not dealt with adequately by the proposed framework?

There is strong support regarding the intent of the Commission to reduce the propensity of accumulating debt, through the implementation of early intervention.

However, as outlined throughout this submission, there is a gap in relation to customers who are suffering long term and systemic financial hardship. More recent socio-economic demographic profiling complements anecdotal evidence from hardship programs and the community sector, which suggests that vulnerable customers are now from across the spectrum. Water industry research also supports this, finding that 42% of customers are at risk of financial difficulties if one circumstance changes. (3)

Within the draft report's revised approach, the Commission proposed removing the requirement for energy companies to have a hardship policy. We believe this is a retrograde step and contend that a publically available documented hardship policy, or at least a minimum standard guideline, will ensure retailers have a minimum standard of support they are required to offer to the higher risk customers. As discussed above, Yarra Valley Water's hardship policy protects the health and wellbeing of our most financially vulnerable customers, and achieves positive financial outcomes.

There are also customer segments that could suffer increased disadvantage, especially in concern to accessing essential services and this specific assistance framework, including:

- Culturally and Linguistically Diverse customers - who have specific language and cultural barriers that may prevent them from fully understanding the impacts of their decisions with consumption and affordability. Even more specifically in this segment would be new migrants, asylum seekers and refugees,
- Customers suffering illness including mental health issues – who may not have the mental or emotional capacity to understand their responsibilities and who will also be more severely detrimentally effected by isolation and other risk associated to disconnection of supply, and
- Low income tenants in private and public housing who have little control over ensuring efficiencies are available within their homes.

2.6 Implementation

Implementation of change to the regulatory framework will require actions to be taken by all participants.

6. What steps are required to ensure that implementation goes smoothly?

The intent of the proposed framework centres on the necessity for early identification and early intervention to support vulnerable customers. We support the concept of a minimum standard. We understand that the next steps in the process outline in the draft report will be as follows:

- The draft inquiry is the second of three papers the Commission will release as part of this inquiry. The first paper, our Approach Paper, was released on 27 March 2015 and outlined the Commission's approach to addressing the terms of reference. This paper, our Draft Report, outlines the Commission's preliminary findings and its proposed new approach.
- The final report will be released later in the year. It will finalise the Commission's findings and provide an implementation 'road map'.
- Given the changes necessary to implement the proposed framework, it is not expected that implementation will occur before 1 January 2017.
- The Commission will also establish technical working groups, drawn from the sector, to help refine the architecture and develop the detail of the framework, and to plan its implementation.

Yarra Valley Water would welcome any invitation to assist the Commission during the consultation process.

2.7 Transition

Before the implementation of any new framework there will be a transition period from the current arrangements to the date of introduction of the new framework.

7. What factors should the Commission consider during the transition from the current regulatory framework to the proposed framework?

The Commission should consider:

- the impact to the energy retailers in managing vulnerable customers
- the impact on customers during this transition process,
- extensive communication, customer engagement.

This process should also include consultation with other stakeholders such as the Government, regarding opportunities to work together to support vulnerable customers through collaborative support programs.

3. Reference page

1- The Australian Council of Social Service, Poverty in Australia 2014
2- Kildonan UnitingCare CareRing Program report - Jan–Apr 2015
3- Smart Water Fund research- Supporting Vulnerable Customers Report July 2013
4- Australian Council of Social Service - Access Poverty in Australia Report October 2012
5- Testing the Essential Services Commission draft framework: Kildonan UnitingCare Vulnerable Customer Focus Group - 18 September 2015
6- The Essential Services Commission by Hall Partners | Open Mind May 2011
7- Hall and Partners | Open Mind Report -Customers of Water and Energy Providers in Financial Hardship: A Customer Perspective - June 2011
8- Consultation with the Commission during the community forums in Traralgon indicated the Commission is looking to change the name of the "Reconnection plan" to a "Connection Plan" which would be offered to customers who are continuing to engage, prior to the disconnection stage
9- Renewable Energy Foundation (REF) in the UK, the report, titled "Energy Policy and Consumer Hardship – 2011
10- Good Shepherd - Mental Illness and Debt - September 2010