



SUBMISSION

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Australian Energy Regulator (AER) – Markets Branch

GPO Box 520

Melbourne VIC 3001

National Hardship Indicators

Prepared by:

Etrog Consulting Pty Ltd

Melbourne

Australia

+61 403 444141

etrogconsulting@tesco.net

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Author(s): David Prins

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TABLE OF CONTENTS

1. INTRODUCTION.....	1
2. THE USE OF QUANTITATIVE DATA AS HARDSHIP INDICATORS	1
3. PURPOSE AND OBJECTIVE OF THE NATIONAL HARDSHIP INDICATORS	2

1. INTRODUCTION

This submission is a response from Etrog Consulting Pty Ltd (Etrog Consulting) to the AER's Issues Paper on Developing National Hardship Indicators, which was published for stakeholder comment in April 2010.

Etrog Consulting is a specialist consultancy in energy and utilities, focusing particularly on regulatory policy and the interplay between regulation and competition in energy and water industries and markets. The director of Etrog Consulting, David Prins, who is the author of this report, has 20 years consulting experience in this field.

The author of this report has particular interest in energy retailing and in the new roles that the AER will have under the National Energy Customer Framework. He attended the AER's stakeholder forum on National Hardship Indicators that was held in Melbourne on 28 May 2010, with video conference links to the capital cities of the other NEM jurisdictions, and he contributed to the debate at the forum. We understand that no formal minutes of the forum are being distributed by the AER. We are therefore making this submission to put in writing some of the points that Mr Prins made at the forum, to assist the AER in its forward thinking on this subject.

Etrog Consulting is not currently engaged by any client on the subject of this submission. The views put forward in this submission are the views of Etrog Consulting and its author, and are not intended to represent the views of any current or former client of Etrog Consulting or of the author of this submission.

Subject to any other client commitments or conflicts, we will be happy to discuss our views further with the AER or with any other stakeholders or interested parties that happen to read this submission.

2. THE USE OF QUANTITATIVE DATA AS HARDSHIP INDICATORS

It was noted at the stakeholder forum that was held on 28 May that the focus of the AER's Issues Paper and its work on national indicators is really in regard to energy retailers' hardship programs, and is not in regard to hardship per se in the wider context. In the wider context, consumer hardship encompasses much beyond the scope of energy retailers.

In this submission we use the term Hardship Indicator with this in mind, on the basis that this is the way that the AER uses the term itself.

It was further noted at the forum that it is not always easy to analyse quantitative data on hardship programs in order to gauge the effectiveness of a particular program or to compare different retailers' performance.

For example, it was generally agreed at the forum that the number of people finding difficulty in paying their energy bills closely correlates with the performance of the wider Australian economy, and there is interplay between different creditors who all may have demand on the consumer's limited resources, including for example telephone service providers and finance companies.

Debt on exit from a hardship program and numbers of customers exiting a hardship program may not be meaningful indicators when, for example, a customer exits a hardship program to move to another retailer, rather than because they no longer fit into the retailer's hardship program.

Various other indicators were also discussed at the forum that could be ambiguous in their explanation. For example, the incidence of customers being disconnected who had been on the retailer's hardship program in the previous 24 months may or may not be indicative of the effectiveness of the retailer's hardship program. Given that customers can shift between retailers, a customer may also within the last 24 months have been on another retailer's hardship program, without the current retailer being aware of that fact.

Case studies presented at the forum pointed to qualitative underlying information being valuable to the interpretation of quantitative hardship indicators. While an AER report can include such case study information, it is hard to match quantitative measures with qualitative narrative in a report on performance of retailers against specific indicators. The qualitative data is instead more likely to emerge if the AER conducts an investigation into a retailer's performance, and the qualitative information then emerges by way of explanation as to what actually happened.

We caution that if and when the AER publishes retailers' hardship indicators in a performance report, it is likely that the media will seek to use the data to compare retailers' performance and to produce "league tables", as has been the case with schools' performance statistics. The AER will need to be careful to ensure that published hardship indicators either can be compared meaningfully in this manner, or come with a strong explanation as to why "league table" comparison is inappropriate.

3. PURPOSE AND OBJECTIVE OF THE NATIONAL HARDSHIP INDICATORS

Section 5 of the AER's Issues Paper states that the AER is seeking to develop a set of National Hardship Indicators that will:

- Monitor the performance of hardship policies, how they are being implemented by retailers and the effectiveness of the programs in achieving their purpose;
- Focus on elements of retailers' hardship policies that can be evaluated through measurable performance indicators;

- Inform interested stakeholders (including Government, regulators, industry participants, consumer groups and the wider community) about the performance and progress of retailers in this area;
- Provide sufficient and appropriate incentives on retailers, through comparative competition, to maintain and improve performance in this area over time;
- Highlight areas and examples of good practice and enable these to be promoted and shared across industry to improve the service and response provided to customers experiencing financial hardship; and
- Signal to the AER potential areas of concern regarding retailers' performance in relation to their hardship policies and programs and highlight where further investigation, performance or compliance audits or potential enforcement action may be required.

We noted in the forum on 28 May that these objectives largely focus on retailers' performance, and this is consistent with the AER's roles in the areas of compliance and performance reporting. While it is not the role of the AER to create policy, data and information that is collected by the AER can be very useful to inform the policy debate that occurs in other forums. This data and information can be used by policymakers in setting overall policy in regard to hardship to provide societal benefits. It may also feed into public policy decisions in areas such as reform of concessions, and other social programs beyond the realm of energy retailers' hardship programs. There are many such wider societal programs that are aimed at assisting customers that are experiencing hardship and/or trying to prevent customers from experiencing hardship in the first place.

To some extent, this may be covered by the first bullet point in section 5 of the AER's Issues Paper, which states that the AER is "seeking to develop a set of National Hardship Indicators that will monitor ... the effectiveness of the programs in achieving their purpose".

Of course, this will depend on the definition of the purpose of the programs, as against the purpose of the indicators.

Much data and information that can be collected is "interesting" and "nice to have" and can be very useful to researchers and advocates. Care will need to be taken to differentiate between indicators that are used to measure retailers' performance and compliance against set requirements, as against indicators that only serve to inform and do not have a bearing on retailers' performance against existing requirements.

Finally, we note that whenever indicators are published, there is some incentive on retailers to focus on achieving the best results for those indicators (where comparisons can be made between retailers), even if these are not the indicators that make for the most effective programs. The AER should seek to specify comparable indicators whose achievement most reflects an effective hardship program, and whose outcomes can be affected by retailers' actions. This should help to ensure that the indicators on which retailers focus are those that will make their hardship programs as effective as possible.