AGL Retail Energy Limited (AGLRE) Submission

To

Independent Pricing and Regulatory Tribunal of NSW
(the Tribunal)

Issues Paper

Review of Gas Regulated Retail Tariffs

PREAMBLE

Section 3 of the Gas Supply Act 1996 sets out the objects of the Act. The key requirements with respect to the supply of gas by retailers are as follows:

(a) to ensure that the public receives the benefit of a competitive gas market;

(b) to take proper account of the interests of small retail customers in respect to pricing and other terms of gas supply;

(c) to take proper account of the business interest of persons supplying gas to small retail customers;

(d) to promote a competitive gas market.

The Tribunal notes a number of objectives consistent with the Act in establishing the form of regulation in its Issues Paper (the Paper) which are summarised below:

- Transitional regulation to ensure vulnerable customers are not disadvantaged;
- Consider effectiveness or otherwise of competition;
- Regulatory arrangements to be as simple as possible (Government direction);
- Move all tariffs to cost reflective levels without exposing customers on under recovering tariffs to unacceptable price shocks;
- Consider impact of price changes on regulated businesses;
- Consider appropriate degree of consistency between gas and electricity.

The Terms of Reference issued by the NSW Minister for Energy and Utilities for the review of electricity regulated prices notes that difference between regulated tariffs and market based prices is the key determinant of how many eligible customers remain on regulated tariffs. It further notes that the government's policy aim is to reduce customers' reliance on regulated prices.

The Minister has extended the availability of regulated tariffs and charges to 2007 and requires an assurance that customers can return to regulated tariffs while testing the market. The Tribunal is expected to take the following into account in its consideration of regulated electricity prices:

- Effect of its determination on competition in the retail electricity market;
- Ensure regulated tariffs cover costs;
- Recognise customers' ability to adjust to prices;
- Consider tariff options to encourage demand management;
- Ensure regulated tariffs are at cost reflective levels by 2007;
- Smooth transition for customers;
- Consider alternative options for the transition.

This paper provides comments on the most effective option for meeting the objectives of promoting competition and ensuring that customers are not subject to unacceptable price shocks. The paper also provides our comments on the basis for establishing costs and margin benchmarks where there is a likelihood of unacceptable price shocks to customers, that is where average price increases exceed a predetermined benchmark (eg CPI).

EXECUTIVE SUMMARY

AGLRE is committed to providing its customers with gas and electricity at reasonable prices and has always endeavoured to ensure its prices reflect the costs and risks incurred in supplying gas and electricity.

AGL proposes that the Tribunal's option 6 of a "CPI approach" to default pricing is the most appropriate form of price regulation to meet the government's broader policy objectives of:

- Promoting competition in the energy market and ensure that the public receives the benefit of a competitive market;
- Taking proper account of and protect the interest of small retail customers (that is, ensure that small retail customers are not exposed to unacceptable price shocks); and
- Taking proper account of business interests of persons supplying energy to small retail customers.

The CPI approach is based on a single average price threshold (CPI) on all tariff categories. If retailers propose average price variations that are less than or equal to the CPI threshold then these should be allowed. If retailers propose average price variations that exceed CPI, then a price justification will be required. The benefits of a CPI Approach are as follows:

- Meets the government's policy objectives;
- Ensures a stable price path in transition to market based default prices, that is, no increase in real terms on average without formal justification;
- Allows year to year variations to costs to be managed more effectively (smoothes price to customers);
- Whilst such an approach sets a threshold to average price variations without a detailed justification being undertaken it may in fact lead to prices being lower than CPI as retailers respond to an increasingly competitive market;
- Achieves a sound business platform for enhancing competition in the market;
- Promotes competition by allowing a more flexible approach to pricing which can be more reflective of market conditions and result in more efficient market outcomes. Reduces regulator's risk of getting benchmarks wrong, thus distorting market or creating a barrier to entry (costs or margins too low); and
- Generally reduces the need for regulatory intervention in the market as reviews will only be required for "CPI plus" proposals.

AGLRE acknowledges that meeting the objective of mitigating price shocks to customers will require appropriate side constraints to be established. The form and quantum of such arrangements should be established after the network prices have been determined and should allow for appropriate price signals to customers.

1. ESTABLISHING PRICE REGULATION CONSISTENT WITH GOVERNMENT POLICY OBJECTIVES

The Tribunal has advised that it is government policy that the regulation of gas and electricity prices continues to June 2007. The relevant legislation provides the Tribunal with the flexibility to determine the form of regulation used. AGLRE notes that the decision to further regulate default prices has been taken without full consultation on the need for such regulation in an energy market that will have been subject to competition for 2 ½ years. We are, however, encouraged by the fact that the Tribunal has discretion to decide on the form of regulation it adopts.

The NSW gas market has reached a level of maturity where a more light-handed approach to price regulation is warranted. The market systems are now fully tested and operating effectively with low barriers to entry. There are several retailers in the NSW energy market capable of supplying both gas and electricity. AGLRE estimates that more than half of the gas customers and more than one third of electricity customers in NSW have received market offers.

AGLRE supports the view held by many regulators in Australia and overseas that competition is preferred over price regulation. For example, the United Kingdom (UK) regulator, where competition has been robust, suggests that price controls may inhibit competition and could also remove competitive pressures on prices for those customers who choose to remain with their traditional supplier. In the UK price controls for gas and electricity were removed in April 2002 and replaced with reserve powers existing under UK competition law.

The Victorian Energy Minister (in the special reference for the review of gas and electricity tariffs, November 2002) directs the Essential Services Commission, to have regard to the overarching principle that "effective competition is to be preferred over regulation". The Commission is also required to consider that where regulation is needed (in place of effective competition) it should lead to outcomes consistent with outcomes that would be expected under effective competition.

Whilst the principle to replicate outcomes consistent with a competitive market is commendable, there are a number of issues for regulators in the practical implementation of this principle. Measures of the outcomes under effective competition are difficult to establish and significant risks exist that benchmarks established by regulators may stifle competition. Ultimately, it is the market that will determine the efficient outcomes for the energy industry. If replicating efficient market outcomes were readily determined then we would not have needed to implement full retail contestability.

The requirement on regulators to replicate competitive market outcomes and the regulators' familiarity with mechanics of monopoly price regulation ("cost plus") with all its inherent flaws, has diverted emphasis away from more effective alternatives to achieving key objectives of transitional price regulation.

AGLRE believes that the "cost plus" approach is relevant but only in circumstances where customers are likely to see unacceptable price shocks. A "cost plus" approach provides *a guide* to moving prices to cost reflectivity whilst managing price impacts on customers. This approach was adopted in setting the current Voluntary Pricing Principles (VPPs) for gas for the early stages of full retail contestability.

AGLRE believes that the CPI Approach detailed in appendix 1 meets the objectives of promoting competition and ensuring that customers are not subject to unacceptable price shocks. In fact market imperatives may result in average price variations of less than CPI. The success of such light-handed approach is demonstrated by the maintenance (for practical reasons) of a default tariff for customers in the 1-10 TJ consumption band, which is not regulated. These customers have not seen significant price variations due to competitive pressures.

Our proposed approach to default price regulation reflects the transition in other jurisdictions. For example, in Victoria a similar approach is currently used for the review of retailers' default price proposals by the regulator.

Many regulators agree that effective competition is preferred over artificial price controls (see Appendix 2). It is our view that by the end of the next regulatory period price controls should be removed, similar to arrangements in the United Kingdom (UK) where price controls were removed after 3-4 years of full retail contestability.

2. PRICE REGULATION – THE JOURNEY SO FAR

Competition in the NSW gas market was introduced on 1 January 2002. In preparation for a competitive market, AGLRE and the Tribunal agreed to Voluntary Pricing Principles (VPPs) in February 2002 to protect customers who:

- were already connected to gas, by ensuring that they will not be stranded with gas appliances but no retailer;
- do not have a choice of retailer, or who do not consciously exercise a choice of retailer;
- face an elapsed retail contract due to default by a retailer; and
- otherwise may not benefit from a competitive market.

The VPPs:

- maintained existing tariffs for small retail customers until 2003/04 as default tariffs;
- allowed for changes to the existing default tariffs taking into account increases in costs and any cross subsidies in the tariffs; and
- provided a smooth price path for the unwinding of the cross subsidies.

The Gas Supply Act 1996 provides for the Tribunal to establish a pricing mechanism (a gas pricing order) for tariffs and charges to small retail customers. The VPPs were agreed to as a preferred alternative to implementing a gas pricing order.

There has been significant competitive activity in the energy market since commencement of full retail contestability. The market systems are now fully tested and operating effectively with low barriers to entry. There are several retailers in the NSW energy market capable of supplying both gas and electricity.

3. TRIBUNAL'S OPTIONS FOR PRICE REGULATION

The Tribunal has outlined seven options in its Paper and seeks comments on the best form of regulation that will enable it to meet its objectives of moving tariffs towards cost reflective levels without exposing customers on under-recovering tariffs to unacceptable price shocks. The options are as follows:

1. Target tariffs with price paths together with price constraints;
2. Remove price constraints but restrict movement of average price relative to a target level;
3. No average price constraint but restriction on per customer price movements;
4. Replace all existing constraints with a CPI – X constraint on all tariff categories;
5. Price constraints/limits for different volume bands;
6. Setting a single average price constraint on all tariff categories (ie. average price constraint);
7. Direct pass through of actual costs subject to price constraints.

In addition to the above a further option exists which is to remove price regulation and rely on monitoring of prices and reserve powers under competition law.

AGLRE's notes the progress achieved under the VPP's and is of the view that if some form of price regulation is to be maintained then it should be light handed and consistent with transitioning the market to removal of price regulation over the next period. AGLRE considers that Option 6 best meets the objectives of promoting competition whilst protecting customers from unacceptable price shocks.

The Tribunal's options 1,2,5 and 7 necessitate establishing target levels or a "cost plus" approach requiring a full assessment of costs and margins and the Tribunal's judgements on outcomes that are consistent with a competitive market. As noted in the Minister's terms of reference for electricity, if the levels are set too low it is not possible for retailers to attract customers away from the regulated price. This issue has also been recognised by the UK regulator who states (refer appendix 2) that setting one price for all customers (a target level) would kill competition, as well as stopping those who shop around for better deals. It would also remove competitive pressures for those customers who remain with their traditional supplier.

The CPI-X approach (option 4) assumes continued scope for efficiency improvements by business, which have now been exhausted and risks setting prices too low. The cost plus approach adopted over the past two years have ensured that default prices reflect efficient costs. Option 5 of setting constraints and limits by volume bands is complex and will not meet the objective of keeping arrangements simple.

Option 3 has merit but is based on price constraints on individual tariffs. There is a risk that cost reflectivity for all tariffs may not be achieved by 2007 under such arrangement. This approach also removes the flexibility for retailers to ensure that individual tariffs over time reflect the costs of supply (and the price signals) from gas producers, transmission and the network operators. However constraints on tariffs may be appropriate to mitigate unacceptable price shocks to customers.

AGLRE strongly supports that arrangements based on Option 6 be adopted with the average price constraint set at CPI for gas. This approach is a shift away from the "cost plus" approach towards managing customer price impacts. In general, the price of gas to customers would not increase in real terms unless there were justifiable increases in excess of CPI in the costs of supply from gas producers, transmission and network operators.

The CPI approach allows prices to settle to market based rates in a controlled manner to promote competition, allows retailers to manage outcomes ahead of time, significantly reduces the risk of price shocks, and eliminates the need for costly price justification processes. This option also removes the regulators' risk with respect to cost and margin determinations (except for CPI plus proposals), removes business risk from adverse regulatory outcomes and provides incentives for retailers to manage costs within CPI.

Details on how this proposal may be implemented are provided in Appendix 1.

4. APPROPRIATE LEVELS OF COST TO BE RECOVERED

Establishing benchmarks for supply costs and margins requires a regulator to form a view on the levels that will promote competition. As stated above this is a difficult task and has the inherent risk that competition may be stifled. The objectives of competition reforms infer that the market is best placed to deliver efficient outcomes. Governments and regulators have stated that competition is preferred over regulation. There is a need to move away from an approach that attempts to "second guess" market outcomes (which if too low, would inhibit competition), to allowing the markets to work whilst ensuring that customers do not see unacceptable price increases (price shocks).

AGLRE reiterates its view that a CPI approach best achieves this objective over the next period.

It is possible that some retailers may seek approval of "CPI plus proposals" where business viability may be threatened due to under recovery of costs, including an appropriate cover for risks associated with supplying the market. Under these circumstances regulators will need to make judgements on the appropriate benchmarks for costs and margins. Given the uncertainties in the market AGLRE believes that it will not be possible to establish such benchmarks in advance for the regulatory period. Each proposal will need to be assessed on its merits at the relevant time. The requirement to establish the benchmarks for costs and margins requires the following considerations by the regulator:

- if cost levels are based on incumbent's costs who may have economies of scale advantages, then new entrants will not be able enter the market;
- if costs are based on new entrants costs who may have lower costs for specified quantities or allocate costs on "marginal cost" basis, then viability of incumbents will be at risk;
- confidentiality provisions in supply arrangements make disclosure and assessment of the non regulated components difficult;
- costs will change with supply and demand balance at different points in time;
- cost allocation issues with respect to different classes of customers, load profile etc that require costly reviews; and
- the assessment of allowances for supply and demand risks.

Given these issues, regulatory benchmarks need to consider the range of plausible outcomes and should only be used as a guide to test the reasonableness of price proposals that exceed a threshold, such as CPI.

AGLRE's comments on the benchmarks for costs and margins for assessing CPI Plus proposals are outlined below.

<u>Wholesale Gas Costs</u>

The Tribunal proposes to consider the following issues in the determination of a gas cost benchmark:

- Whether the benchmark should be based on the LRMC of gas supply or likely contract prices over next 3 years;
- Whether the Tribunal should consider firm specific costs or determine an industry-wide benchmark;
- Whether and how to adjust any industry-wide benchmark to take into account firm specific issues such as load profile.

At the minimum the wholesale gas cost benchmark should reflect the incumbent retailer's likely cost outcomes taking into account contract costs and risks in supplying the small customer market. In order to promote competition the costs should also reflect second-tier retailers' costs in entering the market.

AGLRE believes that the following factors need to be considered when establishing wholesale gas cost benchmarks:

- Premium required when suppliers enter into longer term contracts;
- Different load shapes for each business and the regulated market which will be different to the load shape of the total market; and
- Supply security through ensuring a diversity of supply sources.

Charles River Associates (CRA) in undertaking an analysis of gas purchase costs for Victoria in 2003 identified that gas purchase costs included:

- Gas purchases through Suppliers;
- Take of pay penalties;
- Allowance for the effect of gas losses across each distribution area;
- Allowance for additional costs and losses associated with short term arrangements to meet peak demand; and
- Hedging costs related to contracted capacity.

There have been a number of studies in the Australian gas market which may be adjusted to the characteristics of the small customer market to provide a basis for wholesale gas costs in NSW.

<u>Network Charges (including Transmission Charges)</u>

The Tribunal advises that benchmarks for network charges will need to reflect regulatory outcomes on the various network operators' access reviews.

With respect to transmission charges, it should be noted that retailers have entered into long-term transmission services agreements with the pipeline operators, and any future regulatory outcomes will not affect the costs applicable to retailers until these contracts expire. Assessment of transmission costs also needs to consider the take take-or-pay and market risks.

<u>Retail Operating Costs</u>

The Tribunal intends to consider the following issues in its assessment of operating cost benchmarks:

- Whether costs vary across different customers (such as geographical area or customer size);
- Whether costs vary across gas and electricity retailer;
- Whether in a competitive market, it is appropriate to make allowance for the search and marketing costs incurred by other retailers in the process of attracting customers on regulated tariffs to negotiated tariffs.

Operating costs can vary across different jurisdictional and fuels however, our view is that the primary cost driver is the level of service required by the customers. Segmenting the market on geographical, fuel or service levels is complex and costly and is generally not maintained or available. Instead of segmenting the market AGLRE believes that if costs associated with the different services to customers are recovered in a cost reflective manner, then costs for the standard services should be reasonably similar.

AGLRE believes that there should be recognition of marketing costs incurred by retailers in attracting customers on regulated tariffs to market contracts if the objective of promoting competition is to be achieved.

The benchmarks for retail operating costs (including FRC costs) should reflect the following:

- The increased costs in providing an efficient and effective level of service to customers. Retailers as with every other business have incurred increased salary and wages costs, contract costs to third parties and general business outgoings;

- With the introduction of FRC, customer interactions are more complex and additional services have been introduced such as AGL's *"Staying Connected"* programs to assist customers experiencing financial hardship; and

- CRA in undertaking their review for 2003 gas prices in Victoria acknowledged that retailers' estimates of operating costs were significantly higher than costs previously allowed by regulators.

Retail Margin

There have been a number of studies on appropriate levels of regulatory margins but the best indicator is the level set by a competitive market. Our proposal for default price regulation will allow a gradual "opening up" of margins and allow it to settle on market based levels.

AGLRE considers that 2% to 3% allowance for net margin for gas is insufficient to achieve the long-term objective of maintaining a financially viable gas industry with an appropriate incentive for retailers to commit to arrangements which allow for long-term investment.

Retail margins are the earnings achieved before retailers pay their interest and tax liabilities. The benefits that flow to shareholders are significantly less than the headline retail margins. An appropriate net margin for supply to small customers must ensure that host retailers are adequately compensated for their risks and that second-tier retailers can compete.

These risks include:

- Potential of losing customers to competitors and the associated take or pay and other supply cost commitments;

- Credits risks associated with payment defaults;
- Allowance for interest and tax; and
- Other competitive market related risks.

AGLRE considers that net margins in the range of 5-10% are more appropriate.

International experience may also be used as guides to the appropriate levels of margins in a competitive market. For example, at the time when price controls were removed in the UK, the UK regulator noted that *headroom* for gas was in the range of 5-6% and that for electricity averaged 8%. This allowed for the continued development of the competitive market.

<u>Other Costs</u>

AGLRE also bears other costs in supplying small customers in the NSW gas market, the main being payments to the Gas Market Company (GMC). Any changes to the cost allocation structure or any major projects undertaken by the GMC will be paid for largely by AGLRE. A major project on the horizon for the GMC is changes to gas balancing arrangements in NSW.

5. **APPROPRIATE STRUCTURE FOR REGULATED TARIFFS**

The Tribunal has sought comment on issues regarding the structure of regulated retail tariffs, including whether an inclining block structure is a proxy for cost reflectivity and the implications of allowing more complex price structures for the objective of rationalising the number of regulated tariffs.

The majority of a retailer's costs of supplying small retail customers are passed onto retailers by the gas producers, transmission system operators, and network operators. Operating costs incurred by retailers is generally on a per customer basis. Retailers pass on these costs to customers through tariffs and charges on a cost reflective basis, that is in the manner in which the costs are incurred.

AGLRE believes that it is not appropriate for the Tribunal the determine the tariff structures as this may result in retailers not being able to recover costs. Regulating tariff structures may also compromise the objective of ensuring that tariffs are cost reflective.

6. REGULATION OF NON-TARIFF CHARGES

The Tribunal has sought comments on the regulation of non-tariff charges including where possible the incidence and cost of different types of charges.

Non-tariff charges should, consistent with the objectives of cost reflectivity, be determined on a cost reflective basis and be applied to customers who incur the costs. AGLRE proposes that the Tribunal adopt a light-handed approach to the regulation of non-tariff charges based on a set of principles similar to South Australia:

- non-tariff charges are to be cost reflective, and
- passed onto customers on a fair and reasonable basis.

This would be consistent with the proposed approach for default prices. The Tribunal may require retailers to justify non-tariff charges if they are seen to be not compliant with these principles.

There are three categories of non-tariff charges that may apply to customers:

- Pass through of cost incurred by retailers for services provided to customers by third parties, such as meter tests and special meter reads paid to the network operators. AGLRE believes that retailers should be able to add an administration fee (on a cost reflective basis) associated with the procurement of services from third parties;
- Administration of service levels and incentive payments associated with services provided by third parties such as the network operators for which retailers should be able to recover administration costs; and
- Retailers' own costs for specific services required by customers, such as high bill field visits (where no fault is found) and disconnection fee (for debt), which should be recovered on a cost reflective basis.

It should be noted that AGLRE's non-tariff charges are for services that are required by customers, or costs incurred by AGLRE if a customer fails to meet their obligations such as payment on time. The non-tariff charges are totally discretionary and customers can avoid these charges. With respect to customers facing hardship, AGLRE has implemented a "*Staying Connected*" policy whereby customers can avoid all costs associated with late payment and disconnection and reconnection by contacting AGLRE. AGLRE's *Staying Connected* policy is outlined in Appendix 3.

Key aspects of AGLRE's non-tariff charges are that:

- The charges are completely avoidable;
- It is a user/causer-pays charge;
- It acts as an incentive for customers to meet their obligations;
- It provides an incentive for those customers experiencing payment difficulties, for example, to make contact with AGLRE and organise an appropriate payment arrangement; and
- It allows for the recovery of costs incurred by AGLRE for services.

APPENDIX 1

PRINCIPLES FOR SETTING DEFAULT GAS PRICES IN NSW – CPI APPROACH

AGLRE proposes that the Tribunal implement the following principles for retailers to set default prices over the next regulatory period:

1. Default tariffs will be available to all tariff customers whose consumption is below 1 TJ a year until 30 June 2007 in transition to a fully competitive market.

2. Customers using less than 1 TJ a year may return to default tariffs at any time.

3. Default tariffs should be broadly cost reflective.

4. Retailers will advise the Tribunal of proposed increases to default tariffs [X] days before the date of effect.

5. In the event that the Tribunal determines that a pricing proposal involves an average increase to default tariffs of greater than CPI ("CPI plus proposal") the Tribunal may conduct a review into the proposed default tariffs to determine whether the proposal is justifiable.

6. Where the Tribunal determines that a proposal is not a CPI plus proposal the Tribunal will conduct no further review.

7. In the event that the Tribunal conducts a review in accordance with item 5 above, the Tribunal will publish a final report on Retailers' proposals no later than [X] days before the day on which the proposal is to take effect.

8. Miscellaneous fees and charges for gas customers will be determined by Retailers' on a cost reflective basis.

APPENDIX 2

REGULATORS VIEWS ON PRICE REGULATION IN A COMPETITIVE MARKET

Regulators recognise that safety net arrangements are transitional measures and that they will become unnecessary when effective competition is achieved in the energy market(s):

The Office of Gas and Electricity Markets (UK)

“All evidence suggests that price competition is the key driver of customer choice. To artificially set one price for all customers would kill competition, as well as stopping those who shop around from getting better deals. It would also remove competitive pressures on prices for those customers who remain with their traditional supplier – Callum McCarthy, CEO, press release 16 June 2003.”

The Independent Pricing and Regulatory Tribunal of NSW

“Extending choice and competition to all retail customers is predicted on the principle that an efficient, competitive market can deliver benefits for customers in terms of both price and quality of service.” – **The Independent Pricing and Regulatory Tribunal of NSW**, Issues Paper – Review of Gas and Electricity Regulated Retail Tariffs, October 2003 (p.4).

The Essential Services Commission of Victoria

“Competition is not an end in itself, but a means of achieving more efficient use of the community’s resources in the production, supply and consumption of goods and services. Effective competition contributes to this objective by forcing businesses to produce at least cost, to charge cost-based prices and to be innovative in product and process design and in service delivery. In a competitive market place failure to operate in these ways would simply result in loss of sales to more efficient competitors supplying substitute goods and services at the prices and quality preferred by consumers.

For these reasons promoting effective competition is also an efficient means of protecting final customers from the misuse of market power, compared to other more interventionist regulatory approaches.” – **The Essential Services Commission of Victoria**, Special Investigation: Review of the Effectiveness of Full Retail Competition for Electricity — Final Report, September 2002 (p.18).

"Once retail competition is judged to be effective, the assessment of standing offer tariffs can be less intrusive, since the presence of competition will itself provide protection for consumers.” – **The Office of the Regulator General Victoria**, Approach to Benchmarking Electricity Retail Costs – Issues Paper, November 2001 (p.4).

The Essential Services Commission of South Australia

“The introduction of full contestability to the retail electricity market was a policy decision implemented by successive South Australian Governments. Underpinning this policy decision is a view that it is the process of competition, rather than regulation, which can, ultimately, deliver maximum benefits to consumers through lower prices, better goods and services and increased efficiency. Competition, it is argued, provides these outcomes in a more expeditious and efficient manner than does direct intervention into a market by a Government. (p.22).

“If ESCOSA is to protect the long term interests of South Australian consumers, and given that the electricity retail market in South Australia is now based on the concept that competition will ultimately provide the best protection for consumers, then it is important for ESCOSA to monitor the state of competition in the South Australian electricity retail market.” – The Essential Services Commission of South Australia – Monitoring The Development of Electricity Retail Competition in South Australia - Proposed Approach", ESCOSA, April 2003 (p.1).

The Independent Competition and Regulatory Commission of the ACT

“ Once effective competition is established, market forces should ensure that suppliers provide services of quality demanded by customers, and that they do not earn excessive profits” – **The Independent Competition and Regulatory Commission of the ACT**, Final Determination, Review of natural gas prices, May 2001 (p.8).

APPENDIX 3

'STAYING CONNECTED' **through AGL's Hardship Policy**

AGL's National Hardship Policy, '***Staying Connected***', has been developed in consultation with AGL's Customer Council which includes consumer representatives from South Australian Council of Social Service, Uniting Care NSW/ACT, Country Women's Association of NSW, Australian Consumers Association, South Australian Farmer's Federation and The Smith Family.

Staying Connected is a new step in service delivery that goes beyond the regulated standard in support of customers who may be experiencing difficulty paying their accounts.

The purpose of the policy is to assist customers who genuinely want to pay their account, but may be prevented from doing so due to either ongoing hardship or temporary difficulties. These customers may approach AGL personally or be referred by a financial counsellor.

Customers are likely to be referred to a ***Staying Connected*** specialist under a combination of or one of the following circumstances:

- Genuinely wants to make payments, but finds it difficult to do so
- Has a history of debt
- Is unable to meet a repayment through extension to pay or agreed instalment arrangement
- Illness or death of primary income earner

The policy aims to provide support to customers with an opportunity to manage, stabilise and assist them out of a cycle of debt. This is achieved by offering them a range of alternatives to best meet their individual needs and situations.

- After actively listening to the customers' particular circumstances, a tailored solution would be prepared and may include any of the following: working with the customer to help reduce their energy consumption and minimise energy costs
- an individual negotiated payment plan to reduce outstanding debt (at an amount affordable to the customer)
- extra fees and charges (such as reconnection fees) may be reviewed by AGL in cases where a customer meets the established payment plan

- suspending an outstanding debt whilst the customer gains control of their individual circumstances

- referral to other citizens' advice programs (where appropriate)

- a combination of the above solutions.

Kildonan Child and Family Services♣ has worked with AGL to develop its Hardship Policy and provide AGL's specialist advisers with extra training in areas including:

- Sensitive approaches to communicating with disadvantaged customers

- Financial counselling and hardship

- Understanding of issues associated with income security

- Resources available to industry and consumers

AGL ***Staying Connected*** specialists are also equipped to undertake an energy consumption audit over the phone. They are trained in energy conservation techniques and have the ability to advise on running costs of various commonly used appliances.

Customers who receive assistance through *Staying Connected* are also provided with a brochure detailing practical energy saving advice. This information is also made available to financial counsellors and consumer interest groups.

Staying Connected customers are protected from debt recovery and legal action usually taken through AGL's usual debt collection practices.

♣ The Kildonan Child and Family Services representative also represents the Australian Consumers Association on the AGL Customer Council.