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Mr Lew Owens
Chairman
Essential Services Commission of SA
GPO Box 2605
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Dear Mr Owens

Consumer Issues with Prepayment Meters

AGL SA welcomes the opportunity to comment on the final report on consumer issues with pre-payment meters.

AGL SA notes that the emphasis of the report by KPMG is on consumer issues relating to prepayment meters based on overseas experience, in particular the UK, where these meters have been used as a debt management tool. The recent Australian experience and trials, where the product has been offered as one of choice, are a more relevant reflection of its intended use and acceptance in South Australia. As a result, many of the consumer issues raised may not be unique to prepayment meters or relevant in the Australian market.

We are concerned that a regulatory framework based entirely on a premise that retailers will force prepayment meters onto customers least able to pay for debt management reasons is invalid and has the potential to inhibit the innovation in prepayment meter products. Such an approach presumes market failure and that the existing regulatory framework will not protect customers, especially vulnerable customers.

Consideration of a framework for prepayment meters should recognise that prepayment meter products in mainland Australia are in their infancy and should ensure that regulatory arrangements do not make the product uneconomic or unworkable. When considering the framework for prepayment metering it is important that the Commission provide incentives to drive the appropriate behaviour by retailers rather than prescribing a set of regulations which govern the manner in which competition for prepayment metering should occur.

Taking into account the consumer issues identified in the KPMG report and to ensure regulation does not become a barrier to prepayment meters (a product which in its infancy), AGL SA believes that the Commission should set out the key customer protection principles with respect to prepayment meters. This will allow retailers to develop the product consistent with these principles for approval by the Commission under the current licence provisions. This will be similar to arrangements in the UK.

AGL SA believes that the following principles are important for prepayment meters (PPM):

- PPM should be a product of choice for customers under market contracts with appropriate disclosure as required under current regulations;
- Customers should be able to revert to "standard metering" subject to the terms of their contract or at the expiry of the contract; and
- PPM should be a contestable metering service provided by retailers to promote product innovations.

AGL SA believes that provided these principles are adhered to, the issues identified by KPMG can be adequately addressed under current regulatory arrangements. These matters are discussed in detail in the attachment.

The concept of prepayment meters requires a fundamental change to the approach to energy supply and billing. Retailers currently supply energy to customers and customers pay their bills in arrears. Programs for assisting vulnerable customers in financial difficulties are through payment plans and financial assistance over a period *after the bill pay by date*.

In contrast, customers using prepayment meters pay up-front, with benefits of greater flexibility and choice for customers. Programs for assisting vulnerable customers who have chosen to utilise a prepayment meter option require implementation of customer assistance programs *prior to a payment becoming due*.

The principle that the prepayment meters be a product of choice and ability to revert to standard meters ensures that vulnerable customers who do not find this product suitable continue to receive the benefit of current "default" arrangements.

AGL SA will be pleased to meet with ESCOSA to discuss the issues raised in this submission and to contribute towards the development of a regulatory framework based on the experience from our South Australian trial. Please contact Rachel Arnott, Manager Regulatory Development on 8299 4485 if you wish to discuss this submission further.

Yours sincerely

Sandro Canale
General Manager, AGL South Australia

Submission on Consumer Issues with Prepayment Meters (PPM)

Potential Benefits of PPM

AGL SA agrees with the list of benefits identified by KMPG and listed in the ESCOSA Discussion Paper. These benefits include:

- Ability to monitor and adjust electricity expenditure;
- Provision of real time information on usage rates and costs;
- Avoidance of disconnection/reconnection fees;
- No need to accommodate meter readers (and resulting security for customers);
- Capacity to repay debt over time in small increments (payment can be tailored to the income cycle, retailers and government support requirements will also be required in small increments); and
- Potential for flexible tariff structures.

These benefits are not exclusive to Prepayment Meters (PPM's) however many of the benefits identified can only be easily and efficiently realised through the utilisation of PPM technology. One of the main benefits of the PPM technology is that customers are able to easily link their usage patterns to cost, which is an important indicator for customers. This assists customers to better manage their electricity usage and subject to tariff options, can provide opportunity to shift their demand in peak times.

AGL SA believes that one major benefit of PPM's not examined in the report was the choice that it offers customers in a competitive energy market. AGL SA has a view that increased customer choice in cost effective metering solutions will add to the benefits of competition. Market forces and flexibility in product design will ensure efficient solutions for customers.

Experience in Tasmania has shown a very high success rate of PPM as a product of choice. According to a recent press release, the product is now available in 54 centres around the state, with 13% of Aurora' customer base now having chosen the product.

Consumer Groups Affected by PPM's

AGL SA has a strong view that PPM's should be provided by retailers as a competitive market product. Customers should adopt prepayment metering by choice under market contracts having been made aware of all costs including that of meter provision and reversion. Customers should be able to revert to standard metering subject to the terms of their contract or at the expiry of the contract.

The benefits of prepayment metering to customers on low incomes to help them manage their budget has been overlooked by the report. While the product may not be suitable for some customers experiencing financial difficulties, those customers who elect the product on a voluntary basis will have the benefit of control over their energy use and payment frequency. Importantly, PPM technology will enable these customers to avoid accumulating additional debt over time to a point where the debt becomes unmanageable and the customer faces disconnection.

Whilst AGL SA notes the issues raised with respect to low-income customers, rural customers, those in rental accommodation and to people from culturally and linguistically diverse backgrounds, we believe that PPM technology should be available to all customers on a voluntary basis under market contracts. Appropriately tailored PPM products may be an attractive proposition for these customers and they should not be denied such option.

AGL SA does not believe that prepayment meters result in issues that are different to those arising under current arrangements. Prepayment meters enable customers to prepay for their consumption and, as identified in the report, offer a number of benefits to customers. As discussed below, there are adequate existing regulatory provisions to deal with the customer issues identified.

Consumer Issues Identified

AGL SA notes the consumer issues identified by KPMG in implementation of a prepayment product.

Most of the issues raised in this section are not exclusive to PPM and may be experienced by customers with standard metering. Customers' willingness to accept a PPM product will be determined by competitive prices and satisfaction with the benefits offered by the product. For example, for a PPM product to be a viable option for rural households with potentially limited access to recharge facilities, retailers will have to offer a backup charge card, telephone recharge facility or a significant "emergency credit facility". We are of the view that these options will be subject to technology available and should be a point of product differentiation for retailers.

The KPMG paper has identified two overarching consumer issues:

1. Disconnection & Hiding Fuel Related Poverty

AGL SA notes the concern that disconnection rates for PPM may be hidden and may impact on regulators and support agencies ability to identify customers in hardship.

AGL SA believes that disconnection rates are not an effective measure of customers in hardship because disconnection statistics also capture customers who forget to pay their bills or are "unwilling" to pay and customers who choose to self disconnect for short periods, such as for holiday homes.

An alternative measure of hardship may be through statistics on PPM customers who seek assistance under retailer hardship programs or seek support from government or relief agencies. In addition, subject to the technology it may be possible to monitor disconnection of customers using the PPM technology however it needs to be recognised that not all disconnections will be as a result of hardship.

AGL SA is concerned that mandating this requirement for monitoring PPM disconnection may not be technically feasible and may make the product impractical or uneconomic. We prefer that retailers have the flexibility in assessing hardship-related disconnection and discuss this with the Commission as part of their product proposals.

AGL SA believes that for a product of choice self-disconnection as a result of hardship is likely to be low. The reason for this is that the customers who have ongoing hardship are not likely to choose this product and those seeking to budget using this product are likely to meet the payments as they would adopt a payment regime that suits their financial circumstances. AGL SA believes that PPMs may in fact help customers in hardship better manage their consumption and thereby avoid disconnection. In addition, customers in financial hardship will continue to have access to retailers' hardship programs and external relief programs as a means of avoiding disconnection.

AGL SA is of the view that since PPM technology is based on the principle that a payment needs to be made in advance for supply to be maintained, all arrangements including that for customer assistance should to be made prior to credit running out. This will be the same as arrangement for prepaid phone services and other services such as medical and general insurance etc. Customers who feel that they will not be able to meet this requirement are not likely to choose this product.

Further, the potential for negative customer experience affecting the viability and success of a PPM product offer by a retailer acts as an incentive for retailers not to recommend prepayment meters for customers who are unlikely to meet the payments.

<u>2. Lack of safety net for PPM customers</u>

Current Retail Code requirements are based on payment in arrears and dealing with hardship in that context.

The PPM product offers a unique innovation in that payments occur in advance, and is similar to arrangements for other products such as mobile phones, insurance and council rates etc. The product requires a paradigm shift in relation to the delivery and billing of energy and in considerations on arrangements for assisting customers in hardship.

Advance payment means that customers must be ready to prepay for the next period when the advance payment runs out. Hardship programs for customers with payment difficulties need to be assessed prior to the PPM credit running out or may include consideration to extending the level of credit available. AGL SA believes that the key criteria for ensuring customer protection is to make customers aware of remaining credit in advance so that customers can take the necessary steps to arrange assistance, including hardship programs offered by retailers or relief provided by government agencies or charitable organisations.

In addition to these overarching consumer issues, AGL also provides comments on the following issues identified by KPMG:

<u>Consumer's ability to make informed decisions</u>

AGL SA believes that there are sufficient customer protection measures in place to enable customers to compare a PPM product with other offers including non-PPM products (as they do now with standard metering products) and make informed decisions. The marketing of PPM products will need to comply with the regulatory provisions that apply to all other energy offers.

Regulatory arrangements in place to ensure that marketers do not mislead customers include:

- The Trade Practices Act (TPA) with respect to misleading and deceptive conduct and unconscionable conduct in consumer transactions including the use of undue influence, pressure, unfair tactics and adequate disclosure when dealing with consumers; and
- The SA Fair Trading Act and the SA Energy and Energy Marketing Codes also contain similar provisions.

As the PPM product will be one of choice, consumer's decisions to choose the product will be aided by the information provided by retailers. As with any other competitive product, the success of the PPM product will depend on consumers having adequate information (including features of the product, and information on technical and operational features) to assist them in making their choice.

Costs of prepayment meters

Since PPM products will be a product of choice under market contracts, customers are unlikely to choose it above conventional market contracts if the product does not offer a value. Costs associated with the product, including entry and exit and transactions fees will be disclosed to meet the current regulatory requirements.

The KPMG report also raises the issues of energy concessions, inability to retrieve credit and adding past debt to current consumption.

AGL SA believes that the current requirement to provide energy concessions should not be affected by choice of a PPM product. Contractual arrangements will require any unused credit to be refunded to customers (retailers cannot keep monies for services not supplied). Historical debt is an obligation that is not linked to a PPM product and is not different to issues that arise at present. For example, customers with outstanding debt will have the same issues when moving from a standing offer to a market offer as they would when accepting a PPM product.

Consumers operation of system

AGL SA notes the concerns with regard to customers' ability to understand the operation of a PPM meter including meter monitoring, credit purchase and recharge.

It will be necessary for retailers to provide sufficient information and if required training to customers to be able utilise a PPM product. Such information and training will be similar to that provided for other products and services offered to consumers in the community. Examples where an understanding of product or service operations is required include operating ATM machines, video recorders, microwave ovens, burglar alarms and computers etc. Products with prepayment features include prepaid mobile phones, prepaid telephone cards, and internet services etc. In the energy market customers also have exposure to such services through telephone or electronic payment of bills.

AGL SA's experience with PPM trial is that customers generally found having been provided with information as outlined above the operation of PPM arrangements were not difficult.

AGL SA believes that given that PPM will be a product of choice only those customers able to understand the operation of a PPM system and who are comfortable with its features are likely to adopt the product.

- Emergency credit

AGL SA believes that there should be recognition that the PPM product is based on the fundamental feature of pre payment and not payment in arrears.

We believe that emergency credit, if provided should only be provided to assist customers who have not purchased credit or are unable to purchase credit due to limitations of recharge facilities. The credit should be tailored to suit the recharge facilities offered by a retailer. The trial in South Australia in 2002 has shown that customers who choose the product only require emergency credit to tide them over until they can purchase more credit. AGL SA believes emergency credit should be a point of differentiation, and retailers should be able to link the amount of emergency credit to the availability of recharge facilities. For example, a retailer offering a recharge service 7 days a week/24 hours a day may offer a small emergency credit compared to one who offers a business hours service/5 days a week. For a PPM product to be viable for rural customers, a longer period of emergency credit may be required. This feature should be negotiable and tailored to the technical capabilities of the product and availability of recharge facilities. An alarm feature on PPM if available, such as those on battery operated fire alarms, can provide signals to customers in advance to enable then to recharge PPMs prior to credit running out.

Emergency credit should not be a mandated product specification designed to manage customer hardship. Customer hardship should be managed by ensuring PPMs are a product of choice, and through retailer/government assistance programs, which should be sought prior to expiry of available credit. Retailers may include the option of an emergency credit in their hardship management programs.

<u>Coercion</u>

AGL SA believes that the concern of coercion can be addressed by ensuring that PPM is a product of choice and through provisions under the Trade Practices Act and the SA Fair Trading Act that deal with undue pressure and influence, against inadequate disclosure and harassment.

AGL SA believes that the view that PPM will act as a barrier to switching retailers is unfounded. Customers will be able to change retailers at the expiry of a (PPM) contract, or termination of a contract as they would under current market contract.

Metering Issues

<u>Responsibility for Metering</u>
AGL SA has a strong view that metering outside the distributors standard offering should be contestable. Prepayment metering offers retailers an innovative product to offer to customers and ownership and meter provision is a key factor in enabling retailers to provide a competitive product.

<u>Reversion Policy</u>
Prepayment meters may be Interval meters (type 5) or Time of Use meters (type 6) or simple Accumulation meters (also type 6).   AGL SA notes that the non-reversion policy under the current metrology procedures may lead to issues if a customer seeks to revert to basic meters.   AGL SA supports the concept that PPM customers should be able to revert to basic metering which in some cases this may simply be achieved by changing a setting on the meter.