Economic Regulation Authority

Amended Financial Hardship Policy Guidelines for electricity and gas licences

October 2018

The Financial Counselling Network (FCN) is a unique collaboration of 15 member organisations and provides a range of integrated and person centred services with the aim of reducing the drivers and impacts of financial hardship in the WA community.

The FCN provided financial counselling services to 3219 clients in the first half of 2018. Over 40% of clients present with one or more issues directly relating to essential utilities. In addition the FCN operates the HUGS Service Centre (HSC) which assesses financial hardship, refers people for utility grants and provides information on and/or referrals through to other support services.

This submission is made on behalf of the FCN and with the support of all member organisations.

The FCN generally supports the Amended Financial Hardship Policy Guidelines for electricity and gas licences. We reiterate and confirm our support for continued consultation with consumer representatives in the development and revision of hardship policies and hardship procedures.

We strongly support Clause 6.10.(2)(b) requiring retailers to include a statement encouraging customers to initiate contact when experiencing financial hardship or payment difficulties. It is our experience that customers hesitate to contact utility providers for a number of reasons including the inability to articulate their personal circumstances and a lack of knowledge of the assistance available to those experiencing hardship.

We also support Clause 6.10.(2)(c) that requires retailers to include a statement advising that they will treat all customers sensitively and respectfully. Based on our experience dealing with both customers and utilities we note that there are inconsistencies in how some staff interact with customers who are dealing with financial stress in addition to health issues and other changes in personal circumstances. We further support Clause 6.10(3)(b)(ii) which highlights the requirement for staff training on financial hardship and it's impacts, and how to deal with customers sensitively and respectfully.

The FCN has also identified a number of areas for further consideration which are incorporated below.

Differentiating between 'payment difficulties' and 'financial hardship'

The process of assessing whether a customer meets the criteria of payment difficulties as opposed to financial hardship can be complex when the current definitions are used. To provide more clarity we suggest that the definitions be expanded to explicitly include the concept of short-term and longer term financial difficulty. Definitions could therefore be:

Payment difficulties

'A state of immediate *and short-term* financial disadvantage that has resulted in a residential customer being unable to pay an outstanding amount as required by a retailer because of a change in personal circumstances'.

Financial hardship

'A state of more than immediate *and longer-term* financial disadvantage that has resulted in a residential customer being unable to pay an outstanding amount as required by a retailer without affecting the ability to meet the basic living needs of the residential customer or a dependant of the residential customer'.

Instalment plans

There are currently inconsistencies in the way instalment plans are developed and implemented across utilities, and in many instances these do not meet expectations. Key areas for consideration:

- Some utilities do not include an estimate of ongoing usage when developing a payment plan, meaning as well as keeping to the agreed payment plan for arrears; the client also needs to settle new bills as they come due. This imposes additional financial stress when new bills arrive and clients need to contact the utility to renegotiate payment arrangements.

  We recommend that all utilities be required to incorporate estimated ongoing usage when developing a payment plan for customers in financial hardship, with payment plans also assessed for a customer's capacity to pay.

- When customers are in financial hardship, fluctuating bills may result in defaults and further financial hardship.   The adoption of 'bill smoothing' in which payment plans are developed incorporating both existing debt and expected usage over the period of the payment plan will increase the likelihood of the client keeping to their payment plan.

  Bill smoothing should be a standard option for clients in financial hardship and a recommended pathway for customers identified as at risk of payment difficulties.

- A customer's capacity to pay is not always well assessed by utilities, which is further impacted when payment plans don't incorporate expected future usage.

  Outsourcing all HUGS applications to a third party assessment centre will provide an opportunity to review affordability of payment plans for clients in financial hardship, with those clients that need further support referred through to relevant services, including financial counselling, energy usage and financial literacy programs.

- The time period over which a payment plan is made can be variable and in many cases is insufficient to pay back the existing level of debt, in many cases payment plans are only over the current billing cycle.

  For clients in financial hardship, repayments should be considered over longer time periods, with a recommendation of 12 months (with consideration also to a customer's capacity to pay).

- Large upfront payments are often required to have a customer reconnected, which are unaffordable and unachievable for a client in financial hardship.

Utilities should not seek large upfront payments from customers in financial hardship.

- Utilities differ in their assessment of what constitutes a default. In some cases customers on payments plans are considered in default following missing their payment by one day. Often customers want to comply however there are situations outside their control which lead them to miss a payment.

  Further work needs to be done on developing guidelines around what constitutes a default, we suggest that customers are given 3 days to provide a reason for defaulting and there should be an effort by the retailer to understand why the customer defaulted before any final action is taken.

Getting back on track

Debt levels are often too high to be fully repaid by someone experiencing financial hardship. We note that, as a last resort, financial counsellors will use bankruptcy as an option to enable clients to extinguish large utility debt and to enable reconnection to essential utilities.

We recommend consideration of a shared responsibility approach whereby the customer, the Department of Communities (through a HUGS grant) and the utility contribute to getting the customer back on track.

For example, a customer in financial hardship with a debt of $1,000 is assessed as having the ability to pay back $5/week on top of ongoing usage. At the end of 12 months, the customer has paid off $260 and received a HUGS grant of $581. The remaining $159 would then be written off by the utility.

Centrepay should be considered a best practice approach for concession card holders.

A long term hardship program incorporating HUGS, customer engagement, affordable payment arrangements, in addition to a debt waiver program will provide a clear and affordable pathway to sustainability for a customer and will reduce the need for clients to end up in bankruptcy as a result of utility debt.

Auditing

We recommend consideration should be given to a periodic audit of hardship practices for compliance.